S. Hrg. 111–673

WALL STREET AND THE FINANCIAL CRISIS: THE ROLE OF CREDIT RATING AGENCIES

HEARING

BEFORE THE

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

VOLUME 3 OF 5

APRIL 23, 2010

Available via http://www.gpoaccess.gov/congress/index.html

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U.S. GOVERNMENT PRINTING OFFICE

57–321 PDF WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office,
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ph44585 on D330-44585-7600 with DISTILLER
VerDate Nov 24 2008 09:58 Dec 06, 2010 Jkt 57321 PO 00000 Frm 000004 Fmt 05904 Sfmt 05904 P:\DOCS\57321.TXT SAFFAIRS PsN: PAT

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WALL STREET AND THE FINANCIAL CRISIS: THE ROLE OF CREDIT RATING AGENCIES

FRIDAY, APRIL 23, 2010

U.S. SENATE,
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:36 a.m., in room SD–G50, Dirksen Senate Office Building, Hon. Carl Levin, Chairman of the Subcommittee, presiding.

Present: Senators Levin and Kaufman.

Staff Present: Elise J. Bean, Staff Director and Chief Counsel; Mary D. Robertson, Chief Clerk; David H. Katz, Counsel; Laura E. Stuber, Counsel; Adam Henderson, Professional Staff Member; Christopher Barkley, Staff Director to the Minority; and Anthony G. Cotto, Counsel to the Minority; Kevin Rosenbaum, Research Clerk; Robert Kaplan, Intern; Ryan McCord, Law Clerk; Ted Schroeder and Nhan Nguyen (Senator Kaufman).

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Good morning, everybody. Today's hearing is the third in a series of Subcommittee hearings focusing on some of the causes and consequences of the 2008 financial crisis, a man-made economic assault on our country that is still foreclosing on homes, shuttering businesses, and driving unemployment. We saw the beginning of the assault in our first two hearings, which examined how U.S. financial institutions turned to high-risk lending strategies to earn quick profits, dumping hundreds of billions of dollars in toxic mortgages into the financial system, like polluters dumping poison upstream in a river. At the second hearing, we showed how regulators saw what was going on, understood the risk, but sat on their hands or fought each other rather than stand up to the banks which were profiting from the pollution.

Those toxic mortgages were scooped up by Wall Street firms that bottled them in complex financial instruments and turned to the credit rating agencies to get a label declaring them to be safe, low-risk, investment-grade securities. Today, we are focusing on the role played by the credit rating agencies. Next week, we will look at the last stage of the economic assault, when Wall Street investment bankers magnified and spread the risk posed by toxic mortgages through the use of complex structured finance transactions.

For a hundred years, Main Street investors trusted U.S. credit rating agencies to guide them toward safe investments. Even sophisticated investors, like pension funds, municipalities, insurance companies, and university endowments, have relied on credit ratings to protect them from Wall Street excesses and distinguish between safe and risky investments.

But now that trust has been broken. We have used as case histories the two biggest credit rating agencies in the United States, Moody's and Standard & Poor's, and the ratings they gave to the key financial instruments that fueled the financial crisis—residential mortgage backed securities (RMBSs), and collateralized debt obligations (CDOs). The Subcommittee investigation found that those credit rating agencies allowed Wall Street to impact their analysis, their independence, and their reputation for reliability. And they did it for the money.

This chart, Exhibit 1g,[1] shows that from 2002 to 2007, the three top credit rating agencies doubled their revenues, from less than $3 billion to over $6 billion per year. Most of this increase came from rating complex financial instruments. According to Standard & Poor's, between 2000 and 2006, investment banks underwrote nearly $2 trillion in mortgage-backed securities, $435 billion or 36 percent of which were backed by subprime mortgages. All of those securities needed ratings. Moody's and S&P each rated about 10,000 RMBS securities over the course of 2006 and 2007. Credit rating executives got paid Wall Street-sized salaries.

At the same time, the credit rating agencies were operating with an inherent conflict of interest, because the revenues they pocketed came from the companies whose securities they rated. It is like one of the parties in court paying the judge's salary or one of the teams in a competition paying the salary of the referee. The credit rating agencies assured Congress and the investing public that they could "manage" that conflict and that their ratings were independent and rigorous. But the documents tell a different story.

First, some background. Credit ratings assess the creditworthiness of a particular financial instrument like a corporate bond, mortgage-backed security, or CDO. Essentially, they predict the likelihood that the debt will be repaid. We have all heard of AAA ratings, which are at the top of the credit rating scale and are supposed to designate the safest investments. The ratings below that, which range from AA down to C, designate investments at greater risk of default. Investments with AAA ratings have historically had an expected loss rate of less than 0.05 percent, while the expected loss rate for BBB investments is under 1 percent. That is why financial instruments with AAA through BBB ratings are generally called "investment grade," while those with ratings of BBB or Baa3 or below are referred to as "below investment grade" or sometimes "junk" investments.

A variety of U.S. laws and regulations rely on credit ratings to gauge risk. For example, the amount of risk-based capital that a bank must hold is determined in part by the credit ratings of its investments. Some investors, like pension funds, are barred from holding below-investment-grade assets. Because so many statutes and regulations reference ratings, issuers of securities and other fi-

[1] See Exhibit No. 1g, which appears in the Appendix on page 242.

nancial instruments work hard to obtain favorable credit ratings to ensure more investors can buy their products.

Over the last 10 years, Wall Street has engineered ever more complex financial instruments for sale to investors. Because these so-called structured finance products are so hard to understand, investors often place heavy reliance on credit ratings to determine whether they can or should buy them.

Residential mortgage-backed securities (RMBSs), are one of the oldest types of structured finance. To create these securities, issuers bundle up large numbers of home mortgages into a pool, figure out the total revenue coming into the pool from all the mortgages, and then design a "waterfall" that assigns portions of the total incoming revenue to what are called "tranches." Tranches are not collections of mortgages; they are simply recipients of income from the waterfall of mortgage payments coming into the pool.

Each tranche is used to issue a mortgaged-backed security that receives a credit rating and is then sold to investors. The tranches that are first in line to receive revenues represent the safest investments in the pool and are designed to get AAA ratings. Tranches lower down the line get their revenues only after the more senior tranches are paid, and their securities get lower credit ratings.

Wall Street did not stop there. They collected securities from RMBS transactions, put those into a pool, and resecuritized them into what are called collateralized debt obligations (CDOs). A CDO might contain, for example, BBB-rated securities from 100 different residential mortgage pools. CDOs often also contain other types of assets, such as corporate bonds or credit default swaps. Wall Street firms also created so-called synthetic CDOs which did not contain actual assets but simply referenced them. Like RMBS mortgage pools, CDOs were sliced and diced into tranches and the resulting tranches used to create securities. The securities were rated—some AAA—and then sold to investors.

In exchange for large fees, Wall Street firms helped design the RMBS and CDO securities, worked with the credit rating agencies to obtain favorable ratings, and then sold the securities. Without credit ratings, Wall Street would have had a much harder time selling those products because each investor would have had to rely on themselves to figure them out. Credit ratings helped make the sales possible by labeling certain investments as safe, using their trademark AAA ratings.

Wall Street firms also used financial engineering to combine AAA ratings—normally reserved for ultra-safe investments—with riskier securities, such as RMBS securities backed by high-risk mortgages. Because the underlying mortgages were high risk, those RMBS securities paid out a higher rate of return than safer loans. When those higher-paying securities also got AAA ratings, investors snapped them up.

For a while, everyone made money: banks and mortgage brokers got rich selling high risk loans, Wall Street investment banks earned big fees creating and selling mortgage-based securities, and investors profited from the higher returns.

But those AAA ratings created a false sense of security. High-risk RMBS and CDOs turned out not to be safe investments. We heard in our first hearing how many of the high-risk mortgages backing those securities were riddled with poor-quality loans, contained fraudulent borrower information, or depended upon borrowers being able to refinance their loans before higher loan payments kicked in. When housing prices stopped climbing and many borrowers could no longer refinance their loans, delinquency rates skyrocketed. RMBS and CDO securities rated as investment grade began incurring losses and were sharply downgraded.

For example, take a CDO known as Vertical ABS CDO 2007-1. In early 2007, UBS, which is a major bank, asked Standard & Poor's and Moody's to rate this CDO. The UBS banker, however, failed to cooperate with the analysts. One S&P analyst wrote in an email to colleagues: "Don't see why we have to tolerate lack of cooperation. Deals likely not to perform." That is Exhibit 94b.[1]

Despite the analyst's judgment that the CDO was unlikely to perform, Standard & Poor's rated it anyway. So did Moody's. In April 2007, both agencies gave AAA ratings to the CDO's top four tranches. But just 6 months later, both agencies downgraded the CDO, which later collapsed. One of the purchasers, a hedge fund called Pursuit Partners, sued over the CDO's quick demise. Standard & Poor's and Moody's were dropped from the lawsuit since current law does not authorize private lawsuits against them even for reckless or unreasonable ratings, but the court ordered UBS to set aside $35 million for a possible award to the investor. The legal pleadings included internal emails at UBS referring to the supposedly investment-grade Vertical securities as "crap" at the same time the bank was selling them.

Take another example. In January 2007, S&P was asked to rate an RMBS being assembled by Goldman Sachs using subprime loans from Fremont Investment and Loan, a subprime lender known for loans with high rates of delinquency. On January 24, 2007, an analyst wrote seeking advice from two senior analysts: "I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?" One of the analysts responded: "No, we don't treat their collateral any differently." And the other analyst asked a question: "Are the FICO scores current?" Answer: "Yup," came the reply. Then, "You are good to go."

In other words, the analyst did not have to factor in any greater credit risk for an issuer known for poor-quality loans, even though 3 weeks earlier S&P analysts had circulated an article about how Fremont had severed ties with 8,000 brokers due to loans with some of the highest delinquency rates in the industry coming from those brokers. In the spring of 2007, Moody's and Standard & Poor's provided AAA ratings for five tranches of RMBS securities backed by Fremont mortgages. By October, both companies began downgrading the CDO. Today all five AAA tranches have been downgraded to junk status.

Now, those are just two examples of securities given AAA ratings that turned out not to be worth the paper that they were written on. And there are many more.

In fact, throughout 2006 and 2007, the toxic mortgages flooding the financial markets began going bad in record numbers. Delin-

[1] See Exhibit No. 94b, which appears in the Appendix on page 599.

quency rates skyrocketed. It became more and more apparent that the investment grade ratings given to subprime RMBS securities could not hold.

Finally, in July 2007, within days of each other, Moody's and Standard & Poor's announced mass downgrades of hundreds of subprime mortgage-backed securities. The mass downgrades shocked financial markets, and the subprime secondary market dried up overnight. Banks, securities firms, pension funds, and others were left holding billions of dollars of suddenly unmarketable securities. The value of those securities began dropping like a stone, and the financial crisis was on.

Two months later, in October, Moody's began downgrading over $10 billion of CDOs. On January 30, 2008, Standard & Poor's downgraded over 8,000 securities, including 6,300 RMBS and 1,900 CDO securities, an unprecedented onslaught of downgrades. The CDO market, like the RMBS market, evaporated. Financial firms around the world were suddenly stuck with even more unmarketable securities, and by September 2008, major global financial institutions like Lehman Brothers, AIG, Citibank, Goldman Sachs, and Morgan Stanley were either bailed out, bankrupt, or struggling.

Looking back, if any single event can be identified as the immediate trigger of the 2008 financial crisis, my vote would be for the mass downgrades starting in July 2007, when the credit rating agencies realized that their AAA ratings would not hold, and finally stopped labeling toxic mortgages as safe investments. Those mass downgrades hit the markets like a hammer, making it clear the investment grade ratings had been a colossal mistake.

This chart, Exhibit 1i,[1] shows just how big a mistake it was. It shows that 91 percent of the AAA subprime RMBS securities issued in 2007 and 93 percent of those issued in 2006 have since been downgraded to junk status. The numbers for Option ARM mortgages are even worse. Option ARMs, which we examined at our first hearing on Washington Mutual Bank, allow borrowers to pick from several types of payments each month, including a "minimum payment" that results in a growing, rather than declining, loan balance. The chart shows that 97 percent of the Option ARM securities issued in 2006 and 2007 are now in junk status.

Had the credit rating agencies taken more care in handing out their initial ratings or had they issued downgrades in a more responsible manner, they could have reduced the impact of the toxic mortgages. But they did not, and there are a whole host of reasons why.

First, let us talk about the credit rating models. Credit rating agencies use complex mathematical models to predict foreclosure rates for mortgages which, in turn, are critical to determine the ratings for mortgage-backed securities. The key problem was that the mortgage industry had changed drastically in the last 10 years. High-risk mortgages like subprime, interest-only, Option ARMs, and hybrids became widespread, displacing traditional, low-risk, 30-year fixed-rate mortgages. The credit rating agencies simply did not have data on how these higher-risk mortgages would perform

[1] See Exhibit No. 1i, which appears in the Appendix on page 244.

over time. Traditional 30-year fixed-rate mortgages had default rates of 1 to 2 percent; the higher-risk mortgages were expected to have higher default rates, but no one knew how high. With very little data, the credit rating agencies made assumptions in their models that turned out to be way wrong.

Moody's and S&P knew their modeling assumptions were wrong and began revising their models. In the summer of 2005, S&P had revamped its CDO model, but put the model on hold for more than a year, as it struggled to rationalize why it would not use the new model to retest existing CDO securities. It is clear from over a year of internal emails that S&P delayed and delayed the decision, anticipating that the revised model would require existing CDO securities to be downgraded, disrupt the CDO market, and reduce public confidence in its CDO ratings. It would also have disrupted S&P profits from CDO ratings.

In July 2006, S&P made a major change to its RMBS rating model, but decided not to retest existing RMBS securities. The revised RMBS model projected much higher default rates for high-risk mortgages and required greater protections against loss, including 40 percent more credit protection for BBB-graded subprime securities. That meant a 40-percent larger cushion to protect against losses. Re-evaluating existing RMBS securities with the revised model would likely have led to downgrades, angry issuers, and even angrier investors, so S&P did not do it. Moody's did not either; after strengthening its RMBS model to issue new ratings, it chose not to apply it to existing securities. Recently, S&P has adopted a policy requiring retesting of rated securities within 1 year of a model change.

A second reason the credit rating agencies did not blow the whistle sooner on poorly performing RMBS and CDO securities was competition. The drive for market share and the revenues from increased volumes of ratings created pressure on both agencies to provide favorable credit ratings to the investment bankers bringing in business.

A 1995 article captures how the credit agencies used to operate. A journalist wrote: "Ask a treasurer for his opinion of rating agencies, and he will probably rank them somewhere between a trip to the dentist and an IRS audit. You cannot control them, and you cannot escape them." Well, all that changed as the revenues from structured finance ratings came pouring in.

Ratings and fees began to be played off against each other. For example, after a Moody's analyst emailed that he could not finalize a rating until the issue of fees was resolved, an investment banker from Merrill Lynch responded: "We are okay with the revised fee schedule for this transaction. We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try and get to some middle ground with respect to the ratings."[1] Now, Moody's assured the Merrill analyst that its deal analysis was independent from its fees. Nonetheless, that is what Merrill was asking for.

[1] See Exhibit No. 23, which appears in the Appendix on page 315.

In another email, an S&P analyst commented: "Version 6.0 [of the ratings model] could've been released months ago and resources assigned elsewhere if we didn't have to massage the sub-prime and Alt–A numbers to preserve market share."[1] Some witnesses here today will describe how the environment changed from an academic culture focused on accurate ratings to one of intense pressure to get the deals done and preserve market share.

The documents also show how the crushing volume of ratings undermined the ratings process. Despite record profits, both credit rating agencies were understaffed and overwhelmed with complex deals that investment bankers wanted to close within days. The documents show how investment bankers argued with the credit rating analysts, substituted worse assets at the last minute, and pressured analysts to waive their procedures and standards. We even saw instances of bankers pushing to remove analysts who were not playing ball. And at times, analysts who resisted banker demands or challenged ratings were restricted from rating deals.

A focus on short-term profits also permeated the industry. One of the witnesses here today will describe how when he once questioned a banker about the terms of a deal, the banker replied, "IBG–YBG." When asked what that meant, the banker explained, "I'll be gone, you'll be gone." In other words, why give me a hard time when we are both making a lot of money and will be long gone before the house of cards comes crashing down?

In addition to inaccurate models and competitive pressures, the credit rating agencies failed to adjust their ratings to take into account credit risks from the fraud and lax underwriting standards that increasingly characterized the mortgages securitized and sold on Wall Street.

In August 2006, an S&P employee wrote: "[T]here has been rampant appraisal and underwriting fraud in the industry for quite some time as pressure has mounted to feed the origination machine."[2] In September 2006, another S&P employee wrote: "I think it is telling us that underwriting fraud, appraisal fraud, and the general appetite for new product among originators is resulting in loans being made that should not be made."[3] A colleague responded that the head of the S&P Surveillance Group "told me that broken down to loan level what she is seeing in losses is as bad as high 40's—low 50 percent. I would love to be able to publish a commentary with this data but maybe too much of a powder keg." Well, not taking into account mortgage fraud and lax underwriting standards did, indeed, turn into a powder keg, one that helped blow up the RMBS and CDO markets and triggered the 2008 financial crisis.

In the fall of 2007, Moody's CEO Ray McDaniel called a town hall meeting to talk to his employees after the mass downgrades that shut down the subprime market. "What happened in 2004 and 2005," he said, "is that our competition, Fitch & S&P, went nuts.

[1] See Exhibit No. 5, which appears in the Appendix on page 258.
[2] See Exhibit No. 14, which appears in the Appendix on page 293.
[3] See Exhibit No. 1d, which appears in the Appendix on page 236.

Everything was investment grade. It really didn't matter[.] . . . No one cared because the machine just kept going."[1]

A Moody's managing director later responded our "errors make us look either incompetent at credit analysis, or like we sold our soul to the devil for revenue, or a little bit of both." He said, "I would like more candor from senior management about our errors and how we will address them in the future."

That is what we are calling for today as well: candor not only about what went wrong, but what can be done to prevent still another credit rating disaster in the future. The House and the Senate financial reform bills before Congress offer a number of measures to increase credit rating oversight. Both bills would, for example, eliminate the statutory prohibition on the SEC's evaluating rating models, though clearer language authorizing the SEC to set standards for credit rating models, methodologies, and criteria is, in my judgment, still needed. The bills would also beef up the SEC's enforcement authority toward credit rating agencies and subject the agencies to lawsuits by investors for reckless or unreasonable ratings. The bills should be further strengthened, in my judgment, by directing regulators to tackle the inherent conflicts of interest that arise when rating agencies are paid by the people that they rate. Our investigation provides strong support for better controls on credit rating agencies whose failures contributed to the economic damage still plaguing our country.

One more matter. Yesterday, the Subcommittee was made aware of a longer version of an email that was included in the Exhibit Book as Exhibit 23. We were not aware of the longer version earlier when that book was put together, so we have added it to the book as Exhibit 23 Addendum. The emails show Merrill Lynch trying to make a direct link between the fees it paid and the ratings it would receive on a deal, but the longer email shows that Moody's told Merrill Lynch that its deal analysis was independent of any fee discussion. And that was surely a welcome response, but a very inappropriate request on the part of Merrill Lynch.

My Ranking Member, Senator Coburn, had planned on being here today and had looked forward to it, but he was called away to matters in Oklahoma, so we will have to proceed without him. I do want to thank him and his staff again for their tremendous ongoing support of this investigation.

I want to call on Senator Kaufman, who has also been a major supporter of what we are trying to do on this Subcommittee, and we are very grateful for his being on this Subcommittee and for that great participation. Senator Kaufman.

Senator KAUFMAN. Thank you, Mr. Chairman, and thank you for holding this hearing, and I thank the witnesses.

Since this meltdown occurred, as I travel around, after concern about jobs, the single most concern is about what happened on Wall Street and what are we going to do about it. And I got to tell you that the most scorn is on the rating agencies. That may not be deserved, but that is where it is, the idea that, as the Chairman said, you had this incredible growth in revenues at the same time they were rating thousands of residential mortgage-backed securi-

[1] See Exhibit No. 98, which appears in the Appendix on page 684.

ties AAA that now turn out to be junk. AAA to junk is just a hard thing for people to deal with. How can you miss so badly?

The problem we are dealing with today is what happened, but really more important is what are we going to do about it? I think both are important. AAA will never mean again what it used to mean. I do not care what we do here. I do not care what happens. AAA will not mean what it used to mean because people are just beginning to determine the incredible conflict of interest the Chairman pointed out, and also the way that rating agencies have protected and the way they view their job, when you hear them talk about the fact that they really have no responsibility to the average investor out there. That is not their customer. The customers are the people that just does not go with people. People do not understand that.

The problem is, outside of the great people that inhabit the United States, that the two greatest things that make this country great are democracy and our capital markets. That is what makes us great. And the credibility of our capital markets is in tatters.

Now, fortunately, in the rest of the world, they have capital markets where you even take a greater chance in many cases to get involved. But I do not think that is beginning to be the perception. And the idea that the average person cannot use rating agencies to determine the quality of the product means very simply people will stop using the product. Our markets will no longer be credible. They have lost a lot of credibility already.

If we do not deal with this, this is not something we are just going on as business as usual. I spend a lot of time in New York. I spent a lot of time with people in New York. They think, oh, well, over that, now we are on to the next thing. It is not going to be that way. This is not going to go on forever. Our markets, if we lose our credibility, not only have the folks on Wall Street lost an incredible business, not only the rating agencies an incredible business, but the United States of America has lost one of the keys to its success. So what the Chairman is doing here with these hearings is incredibly important if we are going to maintain the credibility of our U.S. markets.

Thank you, Mr. Chairman.

Senator LEVIN. Thank you very much, Senator Kaufman.

Now let me welcome our first panel of witnesses for this morning's hearing: Frank Raiter, Former Managing Director for Mortgage-Backed Securities at Standard & Poor's; Richard Michalek, Former Vice President and Senior Credit Officer for the Structured Derivative Products Group at Moody's; Eric Kolchinsky, a Former Team Managing Director of the Structured Derivative Products Group at Moody's Investors Service; and, finally, Dr. Arturo Cifuentes, a Former Moody's Senior Vice President and current Director of the Finance Center at the University of Chile in Santiago, Chile. We thank you for coming a great distance.

Mr. Raiter, I understand that you are here under a subpoena, but I appreciate all of you being here, whether a subpoena was issued or not. We appreciate your being with us this morning. We look forward to your testimony.

We have a rule on this Subcommittee that all witnesses who testify before the Subcommittee are required to be sworn, so at this time I would ask all of you to please stand and raise your right hand. Do you swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. RAITER. I do.

Mr. MICHALEK. I do.

Mr. KOLCHINSKY. I do.

Mr. CIFUENTES. I do.

Senator LEVIN. We have a timing system here that does the following: About a minute before the red light comes on, you will see the light change from green to yellow, which will give you an opportunity to conclude your remarks. Your written testimony will be printed in the record in its entirety. We would ask that you attempt to limit your oral testimony to no more than 5 minutes.

Mr. Raiter, I think we will have you go first.

TESTIMONY OF FRANK L. RAITER,[1] FORMER MANAGING DIRECTOR, RESIDENTIAL MORTGAGE RATING GROUP, STANDARD & POOR'S

Mr. RAITER. Good morning, Senator Levin and Senator Kaufman. From 1995 until my retirement in 2005, I was the Managing Director and head of Residential Mortgage Ratings at Standard & Poor's. As such, I think I had an inside view of the role of rating agencies in the recent economic crisis.

The failure of the major rating agencies—Fitch, Moody's and Standard & Poor's—to adequately assess the risks associated with new mortgage products introduced in the past decade is the result of several factors. The first was the lack of oversight of the rating agencies by the SEC and the various financial regulatory bodies that wrote regulations requiring ratings. The second was the impact these decisions had on management of the rating agencies. And the third factor was the disconnect between senior managers and the analytical managers responsible for assigning ratings. The final factor was the separation of the initial ratings process from the subsequent surveillance of performance of the rated bonds.

The first factor, a lack of regulatory oversight, resulted from the failure of regulators to appreciate the unique position the rating agencies assumed in the financial markets. The rating agencies were granted their preferred status by the SEC. Other regulators followed suit and incorporated ratings into their investment and capital rules. There was no regulatory oversight nor were standards established to measure the performance or quality of ratings.

The preferred position of the rating agencies led directly to the second factor. Management of the rating agencies came to believe that the increasing revenues and profits they were enjoying were the results of superior management skill and insight rather than the oligopoly granted them by the various regulators and the accommodative Federal Reserve interest rates. This success bred complacency and an aversion to change.

This resistance to change was a primary cause of the failure of the ratings and the ultimate financial crisis. Analytical managers were driven by the desire to create and implement the best risk

[1] The prepared statement of Mr. Raiter appears in the Appendix on page 114.

analytics and methodologies possible. Senior management, on the other hand, was focused on revenue, profit, and ultimately share price. Management wanted increased revenues and profit while analysts wanted more staff, data, and IT support which increased expenses and obviously reduced profit.

In the Residential Mortgage Ratings Group, as in all the rating groups in structured finance, the analysts were responsible for both producing ratings and developing and maintaining ratings criteria. Balancing these two missions was a significant issue in the residential ratings group where revenues grew tenfold between 1995 and 2005, and rating volumes grew five- or six-fold without similar increases in staff. Rating production was achieved at the expense of maintaining criteria quality.

Adequate staffing was not the only challenge faced in trying to maintain the quality of the rating process. The accuracy of the predictive models used to evaluate risk was also critical to the quality of the ratings. The version of LEVELS model developed in 1996 was based on a data set of approximately 250,000 loans. It was, I believe, the best model then used by a rating agency. As new models were programmed and tested, analysts continued to collect larger data sets for the next versions of the model. In late 2002 or early 2003, another version of the model was introduced based on approximately 650,000 loans. At the same time, a data set of approximately 2.8 million loans was collected for use in developing the next version of the model. By early 2004, preliminary analysis of this more inclusive data set and the resulting econometric equation was completed. That analysis suggested that the model in use was underestimating the risk of some Alt–A and subprime products. In spite of this research, the development of this model was postponed due to a lack of staff and IT resources. Adjustments to the model used in 2004, with the identified problems, were not made until March 2005. To my knowledge, this version of the model based on the 2.8 million loan data set was never implemented.

The final condition contributing to the failure of the rating agencies was the separation of the initial ratings process from the subsequent surveillance of ratings performance. While the rating process utilized ever improving models, surveillance operated under their own criteria. At S&P, the manager of surveillance refused to use the ratings model in reviewing the performance of outstanding bonds. In fact, the resistance to "re-rate" bonds with each new model came from upper management. The concern was that "re-rating" outstanding deals with new information would significantly increase rating volatility and possibly result in lost revenue. By 2005, when adjustments were made to the model, it should have been intuitively obvious that some bonds rated in 2004 did not provide the necessary protection to support the assigned ratings.

In conclusion, it is my opinion that if S&P had vigorously pushed to implement the version of the model based on the 2.8 million loan data set in late 2004 or early 2005, the economics of deals incorporating the lowest quality subprime and Alt–A loans would have disappeared. In addition, the riskiest transactions submitted for ratings in 2005, 2006, and 2007 would likewise have been assigned much higher enhancement requirements which might have made it unprofitable for lenders to make additional loans. If the surveillance department had "re-rated" existing deals each time ratings criteria were adjusted, transactions would have been put on Credit Watch or been downgraded in 2005 which would certainly have sent an early warning to investors and tempered their demand for similar bonds.

This concludes my opening comments.

Senator LEVIN. Thank you very much. Mr. Michalek.

TESTIMONY OF RICHARD MICHALEK,[1] FORMER VICE PRESIDENT AND SENIOR CREDIT OFFICER, STRUCTURED DERIVATIVE PRODUCTS GROUP, MOODY'S INVESTORS SERVICES

Mr. MICHALEK. Mr. Chairman and Senator Kaufman, my name is Richard Michalek. I am a former employee of Moody's Investors Service, a subsidiary of Moody's Corporation. I joined the Structured Derivative Products Group at Moody's in June 1999, and my position was eliminated in December 2007. At the end of my tenure at Moody's, I held the title of Vice President and Senior Credit Officer.

My general responsibilities included performing legal analysis on the structure and documentation of complex structured finance transactions in order to assign a rating to that transaction and to assist in the development of, and refinement to, rating practices, policies, and methodologies used by the group. My regular responsibilities included participating in rating committees within the group, and on request for other groups at Moody's; consulting on legal matters for other groups in the New York, London, and Asian offices of Moody's when requested; and speaking at industry conferences on a wide variety of legal and structural issues. I prepared and published the group's quarterly and annual review and survey of activity. I assisted with the legal portion of semi-annual training sessions for new hires in the Structured Finance Department.

During my last year at Moody's, my primary responsibilities were split between serving as the senior legal analyst on the team responsible for developing, refining, and implementing the methodology for assigning ratings to highly complex credit derivative product companies and being the project leader responsible for developing a methodology for rating collateral managers.

Immediately prior to joining Moody's, I was a securitization consultant advising the New Zealand law firm of Chapman Tripp, and prior to that I was an associate lawyer in the New York office of the law firm Skadden Arps. I am admitted to practice law in New York State and was admitted to the bar as a solicitor in Wellington, New Zealand. I have a JD/MBA from Columbia University Law School and Columbia University Graduate School of Business.

My testimony today is based on and primarily limited to my experience working in the Structured Derivative Products Group within Moody's Investors Service, and while I had the opportunity to interact with several other groups within Moody's, I do not profess any particular expertise or advanced knowledge of the methodologies or practices employed in those groups. My testimony today is also not being delivered with the intention to bring harm to any individual or to stand in judgment of individual behavior.

[1] The prepared statement of Mr. Michalek appears in the Appendix on page 119.

On the contrary, as I hope my oral remarks and written statement will illustrate, I believe that any imperfections, flaws, and failures observed or identified in the credit rating process of structured derivative products are neither surprising nor unexpected in light of the framework of incentives presented to the competent and otherwise rational people comprising the credit rating agencies.

Credit rating agencies serve the important function of providing buyers and sellers of credit—that is, investors in and issuers of a promise to pay—an independent measure of the risk presented. In theory, these agents are independent, and because of repeat experience and a rationalization of costs, they should be able to provide this measure of risk at a lower cost than would otherwise be faced if the buyers or sellers produced the analysis themselves.

My experience as an analyst, however, in the Derivatives Group and as a resource in the Derivatives Group for other groups in Moody's for legal issues provides what I hope would be a useful perspective with respect to a couple of questions the members might like to ask.

I know one question that is being asked: Just how independent are these agencies, particularly within an "issuer pays" framework?

Another question that is and should be asked is: What consequences do rating agencies suffer under the current or any proposed framework when these measures of risk either fail to perform as reasonably expected or which can be shown to have lacked a level of care commensurate with the risk of harm that may foreseeably befall the user who relies on such measures?

As for that first question, in my view, the independence of the Derivatives Group changed dramatically during my tenure. The willingness to decline to rate or to just say no to proposed transactions steadily diminished over time. That unwillingness to say no grew in parallel with the company's share price and the proportion of total firm revenues represented by structured finance transactions. The apparent loss of bargaining power by the rating agencies in general and of the group in particular was coincident with the steady drive towards commoditization of the instruments we were rating.

As our customers, principally the investment banks, produced more and more product for yield-hungry investors and as the quality distinction as between the different rating agencies lost some of its importance, the threat of losing business to a competitor rating agency, even if not realized, absolutely tilted the balance away from the independent arbiter of risk towards a captive facilitator of risk transfer.

The second question—in essence, what price is paid or should be paid if a rating agency gets it wrong?—is in my view asking a handful of more fundamental questions. Who should bear the risk of getting it wrong, particularly when it is within reach to either not get it wrong or to choose not to rate? If we accept that the ratings are the rating agency products, should all the ratings issued by a rating agency be entitled equally to the same defenses for product liability? I am of the opinion that much more could have and should have been done to improve processes and procedures, but I am not so naive as to fail to appreciate that in the extremely competitive environment of hyper growth where the message from management was not, "Just say no" but, instead, "Must say yes," any available resource had to be spent on remedial corrections. Installing improvements were left for the someday pile.

I am in the camp that believes that, to some degree, ratings provide an important public good. I also believe that some ratings, in light of the public good they provide, deserve some measure of protection from liability and opportunistic claims of negligence. However, to the extent that agencies are to remain wholly private entities understandably concerned with market share and net profits, a distinction based on the extent of the public good provided might be made with respect to the products being rated. Where some question can reasonably be raised as to the extent of the public benefit from rating one or more of the highly complex or novel instruments, the liability for getting it wrong might be more fairly assigned to the private parties involved.

I am confident that if questions of negligence were not easily dismissed by protestations of free speech opinion, at least for that subset of ratings on products where the benefit of the rating falls primarily to the private parties involved, the agencies would redirect some of their extraordinary profit margins into resources and research and would once again have an incentive to just say no.

That concludes my oral remarks. Thank you, Mr. Chairman.

Senator LEVIN. Thank you very much, Mr. Michalek. Mr. Kolchinsky.

TESTIMONY OF ERIC KOLCHINSKY,[1] FORMER TEAM MANAGING DIRECTOR, STRUCTURED DERIVATIVE PRODUCTS GROUP, MOODY'S INVESTORS SERVICE

Mr. KOLCHINSKY. Thank you very much. Good morning. I would like to thank Chairman Levin and the Subcommittee for holding this hearing on the role of the rating agencies in the financial crisis.

My name is Eric Kolchinsky, and during the majority of 2007, I was the Managing Director in charge of the business line which rated subprime-backed CDOs at Moody's Investors Service. More recently, I was suspended by Moody's after warning the compliance group regarding what I believed to be a violation of securities laws within the rating agency.

In my opinion, the cause of the financial crisis lies primarily with the misaligned incentives in the financial system. Individuals across the financial food chain, from the mortgage broker to the CDO banker, were compensated based on quantity rather than quality. The situation was no different at the rating agencies.

It is my firm belief that the vast majority of the analysts at Moody's are honest individuals who try hard to do their jobs. However, the incentives in the market for rating agency services favored, and still favor, short-term profit over credit quality and quantity over quality.

At Moody's, the source of this conflict was the quest for market share. Managers of rating groups were expected by their supervisors to build, or at least maintain, market share. It was an

[1] The prepared statement of Mr. Kolchinsky appears in the Appendix on page 140.

unspoken understanding that loss of market share would cause a manager to lose his or her job.

Senior management would periodically distribute emails detailing their departments' market share. These emails were limited to managing directors only. Even if the market share dropped by a few percentage points, managers would be expected to justify "missing" the deals which were not rated. Colleagues have described enormous pressure when their market shares dipped.

While, to my knowledge, senior management never explicitly forced the lowering of credit standards, it was one easy way for a managing director to regain market share. I do not believe that this was done in a deliberate manner. Instead, during the bubble years, it was quite easy to rationalize changes in methodology since the nominal performance of the collateral was often quite exceptional. Easier still was avoiding asking whether the collateral standards had declined or whether some of the parties had ulterior motives in closing the transaction.

I began to receive these emails when I was promoted to managing director. They would list all the deals in the market for the relevant period and the amounts rated by Moody's, S&P, and Fitch.

I believe that my 2007 dismissal from the rating agency was a consequence of placing credit quality above market share. I was a managing director in the derivatives group, which was responsible for rating CDOs. CDOs were an extremely lucrative area for Moody's: In the first two quarters of 2007, the group generated over $200 million of revenue. This amount accounted for approximately one-fifth of the total revenue of the entire rating agency.

However, trouble for the securitization was already brewing. In early 2007, New Century, a major subprime lender, imploded. During the course of the year, the prices of synthetic subprime bonds precipitously declined. The end of this initial phase of the crisis was heralded by the fall of two Bear Stearns hedge funds which heavily invested in CDOs. The resulting price dislocation sent bankers hurrying to finish CDOs already in progress and to clean up their balance sheets.

In September 2007, I was told that the ratings of the 2006 vintage of subprime bonds were about to be downgraded severely. While the understaffed RMBS group needed time to determine the new ratings, I left the meeting with the knowledge that the then current ratings were wrong and no longer reflected the best opinion of the rating agency.

This information was crucial for the few CDOs in my pipeline, which were being aggressively pushed by bankers. If the underlying ratings were wrong, the ratings on these CDOs would be wrong, also. I believed that to assign new ratings based on assumptions which I knew to be wrong would constitute securities fraud. I immediately notified my manager and proposed a solution to the problem.

My manager declined to do anything about the potential fraud, so I raised the issue to a more senior manager. As a result of my intervention, a procedure for lowering subprime bond ratings going into CDOs was announced on September 21, 2007. I believe this action saved Moody's from committing securities fraud.

Just about a month later, in mid-October, another periodic market share email was sent to the managing directors in my group. Along with the email, our business manager noted that our market share dropped from 98 percent plus to 94 percent in the third quarter. My manager immediately replied to the email and demanded an accounting of the missing deals.

This was the most disturbing email I had ever received in my professional career. A few days before, Moody's had downgraded over $33 billion in subprime bonds. At the time, this was the largest ever single downgrade at Moody's. As a direct result of the October 2007 additional downgrades, over $570 billion of ABS CDOs would be downgraded through the end of 2008.

Despite the massive manifest errors in the ratings assigned to structured finance securities and the market implosion we were witnessing, it appeared to me that my manager was more concerned about losing a few points of market share than about violating the law.

In late October, less than a month after that email and less than 2 months after I intervened, my manager asked me to leave the group. I was given a smaller position with less responsibility and less pay in a different group.

While Moody's has acknowledged that the rating situation in September 2007 constituted a "problem," they failed to act to prevent a nearly identical situation in 2009 in connection with a transaction called Nine Grade Funding. Instead of following some common-sense steps to prevent a violation of the law, Moody's management chose to suspend me after I pointed out the breach.

Recent rating activity indicates that market participants still prefer the most aggressive ratings. Rating firms which have taken conservative positions have seen their market shares tumble. We will no doubt see the results of this lesson when the regulatory spotlight is turned off. Credit standards will once again plunge as rating agencies race to build their market share.

The only way to prevent this from occurring is to recognize that the function which the rating agencies perform is a quasi-regulatory one, much like accountants. A single set of public standards needs to be implemented, to be used for regulatory purposes only. This will allow rating agencies to compete for clients without being forced to lower credit standards.

Thank you very much.

Senator LEVIN. Thank you very much, Mr. Kolchinsky, for that testimony. Dr. Cifuentes.

TESTIMONY OF ARTURO CIFUENTES, PH.D.,[1] FORMER MOODY'S SENIOR VICE PRESIDENT, CURRENT DIRECTOR, FINANCE CENTER, UNIVERSITY OF CHILE, SANTIAGO, CHILE

Mr. CIFUENTES. Thank you, Mr. Chairman, thank you, Senator Kaufman, for the invitation to be here in this hearing.

My name is Arturo Cifuentes, and I am a professor at the University of Chile. I recently moved back to Chile after living in the

[1] The prepared statement of Mr. Cifuentes with attachments appears in the Appendix on page 144.

United States for 30 years. I spent probably the last 15 years working in finance.

I worked at Moody's—I have to say that—from 1996 until the end of 1999 when ratings really mattered and AAA meant something.

This is the second time I am testifying before the Senate. I testified 2 years ago, and I made some observations regarding the problem at hand and some suggestions that I thought could be implemented, and I have articulated, I believe, in my testimony today all the relevant points that I wanted to make. So I am not going to read anything. I am just going to make three points which I believe are relevant in the context of what we are talking about here.

The first observation that I would like to make is the following: Moody's and S&P are two different companies. They give ratings. A rating is basically nothing but an opinion about the credit risk of a security. Moody's gives ratings based on expected loss. S&P gives ratings based on probability of default. I do not want to go into the technical matters of what that means, but believe me, they are two different things. And they both profess to give ratings based on different benchmarks, different standards, different models, different approaches. They are two different companies in different buildings, different people.

If you take a look, even a casual look, at the ratings given by Moody's and S&P, there is a high degree of agreement between the ratings given by these two companies, which makes you wonder whether the ratings are really independent. That is something probably I think that raises some issues and should be investigated in more detail. There are certain mathematical methods actually to do that in a careful fashion, but you become very suspicious if you see such a degree of agreement between AAAs given by the two rating agencies. Considering the approaches, they should be a little bit different, so you wonder are these two companies dancing independently or is this carefully calibrated footwork to make sure credit ratings are aligning with market share. That is something that I think is a little bit concerning.

The other issue that I would like to address here today is something that is more just applicable to the subprime market. The rating agencies have said on many occasions that the ratings they gave to transactions involving subprime loans performed so badly because they rely on data provided by the bankers and the data was not good. So allegedly they were not at fault because they used information that they did not have the opportunity to verify and it turns out to be wrong.

I do not believe that is a reasonable explanation. For one thing, that was not the case when I worked at Moody's. We always checked everything that the bankers told us. Whenever we are looking at the securitization for the first time, we look in a certain amount of detail to make sure the data presented to us actually was meaningful and accurate.

If that were the case, it seems to me as a market participant that if the ratings were given on information that you did not verify, it seems to me that they should come up with a warning, something along the lines that, "We are giving a rating based on information that we believe is true but we have not checked," or something like that. I think that would have been a reasonable thing to do.

And, finally, the third point that I would like to make, because this is a very serious problem, is the situation where we are right now, what we really—Senator Kaufman was talking about democracy and capital markets. I believe the situation we have right now is really bad because what we have right now, it is really a marriage made in hell. You have a situation in which nobody believes in the ratings, and at the same time, the ratings are part of the regulatory framework. So nobody believes in these. Still, you have played by the rules.

Now, I cannot tell you how critical that is because the situation right now is that the securitization market is paralyzed, the ABC commercial paper market is more or less paralyzed, or it is a shadow of what it used to be. It is about one-third of the size. And that has significant effects on the fixed-income market.

There is a perception—and I am going to stop here—that this market is not regulated. Actually, I would say that this is probably the most regulated market in the world. It is just that it is regulated by the rating agencies, and it did not work out that well.

So I think I am going to stop here, and then I am going to be happy to answer any questions that you might have. Thank you very much.

Senator LEVIN. Thank you very much, Dr. Cifuentes.

What we will do is have 20-minute rounds. We can have more than one round if we need them.

If you all would take a look in the exhibit book at Exhibit 94b,[1] this is a CDO known as Vertical ABS CDO 2007–1. S&P analysts in 2007 complained about how the Vertical's issuer, UBS, was not cooperating with them, and the deal was unlikely to perform. In a 2007 email, the one that you are looking at there, Exhibit 94b, one analyst for S&P wrote, "Vertical is politically closely tied to B of A—and is mostly a marketing shop—helping to take risk off books of BoA. Don't see why we have to tolerate lack of cooperation. Deals likely not to perform."

Now, despite that judgment that the CDO was unlikely to perform, S&P rated it. Several months after that deal was rated, the loans began to show delinquencies, and a little later on, S&P and Moody's downgraded it. Those securities, by the way, are now below investment grade. They are in junk status.

One of the purchasers of the Vertical securities is a hedge fund called Pursuit Partners. They sued S&P, Moody's, and UBS over the quick demise of the security. As I mentioned before, S&P and Moody's annuities were dropped from the lawsuit because of the lack of the ability under our current law to sue the rating agencies. But the court ordered UBS to set aside some funds to pay a possible award to that investor.

Now, the investor had also uncovered an internal email at UBS in which a banker wrote, "Sold some more crap to Pursuit," referring to the Vertical securities which were then rated as investment grade. That is Exhibit 94n,[2] by the way.

[1] See Exhibit No. 94b, which appears in the Appendix on page 599.
[2] See Exhibit No. 94n, which appears in the Appendix on page 644.

So, first, Mr. Raiter, let me ask you: Is it common for an S&P analyst to rate a deal even though the analyst thought, as we looked at Exhibit 94b, that the deal was "not likely to perform"?

Mr. RAITER. Senator, I have to say that I was not in CDOs and really do not know how they did things down there. On the residential side, at the time that I was involved, it was not unusual to turn down deals if we did not think they were going to perform or if they did not meet our criteria. But as I think as has been pointed out in your opening statements, things got dramatically more haywire after 2004 and 2005. But I honestly could not tell you what they did in CDOs.

Senator LEVIN. All right. But where you worked, if something was expected not to perform, you would not be rating it, I assume, as being expected to perform?

Mr. RAITER. No, sir, we would not. As I say, there were occasions where we had some real concerns about collateral, and we just would put such high levels on the transaction, it was not economic for them to do it and we would not rate it. In the late 1990s, Prudential Mortgage changed their waterfall structure, which did not meet our criteria, and for a number of years we would not rate any of their deals because they did not meet the standards that we had set.

Senator LEVIN. OK. Now, Mr. Kolchinsky, you have had years of experience, I think, with CDOs. Should a CDO which is expected not to perform be given a AAA rating?

Mr. KOLCHINSKY. Absolutely not. If the analyst was convinced that the deal would not perform, that deal should not be rated.

Senator LEVIN. Take a look, if you would, Mr. Kolchinsky, at Exhibit 94e.[1] Exhibit 94e shows that some of the assets that were included in the CDO had already been downgraded at the time that they were included. Do you see that downgrade?

Mr. KOLCHINSKY. Yes, I do.

Senator LEVIN. Both on pages 1 and 2. A lot more, actually, on page 2 than there was on page 1. But, anyway, there are a lot of those that had already been downgraded at the time they were included so they were not performing as expected.

Now, if a downgraded asset is included in a CDO, is that something that an analyst would note?

Mr. KOLCHINSKY. We had rules that if an asset was on watch, it would be taken down a few notches. Once an asset was downgraded, under these rules it would be used at that rating and no more or no less unless it was on watch.

Senator LEVIN. And would that be a warning sign about the quality of the assets in the CDO?

Mr. KOLCHINSKY. It would have been a qualitative warning. Quantitatively, I do not think that left an analyst, under the then prevailing rules, much room because at that point the RMBS Group has said this is our new view and this is our best view.

Senator LEVIN. And should it affect the credit analysis?

Mr. KOLCHINSKY. Oh, absolutely. With hindsight, I think this is something I tried to do later as we saw that once you take the path down to downgrade, that is not likely to stop. And so securities, we

[1] See Exhibit No. 94e, which appears in the Appendix on page 614.

try to implement something where the securities that have been downgraded already but not currently on watch be stressed more severely.

Senator LEVIN. It should affect the analysis, as you indicate, but it did not affect the analysis here. The S&P analyst there, Mr. Halprin, said in his email that Bank of America was using the CDO to take risk off its books. Now, Vertical is a company that was partly owned by Bank of America and was run by several former Bank of America employees. And if an analyst thinks that what is going on with a CDO is taking bad assets off a company's books, should that affect the rating process?

Mr. KOLCHINSKY. I think so.

Senator LEVIN. Now let me ask all the panelists, how long is it expected that a AAA rating should hold?

Mr. RAITER. It should hold for the life of the transaction and the life of the tranche, as you pointed out, Senator. The waterfall typically pays the higher-rated bonds off first, and as they pay down, then the bonds that are underneath it start receiving the flows. But it should last the life of the transaction, for mortgage-backed, 7 or 8 years.

Senator LEVIN. Would you all agree with that?

Mr. KOLCHINSKY. Yes.

Mr. MICHALEK. I wouldn't.

Senator LEVIN. So, in this case, these ratings were downgraded within a year and are now below investment grade. These are junk.

Mr. MICHALEK. Senator, if I could respond.

Senator LEVIN. Mr. Michalek, I am sorry. You did not agree.

Mr. MICHALEK. No, I did not.

I think that we are touching on something that you are likely to hear later in the day, that, in fact, the common perception of what a AAA rating is and means is not necessarily what the definition of a AAA rating is. This is something of a legal distinction, but at the same time, I think it is very important that this is not lost on the Subcommittee.

In fact, there is published by Moody's the migration rates and history of the different ratings that are assigned, and those migration rates represent an average migration for a particular rating. But it is simply an average from a population of which there are tails at either end. Some AAAs never get downgraded, and there are others that are downgraded, unfortunately, quite quickly. And I do think that there is an expectation in the market and there is a proper expectation that AAAs are not going to be issued on Monday and on Friday downgraded to anything else.

That debate as to whether or not there should be or is a necessary element of stability in the rating, at least at Moody's, was one that was ongoing.

Senator LEVIN. OK, thank you. Let us take a look at another failed rating, this time involving mortgages issued by Fremont. Take a look at Exhibit 93b.[1] In January 2007, S&P was asked to rate an RMBS with subprime loans issued by Fremont Investment, a subprime lender known for poor-quality loans. At that time an S&P ratings analyst sent an email to a supervisor saying the fol-

[1] See Exhibit No. 93b, which appears in the Appendix on page 589.

lowing: "I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?"

Now, one of the supervisor's response was, "No, we don't treat their collateral any differently." And the other one wrote back, in Exhibit 93c,[1] that as long as we had current FICO scores for the borrowers, the analyst was "good to go."

So we got S&P employees now that know there is a problem with Fremont loans, but treated those loans like any other.

In Exhibit 93d,[2] there is an email in which S&P analysts were circulating an article about—and this is January 29—how Fremont had stopped using 8,000 brokers because of loans with high delinquency—with some of the highest delinquency rates in the industry coming from those brokers.

Now, in March, a couple months later, Fremont announced in an 8–K filing that the court of appeals had found sufficient evidence in a lawsuit filed by the California Insurance Commissioner that the company, among other things, was "marketing and extending adjustable-rate mortgage products to subprime borrowers in an unsafe and unsound manner that greatly increases the risk that borrowers will default on the loans or otherwise cause losses." And the suit then could proceed against the company. Just a few days later, Fremont entered into a publicly available cease-and-desist order with the FDIC regarding fraud and lax underwriting standards.

Despite that information, Fremont RMBS securities were rated by both S&P and Moody's in late February and early March. Before the ratings were done, they knew of those facts which I just described. By the end of the year in 2007, both companies began substantially downgrading the Fremont RMBS securities.

Does either S&P or Moody's take into account an issuer's reputation for issuing either good loans or bad loans and incorporate that into their credit analyst? Mr. Raiter.

Mr. RAITER. The answer is yes, they do. At the time that this occurred, the policy had been in the past that when information was provided to the analytical staff by investors or other originators, they would look into the matter, and if, in fact, it was justified, it would have resulted in a visit to them and a review of their practices and procedures. It could ultimately have resulted in their deals being put on Credit Watch or, in fact, being held up for ratings until the information could be worked out.

At this time, in fairness to what was going on, there were rumors rampant about the quality of appraisals and the quality of underwriting standards that could have been quite overwhelming for the staff to try and track them down. But it routinely would have been investigated——

Senator LEVIN. Should have been.

Mr. RAITER [continuing]. And factored in. It should have been.

Senator LEVIN. It should have been. So when the analyst said no special measures with Fremont, that was not what was supposed to happen.

[1] See Exhibit No. 93c, which appears in the Appendix on page 590.
[2] See Exhibit No. 93d, which appears in the Appendix on page 592.

Mr. RAITER. It was the manager's responsibility to say this is a problem, we are going to get to the bottom of it, because the analysts took their marching orders from the managers that were in control of the criteria and the process.

Senator LEVIN. So, again, when they said in that email no special measures, there should have been special measures taken?

Mr. RAITER. There should have been, yes, sir.

Senator LEVIN. Mr. Michalek.

Mr. MICHALEK. I do not know if I feel competent to comment too much on how the RMBS team would have responded to those particular allegations. I know that with respect to collateral managers, and at the CDO level, if there was an issue that was raised regarding the reliability of the origination that the collateral manager was involved with, we might explore it and would definitely send a team to the collateral manager to do what we call an ops review to evaluate those procedures. The information that was obtained from those reviews would be used in our analysis in rating the transaction. But as to the underlying collateral, I am not competent to comment on.

Senator LEVIN. OK. Mr. Kolchinsky, should there have been measures taken in those circumstances?

Mr. KOLCHINSKY. I think so. As Mr. Michalek said, I am not competent on what occurred in the RMBS group, but had this information come on the CDO side, we certainly would have looked into it, or should have looked into it.

I would also say I was not involved in 2007, as this information went through with the folks who rated subprime directly. But there was almost a feeling when dealing with them that there was a "see no evil, hear no evil" sort of attitude, and partly I think it is because people who had done these deals, rated these deals, did not want to believe what was going on, partly profit motivated, partly because they were part of this market, and it just should not be happening.

Senator LEVIN. Part of that culture.

Mr. KOLCHINSKY. Part of that culture. Closed eyes.

Senator LEVIN. Dr. Cifuentes.

Mr. CIFUENTES. I can comment on what happened at the CDO group when I worked at Moody's. On many occasions, for example, we were presented with transactions that either did not make any sense or that had a particular peculiarity that made us nervous. The response was either no, you cannot do that, or the rating is going to be very low. It is not going to be a AAA; it is going to be way below. Or we took into consideration when analyzing the transaction or when modeling all the peculiarities that were applicable to that particular transaction. So that is the way it was done at the CDO group. I did not work mortgages, but——

Senator LEVIN. When you were there, that is the way it was handled?

Mr. CIFUENTES. Yes. I remember many situations, as I said, in which we encountered a transaction, for example, that was done for the first time. We did not have enough data, for instance, so we had to make conservative estimates about certain things, and that is the way we did it.

Senator LEVIN. And that is the way you believe it should have been done?

Mr. CIFUENTES. I believe so, because I can give you an example. For example, at Moody's I rated the first emerging market CDO that was done. That was in 1996, and we rated emerging market CDOs probably between 10 and 15 deals in that time frame. One of the problems with emerging markets was we did not have enough data. So the way we handled that—we were conscious of that—we made conservative assumptions regarding certain pieces of information that we did not have, and we did something—at the risk of sounding too technical, but I think you are talking about a trillion dollar problem, you better get the technical thing right. So we did something called stability analysis to see how the impact of uncertainty in the data would affect the ratings, and I have to say that all those emerging market deals did very well, actually.

Senator LEVIN. Take a look at 93a.[1] This says volumes about Fremont and what was known. This is a Moody's email, December 2006. They were talking about delinquency rates for issuers. If you look at page 2, "Here is a chart of the top 10 issuers" that have high delinquency rates, and then on the bottom of the next email, it says, "Holy cow - is this data correct? I just graphed it and Fremont is such an outlier!!" In other words, they are one of the worst when it comes to delinquency rates. More evidence about Fremont, by the way, about as bad as it gets. They had those articles about the 8,000 brokers and the other information that I mentioned.

But just in terms of the deals, I wanted to talk about an email, Exhibit 95a.[2] This was an email from July 2007, in which an investment banker described a deal called Delphinus. This was rated AAA by both S&P and Moody's. Exhibit 95a described Delphinus as having a lot of cushion, they needed a lot of cushion to protect against losses. Despite that cushion, by the way, Delphinus was downgraded 6 months after being rated. That may not be Monday to Friday, Mr. Michalek, but it is not the way it is supposed to be, right?

Mr. MICHALEK. That is correct. It is not.

Senator LEVIN. Now look at Exhibit 95b.[3] This is an S&P email chain from August 2007. An S&P analyst wrote here regarding Delphinus, "[I]t appears that the closing date portfolio they gave us for analysis and the effective date portfolio . . . were not the same. It appears the 25ish assets"—and we are looking at, again, Exhibit 95b—"that they included in our closing date portfolio that were dummies were replaced in less than 24 hours with assets that would have been notched and made the portfolio worse."

Now, if I read this right, the CDO had given S&P dummy assets that S&P used to come up with its rating, and then at the last minute replaced those dummies with new assets less than 24 hours before the closing, and the new assets, if I read this correctly, made the portfolio worse. And if that had been acted on, the rating would have been worse

Mr. Raiter, is that a correct reading of that email, would you say, the way you read it, too?

[1] See Exhibit No. 93a, which appears in the Appendix on page 587.
[2] See Exhibit No. 95a, which appears in the Appendix on page 646.
[3] See Exhibit No. 95b, which appears in the Appendix on page 647.

Mr. RAITER. These are relating to CDO analyses, and CDO, and it suggests that they pulled—they put dummy deals in the original run, and then they substituted them with loans or CDO credits that did not meet the standards that the original run was completing, or completed on or contemplated, and it looks like a bait and switch and that it did not meet the criteria. But I do not know who addressed it because if I follow the email stream, they were waiting for a manager to get back to them.

Senator LEVIN. Yes. I tell you, these emails are, I think, just devastating as to the kind of culture that was going on here. It is incredible that you could have this kind of dummy assets being put into a CDO, then substituted at the last minute with even poorer assets.

Mr. RAITER. Well, I would like to point out, if I could, Senator, there were a lot of very good analysts that were writing these memos and asking for guidance, and the guidance was not forthcoming from the top.

Senator LEVIN. I could not agree with you more. But that is the culture that existed here, and I am going to now turn this over to Senator Kaufman.

Senator KAUFMAN. Thank you, Mr. Chairman.

To follow up on that question, in your opening remarks, you attributed this to bad incentives, which clearly has gone on, the incentives were wrong, quality was gone, quantity, competition. Mr. Raiter, you mentioned the SEC oversight. How much of this was just outright fraud? I understand this about the business, and I am going to get into this a little bit. But it seems to me the things that were going on here, because of the incentives, because of the lack of oversight, people were actually doing stuff that they knew absolutely totally was wrong. Mr. Raiter.

Mr. RAITER. Well, it is clear from a lot of these emails people were making very poor calls in terms of the analytics. But whether that is fraud or not, it was wrong, it did not look good. They certainly would not want it to have the headline risk in the *Wall Street Journal*. But there was no one over there watching over them to tell them this is not the right thing to do.

Senator KAUFMAN. No. I understand that, and I am very sympathetic to that. And if you heard any of the speeches I have given on the floor, I pretty much beat up on the regulators for what they did not do. But I spent a lot of time in business. I worked for corporations. There were always incentives of some kind to make the quarterly earnings, push the stuff out the door, do the rest of it. But when you have the incredible amount of—the chart that he put up there on the number of RMBSs that were rated AAA and ended up turning to junk, many of them you were going after. And maybe "fraud" is too strong a word, but things that just are not common business practice no matter what the incentives are, no matter whether you are being regulated or not.

Mr. RAITER. Well, they were not good business practices, and it is my opinion that there was a huge disconnect between management. Senior management thought that they were responsible for all these wonderful things and that the analysts were just the soldiers in the trenches doing what they were told.

Senator KAUFMAN. You talked about a disconnect, and I want to get into it, between the people doing the rating and the surveillance. But talk a little bit about—I have been in organizations, not just government organizations, private—where there is a disconnect, but a disconnect that this is a pretty incredible disconnect if you keep turning out products, and Mr. Michalek, I will get to the idea of what AAA really means or not. But you are turning out product because of the incentives, because of the regulators, because of the disconnect between management, all those things happen. But you are turning out product that is just really not good product, and how much of it is because of the emails, as Senator Levin said, where people just said, OK, and because of incentives, because of regulators, I am going to do something here and try to rearrange this thing.

Mr. RAITER. Senator, if you have been in business, the choices that you face in a dilemma like this is you can quit.

Senator KAUFMAN. Right.

Mr. RAITER. If you have a family to support, that might be a little bit tenuous. And some of us chose to do just that. I retired because I got tired of the frustration. But a lot of the analysts that left tried to fight the good fight. Many of them have subsequently been laid off.

Senator KAUFMAN. Right.

Mr. RAITER. And when you bang your head against the management wall and ask for the money and give them presentations and show them the benefits of the higher-quality rating criteria and they come back and say, "But revenues will go down," you are faced with just that choice. Either you continue to work there and fight, or you quit.

Senator KAUFMAN. I am very sensitive to this, and I understand this. I have been there. But how much do you think the management really knew what was going on down in the trenches because of the pressures they were putting on the people down there in the trenches? Do you think they were oblivious to this, that they——

Mr. RAITER. You have Kathleen Corbet, the former President, on the docket for the third panel.

Senator KAUFMAN. Right.

Mr. RAITER. She could possibly shed some light. Budgeting and the whole process of making requests and sending them up the line was a mystery. We never sat down and were explained why we did not get things, why they would not make the changes recommended. They just did not respond. They did not communicate down, from the top down.

Senator KAUFMAN. Right. Mr. Michalek.

Mr. MICHALEK. I can tell you at Moody's, while I was there, it was frequently the case that in a particularly sensitive issue, the information did travel upward. I was involved in one transaction where I was asked to consult with somebody in Public Finance. They had a ratings problem that was leading to litigation. And the general counsel for Moody's was at the table. We were on conference calls together. We were talking to the client. We were trying to resolve this.

Brian Clarkson—at the time, I think he was president of Moody's Investors Service—was on the call, and this was for a relatively small matter. In terms of the total amount of issuance, it was probably a quarter of a billion dollars [$250 million]. It was not as large as one of our CDOs.

So from that alone, I would infer that the information regarding some of the much larger conflicts and potential problems was definitely reaching upwards.

Senator KAUFMAN. Mr. Kolchinsky.

Mr. KOLCHINSKY. Thank you. First, before I answer your question, I want to quickly come to the defense of the analyst mentioned in Exhibit 95a.[1] In fact, that analyst that was mentioned was extremely bright and the reason that she was not wanted on that deal is because she asked a lot of very good questions. I wanted to come to her defense.

Senator KAUFMAN. Sure. No problem.

Mr. KOLCHINSKY. Second of all, I do not believe in the cause of the crisis there was a lot of instances of outright fraud, legal fraud. There may have been some on the front end with the mortgage brokers in filing applications that were clearly fraudulent. But the way the system worked, you had a chain—it was almost like a game of telephone where you pass some information down the line, and everybody changes it just a little bit—not enough to jump over the fraud, but because the length of the chain from the mortgage broker to the originator to the aggregator to the CDO, by the time everybody takes a little cut, changes it a little bit, by the time you got to the end of the line, the information or the product was garbage. So that is why you have not seen a lot of cases of outright fraud because everybody pushed the envelope, clearly pushed the envelope. But because of everybody pushing the envelope, the end product was garbage.

Senator KAUFMAN. Yes, but, I can see that in 1 day, I can see it 2 days, I can see it 5 days, I can see it a month, I can see it 2 months, I can see it 3 months. I just find it—these are very smart people. I mean, when you look and see you are in the middle of a chain and you see what is happening, at some point you say, there is something really going on here. And maybe it is nonfeasance. It is not malfeasance. They are not doing it to be bad. They just do not go back and look to find out what they do not want to know, what actually happened.

Mr. KOLCHINSKY. I think that is right. Yes, sir, I think if you were going to sort of talk about sins, it is sins of omission because of the market, because of the incentives. There was really no incentive to look, to look under the rocks. If the rocks kind of looked polished and nice, OK, we will pass it on.

Senator KAUFMAN. This is the third hearing we have had, and this is kind of a common theme. No one knew what was happening. It just rings to me of other cases where no one knew what was happening. But people knew—these are not really dumb people. These are not people that just come in to work, sit in their cubicle, look at what they are doing, they are not reading the newspaper, they are not picking up the *Wall Street Journal* or *Barron's* and reading about what is going on with the housing market or mortgage-backed securities or any of this kind of stuff. They are just coming

[1] See Exhibit No. 95a, which appears in the Appendix on page 657.

to work, doing their job, getting pushed, and have these incentives. As Mr. Raiter said, good people. And they are stuck. And I do not think it is the good people, frankly, in my experience, like the analyst you mentioned, that were the problem. I think this is a systemic problem here that was not—we talk about it in kind of surgical terms, like incentives and regulation and all that stuff, which are all absolutely totally on the mark. It was the incentives, and it was the regulatory environment, and it was a flawed business strategy, and it was competition, and it was quality over quantity.

When you put all those things down, somebody in the middle of this thing would have to be totally, completely—they had to put together the big picture. Somebody had to say, look, we are putting incentives on here, we got this quantity problem, we got the competition problem, we are not having very much regulation and oversight. There is a potential here for something really bad to happen.

Mr. Cifuentes.

Mr. CIFUENTES. I think you bring up a good point, Senator. In fact, you referred to your experience in the private sector. The thing to keep in mind here is that this is a very peculiar sector in the private market. I mean, to be perfectly blunt, if you are in the private business and you do a lot of things wrong, eventually you go out of business. I mean, that might be evident. Arthur Andersen does not exist anymore, for example.

In the rating business, because of some really flawed regulatory framework, there is no penalty for giving bad ratings. In fact, we are having this conversation 2 years after my first—and the rating agencies, they keep issuing ratings and they keep collecting fees for that.

So, in my opinion, one of the problems is the regulatory framework. Today the barriers to entry into the credit rating business are tremendous. There was a law that was passed by Congress, the Rating Agency Act. If you want to start a new rating agency, you have to show that you have been in operation for 3 years giving ratings and collecting fees. Now, who is going to pay you for a 3-year period to give ratings that do not have any validity?

So, in my opinion, that is something that needs to be changed because one of the problems we have right now, there is no penalty for getting out ratings that are unreliable. I mean, basically the rating agencies were giving a free gift, and you cannot blame them for that. I mean, they are taking advantage of a very unique opportunity to bring money in.

Senator KAUFMAN. Mr. Michalek, I think you have got at the other key point in this whole discussion, especially on the hearing today, and that is that you want to make sure that the Subcommittee understands what AAA really means.

Mr. MICHALEK. Correct.

Senator KAUFMAN. And I think there is such an incredible disparity between what everyone reads AAA to be and what AAA means.

Mr. MICHALEK. To the rating agencies, in the disclosure documents, I think there is a disparity—Senator Levin used the term "safe," and I do not think that "safe" is correct, as a description—it is definitely the commonly understood adjective that you would use, but to be perfectly honest, I can think of an illustrating example—when this first debate first came up, there was a transaction that I was working on with an analyst that there was problematic—because of the particular assets that were in the pool—and they were not yet placed on negative Credit Watch, so quantitatively we could not take the haircut that we knew was going to be coming. And through some other measures, we were able to anticipate that there was going to be a likelihood that this would not hold its rating for a very long period of time.

However, on the closing date, it did meet the published criteria. It did reach that particular quantitative number, and we could not say no—this was sort of at the beginning of the cultural change. We could not say it is a "different" AAA.

Senator KAUFMAN. And, by the way, I am very sensitive to that. It is hard to give ratings to agencies. It is hard to figure out what is going to happen. And in cases like that, if what transpired after that had not happened, I would be sitting here as the most sympathetic man in the room to what you are saying.

The question is at some point it went from that—which was a tough decision. And when you talk to the rating agencies or listen to what the rating agencies say, they still think it is like that. You just do not understand. We have these very difficult questions that we have to deal with. So AAA does not mean that it is going to be here forever, and AAA does not mean this and AAA does not mean that.

Yes, AAA does not mean thousands of securities that are rated AAA that 2 years later are junk. So this is not a discussion—we are not having the first discussion, the discussion that I always learned about in business school, and also about what rating agencies are. I know what rating agencies are. And that is what they used to be. But when you are faced with a situation where because, again—because of not regulating the rating—so what is it that rating agencies are? AAA does not mean AAA. It does not mean AAA based on your very good definition of what it used to be. But AAA does not mean the same. So how do you deal with this, the fact that you had this systemic—is it fair to say a systemic problem?

Mr. MICHALEK. I think so.

Senator KAUFMAN. And how do you get at that so that specific problem—and we are going to have all kinds of new problems. We do it around here all the time. But how do you deal with that systemic problem?

Mr. MICHALEK. In my opinion, I think that we would really have to begin with what we are disclosing. I personally believe that there are products that deserve a commonly understood rating, that the public can say this is safe, because the rating is saying that it is safe. And I think that for a large number of the highly complex structured products, it is a different ball game. And I think that to the extent that you are able to distinguish between those products that are clearly in the different ball game, then the caveat of buyer beware is more appropriately applied. But for that portion of the products that I think the enormous public good that comes from having an independent arbiter of risk apply a commonly understood and accepted measure of that risk, I think that is something that we should seek to preserve, and so that it would eliminate that bleed, if you will, from the extreme debate or debatable conversation that goes on with respect to the highly complex products, into what really should be beyond debate with respect to what is safe and what is definitely contributing to the public good.

Senator KAUFMAN. And do you think you could do that? I mean, realizing that there would be some securities in the middle that would be—but having the idea that for what is commonly known as AAA corporate bonds you have one thing; for credit default swap you have something different.

Mr. MICHALEK. I think that it would require an impetus from outside. Clearly, the rating agencies do not, as it has already been demonstrated, have an internal incentive given the way that they are structured to pursue market share and to pursue profits, to install that kind of change, at least not to be the first one to install that kind of change.

I had the somewhat naive idea when I joined Moody's that there was a particular quality that Moody's was offering, and that was something that the company was going to seek to defend over time, and that effectively our brand meant something, and that I expected people to step in much earlier to say we are diluting our brand. And if we had this 96 or 98 percent market share, once our brand becomes absolutely equivalent to the other three, mathematically we are not going to stay there.

Senator KAUFMAN. Mr. Michalek, you have just defined this whole thing. I mean, in my opinion, everybody just decided to go for the fastest possible money they could ever possibly make and not worry about the brand and not worry about anything. I think it goes to the whole thing where we—and we did not have this, as Mr. Raiter pointed out, and the big thing that was missing was the referees on the field. We just pulled the referees off the field not just in the rating agencies but with everybody else, and we said we do not need referees anymore. And I think just like in football, or here or anywhere else, just like why we need police on the beat, not because people are crooks, but because police should be on the beat because potentially they will become crooks if, in fact, the temptations are so great.

Mr. Raiter, how do you think we deal with problems going down the road in terms of rating?

Mr. RAITER. Well, I think you have to have some rules. Actually, you have to have some penalties for not doing the right thing, and there are none, and there are no measures of whether you are doing the right thing.

Senator KAUFMAN. What would you define as not doing the right thing, for instance?

Mr. RAITER. Well, I would say if you have developed a model in the house that shows that it is much better than anything you are running and it shows that you have been too optimistic with the ratings you have assigned, and you do not immediately start to use it and go back and re-rate the old deals so you can warn the investors that we have been wrong, then that is not doing the right thing. And I will point out from a cultural perspective, there were two mantras that we heard at Standard & Poor's all the time after I joined, and I am sure they went on before that. One was a AAA is a AAA is a AAA, and it did not matter if it was a corporate, a municipal, or the new structured products. And they used the transition studies to prove that by saying, look, here is the transition of a AAA corporate, what is the probability it might be downgraded? What is the probability it might go from AAA to default, as in Penn Central? There had never been a AAA mortgage-backed that had gone to default from AAA until this latest debacle. In the transition of AAA mortgage-backed's compared to AAA corporates, it was much better. All right? So AAAs were all the same.

The other thing that was heard constantly—and it was in one of these emails—if we change, everybody will think that we have been wrong. And that just put a real anchor on any new ideas quickly going through the process because they were afraid somebody would suggest that they had not been right before and they would have liability or they would lose some market share. That was not doing the right thing, and they do not have a referee or anyone to tell them when they have crossed that line.

Senator KAUFMAN. Well, the other thing is, look, everybody—there is not a single thing that has been raised here this morning in terms of what the behavior was. As an elected official, you hate to change your position on anything because it admits that you did something wrong. I mean, everybody does—these are all common things. I think the fact that there are no penalties is key, and I would like to get at least a little bit of questions in the second round about grandfathering, and exactly what you said, why there was not more grandfathering with all the witnesses.

So with that, I yield to the Chairman.

Senator LEVIN. There is always going to be a debate on how to cure a system, but we know there are a lot of things that should not have happened that did happen, and we are going to debate those cures as to what the remedies are legislatively in the week coming up.

But I want to go back to some of the things that it is pretty obvious to me were wrong, wrong at the time, and as complex as some of the remedies are, some of these issues are not complex at all. Market share should not be driving ratings. Would you all agree with that?

[Witnesses nodding affirmatively.]

Senator LEVIN. Let us take a look at what drove the ratings here. Let us look at some more evidence. Exhibit 5, an email dated March 23, 2005, between S&P employees that I think you worked with, Mr. Raiter. Here is Exhibit 5.[1]

"When we first reviewed 6.0 results 'a year ago' we saw the subprime and Alt–A numbers going up and that was a major point of contention which led to all the model tweaking we've done since. Version 6.0 could've been released months ago and resources assigned elsewhere if we didn't have to massage the sub-prime and Alt–A numbers to preserve market share."

Should those numbers be massaged to preserve market share? Does anyone believe that? Mr. Raiter.

Mr. RAITER. No, sir. They should not have been massaged. I think I stated earlier that as the models were developed by our consultant and they were tested in-house to verify that they were accurate and that their predictiveness was an improvement over

[1] See Exhibit No. 5, which appears in the Appendix on page 258.

the model that was currently running, the models were immediately put into force. We ran out of financing and funding in our budgets in 2003 to put this Version 6.0 model in place. But the preliminary analysis, as Dr. Frank Parisi suggested, was that we were not adequately rating the transactions. That model was delivered I believe in September 2006. They did an accuracy evaluation. It was determined to be accurate, better than what they were running, and the consultant was paid. But they also performed what was called an impact analysis on the ratings. We had never done that before, so I do not know where the order came to start doing impact analysis on the effectiveness new models had on market share. But it is apparent that is what happened.

Senator LEVIN. And what was your reaction when you read that email?

Mr. RAITER. I was pretty amazed. I mean, Frank Parisi was one of the Ph.D.s that worked on these models. He is very knowledgeable. He is one of the best analysts they have and very outspoken.

Senator LEVIN. Were you bothered by it?

Mr. RAITER. Certainly.

Senator LEVIN. Mr. Michalek, should market share be preserved by massaging numbers?

Mr. MICHALEK. No.

Senator LEVIN. Is it troubling when you see that kind of an email?

Mr. MICHALEK. It is troubling in the sense that it is one more piece of evidence of what I was observing while I was at Moody's. One of the comments that might be somewhat illustrative of this is when I had some discussions with Brian Clarkson about the process, his perspective was, yes, we could effectively produce perfect ratings, but we would not be on the deals. And if we are not on the deals, then we are not able to add any value whatsoever. So in some sense, it is like, yes, we take a little bit of this poison, but we are going to save the patient because you have the opportunity to get in there and fight the good fight.

Senator LEVIN. Right, and make profit.

Mr. MICHALEK. He did not mention that.

Senator LEVIN. He may not have mentioned it, but obviously——

Mr. MICHALEK. It was definitely a part of that. It was clearly—I mean, this was in the context of a discussion where my job was on the line, and it had already been said earlier in the conversation that if you are difficult in the transactions, there is no choice but to replace you.

Senator LEVIN. That is pretty devastating, I tell you. Mr. Kolchinsky, what is your reaction to this kind of an email here?

Mr. KOLCHINSKY. It is very disturbing, and as the folks on this panel said, this is something we witnessed. Market share did drive the credit analysis, and I think that is why I was also let go from the rating agency.

Senator LEVIN. Because you objected to it being the driver?

Mr. KOLCHINSKY. I objected to it being the driver. I went ahead and tried to prevent us from what I believed was committing securities fraud.

Senator LEVIN. Dr. Cifuentes, what is your reaction when you see an email like this?

Mr. CIFUENTES. Well, I do not think I have a lot of original thoughts to add after what my colleagues have said, but it is kind of obvious. It is really a little bit troubling.

Senator LEVIN. Take a look, if you would, at Exhibit 24a.[1] Mr. Kolchinsky, by October 2007, Moody's had downgraded hundreds of RMBS securities, and was in the process of downgrading billions of dollars of CDOs. Yuri Yoshizawa wrote to you, "Can you take a look at the deals that we didn't rate from the spreadsheet that Ivy sent out last night to double check the information and to let me know of any of the 'stories'?"

And an earlier email in that chain says, "Market share by deal count dropped to 94 percent. . . . It's lower than the 98+% in prior quarters."

Is this something you got frequently, this kind of reference to market share, up, down, as being a driver?

Mr. KOLCHINSKY. Yes, sir. These emails were sent out, the market share emails were sent out at least quarterly, but occasionally on a monthly basis. They were sent out to just the managing directors in a given group.

Senator LEVIN. I will tell you something. For a firm that is supposed to have a reputation of high quality right in the middle of a financial crisis to be looking at the market share issue instead of whether their ratings are decent and whether or not what happened, how could our ratings have been so wrong, how do we improve it. What is on their mind: Market share, market share, market share.

Mr. Kolchinsky and Mr. Michalek, let me ask, at Moody's did employees understand that the amount of market share that was maintained or increased by the RMBS and CDO groups influence the size of the employee year-end bonus?

Mr. KOLCHINSKY. It was certainly the case in terms of the revenues impacted the stock, and most employees owned either a lot of options or restricted stock in the company, as well as the profitability of the group did influence the size of the bonus, yes.

Mr. MICHALEK. It was even more pointed than that. I think that we underwent a revision in the compensation structure—I am not going to be able to remember exactly the date; I think it was in 2006—where a larger percentage of our compensation was going to be delivered in terms of deferred compensation. So it became more important to see that what we were looking at was whether or not we were reaching our revenue numbers on a quarterly and annual basis which would allow us to, "maximize our—or max out our bonuses."

Senator LEVIN. And that meant that the ratings that you would give or not give to the banks could affect your bonuses?

Mr. MICHALEK. Could affect your bonus. Clearly, if for any reason you were stopping a deal or delaying a deal or creating an issue with the relationship between the banker and Moody's, that was a problem.

Senator LEVIN. And this is the fundamental conflict of interest that we need to do something about in the legislation. Would you agree, Mr. Kolchinsky?

[1] See Exhibit No. 24a, which appears in the Appendix on page 318.

Mr. KOLCHINSKY. Yes, sir. that is correct.

Senator LEVIN. Mr. Michalek, would you agree?

Mr. MICHALEK. Absolutely.

Senator LEVIN. Mr. Raiter, would you agree with that?

Mr. RAITER. Yes, sir.

Senator LEVIN. Dr. Cifuentes.

Mr. CIFUENTES. Yes, I do.

Senator LEVIN. And it is legislation which is hopefully going to be allowed to be debated. We will find that out Monday night. But this is an issue which is not in the bill yet, and it has to be somehow or other put in that bill. There has got to be a way that the regulators are going to find to eliminate this conflict of interest. It is shocking that whether or not something is rated AAA or whatever—and that means something to people. I mean, it may mean too much to some people, by the way. It may mean more than technically it should mean. But it means a great deal, and legally means probably too much in terms of where some entities are allowed to invest or not invest. But that fact of life, it should not be dependent upon—the credit rating; it should not determine a bonus of somebody who is giving the rating. It is so clear, it is so obvious, there is such a fundamental conflict here to me. Your testimony is going to be very helpful to us in hopefully getting rid of that conflict and directing the regulators in whatever the new regulatory regime is to end that conflict of interest. It goes right to the heart of a rating, which is supposed to be an honest, objective, independent assessment of the likelihood of an investment paying off. And it is not performing that function when you have this kind of pressure on people to rate a certain way in terms of their own pay.

Now, we had a situation, Mr. Raiter, I believe when you were head of RMBS, when you helped develop a model that was used to rate the RMBS securities. Then there was a period where S&P was doing very well in terms of revenue, and you asked senior management to buy mortgage data on the new types of mortgages so that you could improve that model. Is that correct?

Mr. RAITER. Yes, sir.

Senator LEVIN. And did you get the money?

Mr. RAITER. No, sir, not while I was there.

Senator LEVIN. OK. So this was supposed to keep models current and to do surveillance, so-called. Is that correct?

Mr. RAITER. Well, predominantly to build models, but to be made available for surveillance at the loan level detail.

Senator LEVIN. All right. Do you know why S&P did not spend the money on better analytics?

Mr. RAITER. No, sir, I do not.

Senator LEVIN. Now, there are also some things that should not happen regardless of the complexity of how you design a better system. There are some things, it seems to me, that are clearly wrong that happened and should not happen.

In the subprime loan deals, a number of loans in which borrowers paid a low initial rate, sometimes interest-only payments, and then after a specified number of months or years, switched to a higher floating rate that was often linked to an index. Did you have any data at the time as to how those subprime loans would perform? Mr. Raiter, did you have data?

Mr. RAITER. The model that is referenced in a number of these exhibits that we have looked at, the Version 6.0 was the first data set that we had that had a significant amount of information on those hybrid pay option type of loans. And it was the analysis of those loans that suggested that we were underenhancing or being overly optimistic and was the primary reason for trying to push that model into production as soon as possible in 2004 or at the most 2005.

Senator LEVIN. Because you were trying to test as to whether or not that kind of a product would increase the risk of nonpayment. Is that correct?

Mr. RAITER. Well, the products started to appear in 2003, but in very small numbers, and by 2004, when we built this database, we had more significant information on those types of products that indicated that what we thought—how we thought they were going to behave in the initial versions were—it was behaving worse than that, and we needed to get the new model in place because it had more data and gave us a better look at how these things might perform.

Senator LEVIN. Was there a delay in putting that new model in place?

Mr. RAITER. Well, we had some preliminary results in early 2004. I left in April 2005, and I believe the model was delivered in September 2006. And I do not know if it was ever implemented.

Senator LEVIN. All right. Now, some of the subprime loans also used stated income loans in which the lender just accepted a borrower's oral presentation of his income and did not verify it. In your judgments, would that make loans riskier to have unverified income in these loan applications?

Mr. RAITER. Yes, sir, they were considered riskier.

Senator LEVIN. All right. Would you all agree with that, it would be riskier if there was no verification of income?

Mr. MICHALEK. Absolutely.

Senator LEVIN. OK. Mr. Kolchinsky.

Mr. KOLCHINSKY. Yes.

Senator LEVIN. Would you agree with that, Dr. Cifuentes?

Mr. CIFUENTES. Yes. Actually, the real point is what you do about that. I mean, if you know it is riskier, you take precautions and you do your analysis with much more conservative assumptions. That is really to me the bottom line.

Senator LEVIN. All right. Mr. Raiter, going back to you again, you had insufficient data to predict how a new loan would perform. Was there something assigned called a magic number?

Mr. RAITER. When we could not get the data in order to do a full analysis on a major revision to the model, they would come up with a multiplier that could be applied to the model results that were being run, which were inadequate in order to beef that number up. And it was always intended that those magic numbers would be replaced with full-blown analytics when the data came in. And it is my understanding that there were some magic numbers installed in early 2005, when they made adjustments to the existing model, and if they were massaging information on the 6.0 model when it came out, it would typically be in the form of these multipliers that they would use.

Senator LEVIN. Was there a fee charged for surveillance?

Mr. RAITER. Yes, sir. Surveillance was a profit center.

Senator LEVIN. And there was a fee, perhaps a large amount, that was supposed to last for the life of the security. Is that correct? Were surveillance fees smaller than the initial rating fees?

Mr. RAITER. Yes, very much smaller.

Senator LEVIN. But they were supposed to pay for ongoing ratings and re-ratings, were they not?

Mr. RAITER. Right, the ongoing review of the rating.

Senator LEVIN. Let me ask you, Mr. Cifuentes, perhaps. If a ratings model changes its assumptions or criteria, for instance, if it becomes materially more conservative, how important is it that the credit rating agency use the new assumptions or criteria to re-test or re-evaluate securities that are under surveillance?

Mr. CIFUENTES. Well, it is very important for two reasons: Because if you do not do that, you are basically creating two classes of securities, a low class and an upper class, and that creates a discrepancy in the market. At the same time, you are not being fair because you are giving an inflated rating then to a security or you are not communicating to the market that the ratings given before were of a different class. So I think the right thing to do is to analyze or actually re-analyze all the transactions with the new parameters.

There is no revenue involved in that, as you probably suspect.

Senator LEVIN. Mr. Raiter, were there discussions within S&P about using rating models to conduct surveillance?

Mr. RAITER. Yes there were.

Senator LEVIN. And were those discussions heated at times? Were there disagreements over that?

Mr. RAITER. Yes, there were disagreements. Yes, sir.

Senator LEVIN. What was the argument about?

Mr. RAITER. Well, there was a certain number of analysts on our side that thought that it would make a lot of sense to protect the investors, go back and look at exactly how these deals were performing with new criteria and with the marks that were available in the model to mark the properties when the prices went down or up. And there was the other side of the argument that it would increase ratings volatility which might make us look bad in the eyes of the investor and could cost us market share.

Senator LEVIN. So the market share was a factor there as well as to whether or not you would use the new available information to re-rate the existing securities?

Mr. RAITER. Yes, sir.

Senator LEVIN. Mr. Michalek, was there a restricted list for rating analysts at Moody's who were prohibited from working with certain banks?

Mr. MICHALEK. I do not know if there was such a list.

Senator LEVIN. Were you on a restricted list where you could not work for Goldman or Credit Suisse?

Mr. MICHALEK. There were quite a number of banks that had previously requested that I not be assigned to their transactions.

Senator LEVIN. And they were complaining about you?

Mr. MICHALEK. There was a variety of complaints, that I would be either too aggressive, too abrasive, or that I was asking for things that were not being asked for by other analysts in the transactions.

Senator LEVIN. Was that in your mind because at least in some of the cases you were asking too many questions which would negatively affect the rating?

Mr. MICHALEK. Absolutely. It was a case that I attempted to provide the same analysis to every transaction that came into my view, and, unfortunately, we were not facing the same set of bankers on the other side of the phone.

Senator LEVIN. Let me just ask a couple questions quickly about synthetic CDOs. There was a huge increase in those. I think everyone knows the numbers or at least knows of the large numbers that were being rated. Did those synthetics cause any problems for credit rating agencies? Mr. Kolchinsky.

Mr. KOLCHINSKY. Yes, sir. The synthetics, the key element of synthetics is their complexity as well as their flexibility.

Senator LEVIN. And were they being used to short the market a lot?

Mr. KOLCHINSKY. From news reports I understand yes.

Senator LEVIN. And if they were being used to short the market, would that be saying something about the quality of the reference to the assets? Logically, would it be saying something about the assets being referenced?

Mr. KOLCHINSKY. I think if you hear all the stories of folks shorting not just a few securities but in size and massively, I think they obviously had a view that these securities were not that good and the whole market was going to collapse.

Senator LEVIN. And is it correct that you supervised the staff at Moody's that rated the transaction known as Abacus?

Mr. KOLCHINSKY. That is correct. That was under my business line. I think you are referring to the ABACUS AC1.

Senator LEVIN. That is correct.

Mr. KOLCHINSKY. In the 2007–AC1. That was under me. I staffed the transaction. I was not involved in it day to day.

Senator LEVIN. Were you aware that the bank that presented the deal to Moody's was Goldman Sachs?

Mr. KOLCHINSKY. I was.

Senator LEVIN. And have you seen reports that the Paulson firm shorted the ABACUS transaction using Goldman Sachs as its agent?

Mr. KOLCHINSKY. I have seen the recent reports on the SEC complaint.

Senator LEVIN. And have you also seen reports that Paulson played a role in selecting referenced assets for the ABACUS CDO that he expected to perform poorly?

Mr. KOLCHINSKY. I have seen those.

Senator LEVIN. And were you or your staff aware at the time that Moody's was working on the ABACUS rating that Paulson was shorting the assets in ABACUS and playing a role in selecting referenced assets expected to perform poorly?

Mr. KOLCHINSKY. I did not know, and I suspect, I am fairly sure, that my staff did not know either.

Senator LEVIN. And are these facts that you or your staff would have wanted to know before rating ABACUS?

Mr. KOLCHINSKY. From my personal perspective, it is something that I would have wanted to know, because it is more of a qualitative not a quantitative assessment if someone who intends the deal to blow up is picking the portfolio. But, yes, that is something that I would have personally wanted to know. It changes the incentives in the structure.

Senator LEVIN. Are people usually putting deals together that want the deal to succeed? Isn't that the usual assumption?

Mr. KOLCHINSKY. That is the basic assumption, yes.

Senator LEVIN. And if the person wanting the deal to blow up is picking the assets, that would run counter to what the usual assumption is?

Mr. KOLCHINSKY. It just changes the whole dynamic of the structure where the person who is putting it together, choosing it, wants it to blow up.

Senator LEVIN. Well, I could not agree with you more. Senator Kaufman.

Senator KAUFMAN. Thank you. I would just like to touch on a few things here. Grandfathering. What are the factors in deciding whether you grandfather or not, Mr. Raiter?

Mr. RAITER. Can you define the term "grandfather"?

Senator KAUFMAN. In other words, finding out—going back and you look at securities, things you have already rated, and deciding whether you are going to apply a grandfather to that.

Mr. RAITER. Well, you do not grandfather them. They do get surveilled. There are just different levels of criteria that you can apply in taking a look at how a deal is performing. One way is to look at the pool level and decide that we are just going to track the delinquencies, the foreclosures, and the losses. Another way is to use the loan level on the transaction. If you can get updated loan level files, then you can basically re-rate the transaction based on today's economics, today's house prices, and changes in the credit quality of the borrowers and get a better look at how it would perform today if you were going through the process.

Those two different ways to surveil can produce dramatically different results.

Senator KAUFMAN. Mr. Michalek, after you changed the model that you were using, you decided whether to go back and use the new model to older loans, is that correct?

Mr. MICHALEK. Again, I think this is outside of my expertise.

Senator KAUFMAN. OK. Mr. Kolchinsky.

Mr. KOLCHINSKY. In the CDO world, a lot of times deals that were out there and closed ended up being grandfathered. For some practical purposes, some of the models that the deals used, for example, a diversity score model or a CDO model which were provided by Moody's were almost baked into the deal. And as a result, when that model changed—and that model had actually a positive effect in terms of for the deal's compliance—a positive meaning that there is a direct line that you have to comply with this test. There was no way for us to say now you have to stop using that old model, use the new model. We could have applied the new model on the portfolio. We had the portfolio. But that step was not taken. Usually we let deals who used old models continue using those models.

Senator KAUFMAN. Mr. Cifuentes.

Mr. CIFUENTES. I left Moody's in 1999.

Senator KAUFMAN. OK.

Mr. CIFUENTES. But we did not really have that issue. At that time the market was really very small compared to what it is today.

Senator KAUFMAN. Mr. Raiter, did you have an indication that stated income loans were being used in any of the instruments that you were dealing with?

Mr. RAITER. Yes. stated income loans were there. They were known as "liar loans," "NINAs." When they started using the stated income loan concept in the late 1990s, it was applied to the highest credit borrowers—doctors, lawyers, self-employed people. As they started developing in the subprime arena, again, you started out with the top of the subprime market with the initial loans that were coming into the bonds.

By 2004 and 2005, with the new hybrids and the stated numbers, you were stepping down to much lower FICO scores, much lower credit quality of the borrower, and there was evidence starting to bubble up that brokers were impacting the way stated income was put on the various applications, that there were questions about appraisals, whether they were accurate or not.

So when they first started out with the no-income, low-doc kind of loans, we did have modeled in the ratings process higher credit enhancements for those loans, and as we tried to collect data on the new products that were developing and how they performed or were expected to perform, we were factoring that into the models. And, again, I hate to beat a dead horse, but we had a 2.8 million loan set that was used to build the Version 6.0 of the model, and at that time it had the most information we had collected on the hybrid loans. And the next data set that we were trying to collect had almost 10 million loans in it, and it was even more powerful.

Senator KAUFMAN. Right.

Mr. RAITER. So we were always looking forward to getting that additional information to make a better judgment as to how things were performing without waiting for those portfolios to start going bad.

Senator KAUFMAN. Do you think the decision not to move with the more advanced models was a financial decision, or do you think it was a decision made with the fact that it was going to make things more difficult to give higher ratings and, therefore, be not as competitive?

Mr. RAITER. I think the initial decisions not to fund it were because of resource constraints and the desire to maintain higher profits. I think the decisions that were made when it was finally developed and available for implementation would indicate whether they were starting to take a more serious look at what the impact on market and profitability was than just the analytics. I was gone by then.

Senator KAUFMAN. Mr. Michalek.

Mr. MICHALEK. Senator, I wanted to just bring to the attention of the Subcommittee that what you are in part drawing out is an extreme reliance on modeling and on the quantitative analysis that was going on. To the extent that you had a stated income loan or a NINJA loan, effectively it was simply another data input for which you could make some assumptions.

So there was necessarily a stepping back on some level, in my mind, of the qualitative analysis of what was going on down below, and instead you were saying, "Can we model it? Yes. Do we need to adjust our assumptions? Perhaps." And the debate would then be around: Is this the correct adjustment to the assumption?

Senator KAUFMAN. Right. But at some point, if, as Mr. Raiter said, it starts out being a very small problem at the very top for people with high income and now it is getting wider and wider and wider use, because I can understand, modeling works great because those stated income loans, from everything I gather, when they first started, high income, they had very few defaults. But it was clear to everyone that early on, Mr. Raiter, when you were still there, stated income loans were becoming a larger and larger part of the portfolio.

Mr. RAITER. Well, they were growing, but in 2004 and early 2005, they had not reached the numbers that were on your slide. And, again, we had a data set that told us that we needed to increase the numbers in our model, and the fact that it did not get implemented in a timely manner, those increases were just postponed.

Senator KAUFMAN. Right.

Mr. RAITER. But the other side of it is, in all candor—and I do not want to get into an analytical debate. But when you have pools coming in with 1,000 to 10,000 loans, each one with about 85 to 100 data points, it is difficult to have an individual sit there and look at a printout and come up with some qualitative decision on what is a five-basis-points difference in enhancement at the AAA. You cannot do these products without models. And if there is an area that you might address, the Fair Credit Reporting Act prevents the rating agencies from getting the kind of in-depth information on borrowers that would help them gauge the credit performance expectations.

Senator KAUFMAN. Right.

Mr. RAITER. It is post the loan being made, so it is not going to be a disparate impact on——

Senator KAUFMAN. Good point.

Mr. RAITER [continuing]. People trying to get a loan, but it gives the credit rating agencies that additional amount of information to help them track and determine how they will behave. We did not get the income. We had to back into the income numbers with the ratios they gave us for the mortgage in the front and back end, because we were not allowed to collect it.

So there were some issues there with just the information being made available that would take us out of the box.

Senator KAUFMAN. Mr. Kolchinsky——

Mr. CIFUENTES. If I could add something——

Senator KAUFMAN. Yes.

Mr. CIFUENTES. For example, in that situation, clearly you receive 10,000 loans, there is no way you can examine each one of those, and I would not expect a rating agency or anybody to do that. However, having said that, if a banker comes to you and he tells you, look, I have 10,000 loans, these are the characteristics of the loans, one reasonable thing you can do is you take a random sample, see if what you find agrees with what the banker tells you, and that gives you an idea. We did that many times when I was there at the CDO Group, not in the context of mortgages but in the context of different things. So that would be a way to handle the situation.

Senator KAUFMAN. Mr. Kolchinsky.

Mr. KOLCHINSKY. On this issue, I am actually more in Mr. Michalek's camp because I believe models are important and you cannot do these without models. But models are—you need a human being to have a quality judgment of what the results are and what the input is into a model.

A financial model is like a weapon. You really have to—it could be useful if you are holding it, not so useful if it is being pointed at you. And my experience has been once the model is out there, once it has been published, bankers, originators understand how to game that model.

Senator KAUFMAN. Exactly.

Mr. KOLCHINSKY. And they will—anecdotally, I understand there is some good data on some of these no-income loans because most of the early borrowers, the loan officer knew the borrower, was driving around—was the plumber who worked off the books, had that information. But to extend that information to the whole universe of borrowers is maybe statistically workable, but does not make sense. And that is where you need a sort of qualitative judgment—I know why this was happening, but the model does not make sense to me anymore.

Senator KAUFMAN. And I think one of the classic examples—anybody who has read Michael Lewis' "The Big Short"—was barbelling. Are you familiar with barbelling?

Mr. KOLCHINSKY. Yes. It is layering of poor assets with good assets in the same portfolio.

Senator KAUFMAN. And isn't it almost a perfect example of what you were just saying, where people now begin to game the model? They are not trying to figure out what the best product is. They are trying to put together a product that meets with the model.

Mr. KOLCHINSKY. One of the lessons learned for me personally is that averages lie. So if you have a model rolling by an average, it is not telling you all the information.

Senator KAUFMAN. Mr. Michalek, do you have any comments on barbelling?

Mr. MICHALEK. It was an early example of how we had to respond in what became an aggressively or an increasingly aggressive game of cat and mouse, that effectively once we had published some criteria and this was the established requirement, we would quickly see that here was a set of reactions—here was a portfolio that presented some compliant averages, as Eric was referring to. And so then there was our response to that, in which case that generated yet another response to that. And so it goes.

Senator KAUFMAN. Mr. Raiter, was barbelling a problem when you were still——

Mr. RAITER. I think it may have been raising its head, but you can fight the concept of barbelling only by maintaining the models as accurately and based on the most amount of data you can get.

And that just requires that—frankly, as the market exploded and the new products arrived, we really should have been looking at coming out with new models every 6 months, a year at the worst. Anybody is going to try and game it, and the only way you can avoid gaming is to keep improving it and changing it so you capture the nuances that allowed the gaming.

Senator KAUFMAN. Did you have any indication management was concerned about this? This has come up as another one of the problems, just this massive flood of new business. I mean, business just exploded based on the chart we saw earlier, and it is a little like having a restaurant and tripling the number of people eating there without keeping the same kitchen. Did you see any indication by management they were concerned about the fact that we were not doing these new models, we were getting a massive influx of new business, this could be a real problem?

Mr. RAITER. No, we did not get any indication that it really bothered them because they were turning us down for staff, they were turning us down for the resources we needed. And what they were looking at was you must not have been working very hard because your volume has doubled and nobody is quitting, so I guess you had slack down there.

Senator KAUFMAN. Right.

Mr. RAITER. And they were just enjoying the revenue, and by 2005, when I left, we were getting calls from corporate monthly: How much money are you going to make this month? Structured was driving the whole ratings business, and RMBS was the fastest-growing unit.

Senator KAUFMAN. Mr. Michalek, it was 2005 when Mr. Raiter left. I think by 2007, 2008, people must have been getting—there must have been some understanding by the management that this was not all going well.

Mr. MICHALEK. Absolutely. There had to be.

Senator KAUFMAN. Did you ever see any indication of that?

Mr. MICHALEK. Certainly one good example would be in the effort to try to catch up, it was clear that from 2004 on, we were playing a game of catch-up in terms of staffing, in terms of systems. We were trying to transfer a lot of the input for our monitoring process to sources offshore to try to speed up the quantity that was being driven through. We were working on developing a model for doing the monitoring. But effectively all of the resources were being directed backward trying to fix what was acknowledged to be broken as opposed to trying to get ahead of what was coming. All the energy that was directed forward effectively was how do we survive this onslaught of work.

Senator KAUFMAN. Did you ever philosophize about what they were thinking in management? Clearly, the brand was not doing well. You could see an erosion of the quality.

Mr. MICHALEK. Sure. I think that it was common to commiserate, particularly amongst the rear guard, those that had been there longer, and the culture changed the most dramatically, that the place is not what it once was, I do not know what they are thinking. Personally I was anticipating a steady erosion until there was just a pure equivocation between the rating agencies. So it was a matter of just throwing a three-sided dice and you would pick that rating agency, it did not matter anymore.

It was disappointing, but for those that did want to try to continue to pursue the good fight, if you will, I think we did our best under the circumstances.

Senator KAUFMAN. Mr. Kolchinsky.

Mr. KOLCHINSKY. I think the drive for market share was front and center, and any other resources did not really matter as much, and the focus was how much revenue we made.

Senator KAUFMAN. I got that. Did you have any indication that management was aware of the fact that the incentives—all the things we talked about, the lack of regulation, the incentives, market share, profit, that they realized that there was an erosion of the product and that this was not a good long-term strategy?

Mr. KOLCHINSKY. I do not know. They must have understood that this is not something that could continue, but I am not sure if they did or not.

Senator KAUFMAN. All right. Mr. Cifuentes, from your vantage point far away from this, how did it look to you?

Mr. CIFUENTES. Well, my view here is a little bit from an outsider because, as I said, I left in 1999.

Senator KAUFMAN. Right.

Mr. CIFUENTES. But being in the market until recently—to some extent I am still in the market—I know this—and I could not claim that I was the only person who did—a few funny things going on regarding the rating assumptions and the models at both Moody's and S&P.

For example, I remember I gave a talk at the CDO conference at the end of 2006, and I made the point that there were many changes to many things—default probabilities, correlations, things that might sound too technical here. But the speed of the change was a little bit suspicious. There were some changes at that time to something called correlation, which would probably do not have the time to discuss what it means here, but basically it amounted to a relaxation of the standards.

So anyone looking at the rules of the game from the outside would have noticed that certain assumptions that were being made in the past, now they were a little bit relaxed, and certain transactions that were receiving AAA ratings probably, with just a quick back-of-the-envelope calculation, you could come to the conclusion that they were probably not.

Senator KAUFMAN. I am just going to end my questions now. Just anybody—we have been here for a while talking about this. Is there anything you can say to kind of sum up what you think went on during this period?

Mr. CIFUENTES. Thank you, Senator. I would like to add a brief point here, if I may, because I think it is relevant. It might sound like a too academic or subtle point, but I think it is very profound, because the problem that we have here, I believe, is a little bit more serious than what we think it is.

We have been talking here about AAA, BBB, and the rating agencies clearly were given the right to determine whether something is AAA or BBB or whatever. Fine. But there is another level of complexity here. Congress has given the rating agencies also the right to define what AAA means, or BBB for that matter. So, in effect, Congress has given the rating agencies the right to legislate, and this is a little bit crazy because let me give you an example, and I think I am going to finish my statement here. But I think sometimes an example is a little bit more clear than a lengthy explanation.

Suppose you pass a law stating that, say, in Washington, DC, you cannot build a tall building, but you forget to define what "tall" means. And now there is a private company that will decide what "tall building" means. So that company might decide that it is a five-story building. Next year they might change, and it is a ten-story building. So that remains undefined.

So that is the situation we have right now. Nobody knows what BBB means. The only thing that is known is that, for example, if you are a particular company, you cannot buy anything with a rating below BBB. If you are a pension fund and you buy a BBB asset and it is downgraded, you might be forced to sell. But who knew what BBB means? Well, it does not really matter because the rating agencies not only determine whether something is BBB, but they can change the definition of what BBB means. And I think that is a very extraordinary state of affairs. I mean, it is really—it is very screwed up at a very fundamental level.

Senator KAUFMAN. Because essentially the ratings are used by the regulatory agencies to make decisions and, therefore, you are right, I mean, I never thought of it that way, but essentially the rating agencies are determining on their own——

Mr. CIFUENTES. Exactly.

Senator KAUFMAN [continuing]. What these ratings actually are, and then the ratings are used——

Mr. CIFUENTES. Legislating all the time.

Senator KAUFMAN. Right. Thank you very much, Mr. Chairman.

Senator LEVIN. I just have a couple more questions for this panel. Did investment bankers apply pressure in connection with rating analysts during the rating process? We have already seen some evidence of pressure, but in terms of, for instance, getting deals done quickly, increasing size of the tranches to make additional money, were those kind of pressures put on the analysts during the rating process? Mr. Kolchinsky.

Mr. KOLCHINSKY. Yes, all the time.

Senator LEVIN. Mr. Michalek.

Mr. MICHALEK. It was part of the daily workload.

Senator LEVIN. Mr. Raiter.

Mr. RAITER. Well, it was not particularly prominent in residential because our model was distributed. Everybody got the same answer. We could not have Bear Stearns run a deal and bring it in and get a structure and have Goldman bring the deal in and get something else. People would say, "Well, how did they get a different transaction?" So we were somewhat insulated.

Senator LEVIN. In your particular area.

Mr. RAITER. In this particular area, yes, sir.

Senator LEVIN. And in terms of that kind of pressure that you felt, let me ask you, Mr. Kolchinsky. Did you ever hear the phrase IBG–YBG?

Mr. KOLCHINSKY. Not until today, sir.

Senator LEVIN. Mr. Michalek, did you ever hear of that?
Mr. MICHALEK. That was quoted to me.
Senator LEVIN. When you worked there?
Mr. MICHALEK. I was working on a transaction, and I think it was—well, the name of the bank is not relevant. It was a large bulge bracket bank.
Senator LEVIN. It was a large?
Mr. MICHALEK. Bulge bracket bank.
Senator LEVIN. What does that mean?
Mr. MICHALEK. A bulge bracket bank is describing one of the largest banks that has a large balance sheet.
Senator LEVIN. All right. What bank is that?
Mr. MICHALEK. I think it was Deutsche Bank.
Senator LEVIN. OK. And then, what does it mean?
Mr. MICHALEK. IBG–YBG was explained to me to mean, "I'll be gone, you'll be gone. So why are you making life difficult right now over this particular comment?" Effectively—I mean, he said it laughingly as if you are losing perspective here.
Senator LEVIN. Did it mean to you that basically you ought to think short term because everybody would be gone before the chickens came home to roost?
Mr. MICHALEK. When it was originally told to me, I did not realize how that thinking really was driving much of what was going on, actually.
Senator LEVIN. Short-term thinking.
Mr. MICHALEK. Short term, get this deal done, get this quarter closed, get this bonus booked, because I do not know whether or not my group is going to be here at the end of next quarter, so I have to think of this next bonus.
Senator LEVIN. Who basically did your agency think was the client? Was it the investment banker or was it the investor? Mr. Kolchinsky.
Mr. KOLCHINSKY. It was the banker. The bankers were typically referred to as clients. If an investor called, they would be clients, but they never did. It was just simply the bankers, and they were the clients.
Senator LEVIN. Do you have any more?
Senator KAUFMAN. No.
Senator LEVIN. Thank you. You have been very helpful, all of you. Some of you have come a long distance. We greatly appreciate it.
Mr. KOLCHINSKY. Thank you.
Mr. CIFUENTES. Thank you.
Senator LEVIN. We will now move to our second panel of witnesses: Susan Barnes, currently Managing Director for Mortgage-Backed Securities and former North American Practice Leader of Residential Mortgage-Backed Securities at Standard & Poor's; Yuri Yoshizawa, Group Managing Director for Structured Finance at Moody's Investors Service; and, finally, Peter D'Erchia, currently a Managing Director of U.S. Public Finance and former Global Practice Leader of Surveillance at Standard & Poor's. We thank you for being with us today.
We have a rule here, which I think you are familiar with, Rule VI. I believe you were here when I said that it requires us to ask

all of our witnesses to please stand and be sworn in. Raise your right hand, if you would. Do you swear that the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?

Ms. BARNES. I do.

Ms. YOSHIZAWA. I do.

Mr. D'ERCHIA. Yes.

Senator LEVIN. Was that a yes?

Mr. D'ERCHIA. Yes.

Senator LEVIN. The timing system we will be using today, again, you may have heard it, but there will be a red light that will come on about 5 minutes from after you begin. A minute before that light comes on, it will be changing from green to yellow, which will give you a chance to conclude your remarks. We will print your entire testimony in the record, of course. We would ask you to try to limit your oral testimony to no more than 5 minutes.

Ms. Barnes, we will have you go first, and then follow that testimony by Ms. Yoshizawa and then Mr. D'Erchia. So, Ms. Barnes, please proceed.

TESTIMONY OF SUSAN BARNES,[1] CURRENT MANAGING DIRECTOR, MORTGAGE-BACKED SECURITIES, FORMER NORTH AMERICAN PRACTICE LEADER, RESIDENTIAL MORTGAGE-BACKED SECURITIES, STANDARD & POOR'S

Ms. BARNES. Thank you. Mr. Chairman, Members of the Subcommittee, good morning. I am Susan Barnes, a Managing Director of Standard & Poor's Rating Services. From 2005 to 2008, I was the North American Practice Leader for Residential Mortgage-Backed Securities (RMBS). I have been asked to appear today to discuss S&P's ratings for RMBS products.

I want to begin by saying that at S&P we have learned hard lessons from the difficulties in the subprime residential mortgage area. Although the subprime mortgage market improved access to credit and homeownership for millions of Americans, apparent abuses in that market have had a reverberating impact on the economy.

S&P began downgrading some of its ratings in this area in 2006 and had warned of deterioration in the subprime sector long before that. We were watching this market. But at the end of the day, the assumptions and criteria underlying our ratings simply did not anticipate the extent of the collapse of the housing market, which has been more severe and more precipitous than we, along with so many others, had anticipated.

Although my focus today is on S&P's process for rating RMBS securities, it is helpful at the outset to discuss the nature of our credit ratings. At their core, S&P's credit ratings represent our opinion of the likelihood that a particular obligor or financial obligation will timely repay owed principal and interest. Ratings do not speak to whether an investor should buy, sell, or hold rated securities or whether the price of the security is commensurate with its credit risk.

[1] The prepared statement of Ms. Barnes appears in the Appendix on page 155.

While evaluating the credit characteristics of the underlying mortgage pool is part of our RMBS ratings process, S&P does not rate the underlying mortgage loans made to borrowers or evaluate or regulate whether making those loans was a good idea in the first place.

Originators make loans and are responsible for verifying information provided by borrowers. They also make underwriting decisions. In turn, issuers and arrangers of mortgage-backed securities bundle those loans, perform due diligence on those loans, structure transactions, identify potential buyers, and underwrite the securities.

Our role in the process is to reach an opinion as to the ability of the underlying loans to generate sufficient proceeds to pay the purchasers of securities issued under stress scenarios that correspond to our rating levels. In doing so, we rely on the data coming from issuers, arrangers, and servicers that other market participants also rely on. For the system to function properly, the market must be able to rely on these participants to fulfill their roles and obligations, to verify and validate information before they pass it on to others, including S&P.

S&P's analysis of an RMBS transaction evaluates the overall creditworthiness and expected cash flow of a pool of mortgage loans by, among other things, using models that embody and reflect our analytic assumptions and criteria. The models apply those criteria to particular loan pools using up to 70 different data points regarding each loan provided by the arranger of the securitization. The assumptions and analysis embodied in our models are under regular review and are updated as appropriate.

After reviewing the relevant information, the lead analyst then presents the transaction to a rating committee. The qualitative judgments of the committee members are an integral part of the rating process as they provide for consideration of asset- and transaction-specific factors, taking into account the judgment and experience of the committee members.

A key component of our analysis is assessing the amount of credit enhancement available to support a particular rating—in other words, how much cushion there is in a transaction to account for potential losses. For example, subprime loans are expected to perform worse than prime loans, so a transaction backed by subprime loans would have significantly more credit enhancement than a similarly rated transaction backed by prime loans. Thus, it is not the case that through securitization poor credit assets magically become solid investments. Rather, the question is what amount of AAA-rated securities can a particular pool of collateral support.

Once a rating is determined by the rating committee, S&P notifies the issuers and disseminates the rating to the public. Along with the rating, we frequently publish a short narrative for information to the public.

The Subcommittee has asked me to speak to S&P's awareness of deteriorating conditions and reports of fraud in the subprime mortgage market. S&P was aware of these reports, and from 2005 to 2007 S&P consistently informed the market of its concerns about the deteriorating credit quality of the RMBS transactions as set forth in more detail in my written testimony. We also revised our models and took action when we believed action was appropriate.

I thank you for the opportunity to participate in the hearing today, and I would be happy to answer any questions you have.

Senator LEVIN. Thank you very much, Ms. Barnes. Ms. Yoshizawa.

TESTIMONY OF YURI YOSHIZAWA,[1] GROUP MANAGING DIRECTOR, STRUCTURED FINANCE, MOODY'S INVESTORS SERVICE

Ms. YOSHIZAWA. Good afternoon, Mr. Chairman and Senator Kaufman. I am Yuri Yoshizawa, Senior Managing Director of the Derivatives Group at Moody's Investors Service. My group rates various types of derivative securities, including collateralized debt obligations, better known as CDOs. I would like to thank you for the opportunity to provide our views today.

Moody's plays an important but narrow role in the investment information industry. We offer reasoned, independent, forward-looking opinions about credit risk. We publish credit rating opinions and credit research about entities, including corporations and governments active in the debt capital markets globally. Our credit ratings are opinions about the future likelihood of full and timely repayment of debt obligations, such as notes, bonds, and commercial paper.

In rating debt securities, regardless of whether the debt is issued by a CDO or by a corporation, Moody's analysts follow established analytical methodologies and adhere to established procedures. I will discuss these as they pertain to CDOs, but first I would like to give a brief overview of what CDOs are.

CDOs have been around since the early 1990s. CDOs cover a wide range of instruments and can have in their collateral pools various types of assets, including securities issued by financial institutions, corporations, and other structured finance securities. Additionally, CDOs may either be static or managed transactions. In static transactions, the collateral pool typically is not subject to change. In managed CDOs, the collateral manager can buy and sell assets based on a set of covenants spelled out in the CDO's governing documents.

As with all securities that Moody's rates, our methodology for rating CDOs incorporates qualitative and quantitative factors. The quantitative factors include the credit risk associated with the collateral backing the CDO and its structure. Some of the qualitative factors that we also typically evaluate include the governing documents of the CDO, the collateral manager, and the trustee. The relevance of these and other factors will vary depending on the specifics of individual transactions.

Moody's runs its rating process through a committee system; that is to say, rating committees decide the ratings rather than any one individual. After the analyst obtains relevant information from the issuer through meetings and other communications, he or she incorporates information from public sources as well as Moody's own macroeconomic and sector-specific perspective.

[1] The joint prepared statement of Ms. Yoshizawa and Mr. McDaniel appears in the Appendix on page 186.

The analyst then formulates a view and presents it to a rating committee. Rating committee members are selected based on relevant expertise and diversity of opinion. Each member is encouraged to express dissenting or controversial views and discuss differences in an open and frank manner. Once a full discussion takes place, the members then vote, with the most senior members voting last so as not to influence the votes of the junior members. Each committee member's vote carries equal weight, and the majority vote decides the outcome.

Once a credit rating is published, we monitor the rating on an ongoing basis, and we will modify it as appropriate to respond to changes in our view of the relative creditworthiness of the issuer or obligation.

One common misperception is that our credit ratings are derived solely from the application of a mathematical process or model. This is not the case. Models are tools sometimes used in the process of assigning ratings, but the credit rating process always involves much more—most importantly, the exercise of independent judgment by the members of a rating committee.

Our committee system is at the core of everything we do at Moody's and is designed to protect the quality, integrity, and independence of our ratings. Having said that, we recognize that we must continue re-evaluating all of our methodologies and processes to determine how they might be enhanced further in order to respond to the evolving market.

Let me make clear we at Moody's are not satisfied with the performance of our ratings in RMBS and structured finance CDOs over the past several years. In light of the recent crisis, we have made a number of enhancements, some of which have been highlighted in Moody's written testimony.

Thank you, and I would be happy to take your questions.

Senator LEVIN. Thank you very much, Ms. Yoshizawa. Mr. D'Erchia.

TESTIMONY OF PETER D'ERCHIA,[1] CURRENT MANAGING DIRECTOR, U.S. PUBLIC FINANCE, FORMER GLOBAL PRACTICE LEADER, SURVEILLANCE, STANDARD & POOR'S

Mr. D'ERCHIA. Mr. Chairman and Senator Kaufman, good afternoon. I am Peter D'Erchia, a Managing Director of Standard & Poor's Ratings Services. During 1997 through 2008, I was the Global Practice Leader for Structured Finance Surveillance at Standard & Poor's.

As the head of that group, I supervised surveillance for five rating and ranking categories: residential mortgage-backed securities, RMBS; commercial mortgage-backed securities, CMBS; collateralized debt obligations, CDOs; asset-backed securities, ABS; and servicer evaluations.

Each of those groups was headed by a separate manager who reported to me as a member of my management team. S&P's structured finance surveillance portfolio grew substantially during my time as the group's head. Our resources expanded to meet this increasing workload, and our growth with respect to RMBS in par-

[1] The prepared statement of Mr. D'Erchia appears in the Appendix on page 173.

ticular outpaced the increase in Standard & Poor's monitored transactions. Standard & Poor's RMBS surveillance team increased in size by 75 percent from the beginning of 2003 through 2006. In 2007, responding to the unprecedented deterioration in RMBS deal performance, the group's head count increased an additional 57 percent.

In order to understand the context for Standard & Poor's surveillance work in 2006 and 2007, it is important to consider the basic process behind Standard & Poor's surveillance review. After a rating is assigned on an RMBS transaction, a new transaction, it is transferred to the Surveillance Group for monitoring. Standard & Poor's surveillance analysis takes information related to the actual performance of the rated pool over time, and it uses that performance data to assess whether Standard & Poor's rating remains appropriate in light of our evolving view of the deal's current credit support.

Standard & Poor's surveillance process differs somewhat from a new rating review. This difference reflects the practical reality of different pre- and post-rating deal metrics, but it also serves an important function in providing a form of analytical check and balance. Therefore, each deal rated by Standard & Poor's is subjected to two analytical processes, providing for a more robust analysis than a simple reapplication of the same initial method over time.

As I noted, the volume of RMBS rated transactions under surveillance at Standard & Poor's increased throughout the years 2003 to 2007. In the past, Standard & Poor's looked for at least 12 months of performance data, or seasoning, in this analysis and used a variety of internal monitoring tools to identify and track individual deals for closer review. In late 2006, as the performance of recent vintage U.S. RMBS transactions experienced broad deterioration out of line with our expectations, Standard & Poor's Surveillance Group began a process of vintage reviews to prioritize the review of 2005 and 2006 RMBS transactions and to monitor those entire annual vintages on a monthly basis as each month's actual data came in.

Starting in late 2006 and through the first half of 2007, delinquency data coming in each month did not resemble anything seen before. At that point, however, no significant realized losses had been reported for the deals under review. Moreover, historically delinquencies did not always lead to losses. Accordingly, there was a lot of analyses and debate at Standard & Poor's to determine what that data meant.

As we received more data throughout early 2007, Standard & Poor's new issue, surveillance, and criteria personnel all worked together to understand what was happening and how to respond. During our ongoing analyses in early 2007, Standard & Poor's took numerous significant steps to react to the deteriorating RMBS performance and to inform the market of our analyses. Standard & Poor's recognized the unprecedented nature of the early delinquencies occurring in the 2006 vintage, and it fundamentally changed its practice in February 2007 to place issues on Credit Watch without waiting for losses to develop.

Standard & Poor's continued to downgrade ratings as appropriate on an ongoing basis. By July 2007, Standard & Poor's had adapted its methodology sufficiently to issue a substantial number of further downgrades. That evolution continued after July 2007, resulting in further downgrades as the subsequent performance data and criteria warranted.

Finally, I would like to thank the Members and the staff of this Subcommittee for giving me the opportunity to participate in this hearing. In my experience at Standard & Poor's, we have always been committed to doing the best we can to develop and maintain appropriate ratings, and I am proud of the hard work that our team put in trying to understand and respond to historic market disruption to the best of our abilities. I have set forth additional information about my own work and Standard & Poor's public discussion of the RMBS market in my written statement, and I am happy to answer any questions you may have.

Senator LEVIN. Thank you very much, Mr. D'Erchia.

Let me start with some of the failed deals that we went into with the first panel. First, the Vertical deal, if you will look at Exhibit 94b.[1] This is a CDO known as Vertical ABS. An S&P analyst in 2007 complained about how Vertical's issuer, UBS, was not cooperating with them and how the deal was unlikely to perform. And this is what one S&P analyst wrote in that 2007 email at the top: "Vertical is politically closely tied to [Bank of America]—and is mostly a marketing shop—helping to take risk off books of [Bank of America]. Don't see why we have to tolerate lack of cooperation. Deals likely not to perform."

Despite that judgment that it was unlikely to perform, S&P rated it—so did Moody's, by the way. Both rated the top three tranches as AAA. It defaulted within a few months thereafter.

Ms. Barnes, S&P's own analysts were uncomfortable with rating the deal, yet it was rated. Should it have been rated? Should that have been taken into consideration that there was no cooperation there?

Ms. BARNES. Well, I can't speak to this specific example, but——

Senator LEVIN. But you can speak to the question of whether or not if there is a lack of cooperation and a deal is not likely to perform, should it be rated?

Ms. BARNES. Well, I would say the analyst would take that into account, and it would be part of their presentation and discussion in the rating committee for all of the members to consider.

Senator LEVIN. But if an analyst concludes, the analyst on the deal, that a deal is not likely to perform, should you be giving AAA tranches to that deal?

Ms. BARNES. Right. I guess, Mr. Chairman, what I am trying to emphasize is the committee process at Standard & Poor's.

Senator LEVIN. I understand.

Ms. BARNES. No one person determines a rating, so they can have an opinion, and you have differing opinions that will come to committee.

Senator LEVIN. How about if the committee decides the deal is not likely to perform?

Ms. BARNES. If the committee decided that, then it would either take action or change the ratings that it would assign at that time.

[1] See Exhibit No. 94b, which appears in the Appendix on page 599.

Senator LEVIN. All right. And if an analyst says that the Bank of America is using the CDO to take the risk off its books, should that be a factor? In other words, if the analyst thinks that what is going on with the CDO is taking bad assets off the company's books, does that affect the rating process? Should it affect the rating process?

Ms. BARNES. Right. I mean, I cannot speak to the aspects of a transaction that the CDO criteria considers, but whatever the committee thinks is appropriate, and if they think it was material from a credit perspective and it could impact the performance of the transaction, then I would expect that they would consider it, yes.

Senator LEVIN. So that it should affect it?

Ms. BARNES. If they believe that it would affect it, then it should be an aspect that they should consider, yes, Mr. Chairman.

Senator LEVIN. Well, I am asking you not if they think something, then something should happen. I am asking you for your opinion.

Ms. BARNES. I would think—yes, I would agree that it would be an aspect from a credit perspective.

Senator LEVIN. Let me ask you, Ms. Yoshizawa. This is Exhibit 94e.[1] In this 2007 CDO, securities were included that had previously been downgraded the year before, so they had not been performing as expected. Is that common for a CDO to include downgraded assets?

Ms. YOSHIZAWA. A CDO can include assets that have been downgraded in the past, yes.

Senator LEVIN. That is common?

Ms. YOSHIZAWA. It could be common, yes.

Senator LEVIN. Could be common. All right. Take a look, if you would, at 93b.[2] In January 2007, S&P was asked to rate a RMBS with subprime loans issued by Fremont. Now, Fremont was a subprime lender that was known for poor-quality loans. At that time an S&P rating analyst sent an email to his supervisor saying, "I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?" One supervisor said, "No, we don't treat their collateral any differently." So that is Exhibit 93b.

The other one wrote in Exhibit 93c[3] that as long as he had current FICO scores for the borrowers, the analyst was "good to go."

Two days later, an article was circulated within S&P noting that Fremont was not now using 8,000 brokers, because their loans had some of the highest delinquency rates in the industry. That is Exhibit 93d.[4]

And, by the way, Fremont had also announced in an 8–K filing that the California Court of Appeals found that marketing and extending adjustable-rate mortgage products to subprime borrowers in an unsafe and unsound manner greatly increased the risk that borrowers will default on the loans or otherwise cause losses. The suit against Fremont was allowed to continue. Then there was a

[1] See Exhibit No. 94e, which appears in the Appendix on page 614.
[2] See Exhibit No. 93b, which appears in the Appendix on page 589.
[3] See Exhibit No. 93c, which appears in the Appendix on page 590.
[4] See Exhibit No. 93d, which appears in the Appendix on page 592.

cease-and-desist order that Fremont entered into with the FDIC regarding fraud and lax underwriting standards.

Now, despite all this information, we have Fremont RMBS securities rated by both S&P and Moody's in the spring of 2007. Should they have taken those factors into account? Ms. Barnes.

Ms. BARNES. Well, I would take from this email, Mr. Chairman, that they are considering it and discussing it, and the analyst is bringing up the points, as we would expect and encourage them to do. And the manager is discussing and sharing their views that they believe—I guess the criteria at the time was appropriate and it should not be modified.

Senator LEVIN. Well, that may be what they believed, but I am asking you what should be the case. Fremont's collateral has been performing "not so good." That does not make any difference.

Ms. BARNES. Right.

Senator LEVIN. According to this email, it does not make any difference. Should it make a difference?

Ms. BARNES. Well, Mr. Chairman, I guess when we look at the models, as we were discussing on the prior panel, the data that is used in those models is used from an array of originators and performance and used to establish the expected performance.

Senator LEVIN. I am just asking a simple, straightforward question. You have an analyst who is saying their collateral has been performing not so good. The supervisor says that does not make any difference. Should it make a difference?

Ms. BARNES. Well, I would say it——

Senator LEVIN. Do you folks care whether the collateral makes a difference?

Ms. BARNES. Yes, Mr. Chairman, the collateral should make a difference.

Senator LEVIN. So why does he get an answer back from his supervisor saying it does not make a difference?

Ms. BARNES. Well, again, because it goes in the context of what the criteria is including. If you are looking at the overall performance of the industry and how far is it deviating, what they are reporting back to this analyst is that they do not think an outside adjustment or change to the assumptions is appropriate at that time.

Senator LEVIN. It is not assumptions. It is having to do with a deal. I have a Goldman deal with subprime Fremont collateral. Fremont is not performing well. There are all kinds of problems with Fremont.

If Fremont does not get a higher credit risk, I am trying to figure out who does. I do not understand how you can just simply say it does not make any difference. You folks are supposed to be assessing credit risks here. Does it not make any difference that their collateral is not performing? That is what the email says. We do not treat their collateral any differently. Shouldn't their collateral be treated differently if it is not performing? That is a simple question.

Ms. BARNES. Well, Mr. Chairman, I guess you mean different than the industry standard. If it is performing differently than what our models projected for that type of loans, then, yes, they should——

Senator LEVIN. Is the fact it is not performing well relevant?

Ms. BARNES. It would be relevant to the analysis, but if the——

Senator LEVIN. It was not relevant to that supervisor.

Ms. BARNES. I guess you have to look at it, Mr. Chairman, in the context of how the assumptions are built, and the assumptions are built on an array of data. So it would depend how far off and where that performance is expected to perform. And just because the performance is poor, it does not mean that a deal was underenhanced. We can have poor-quality loans put into transactions that have an array of credit enhancement that could reflect that poor credit quality. So just because delinquencies necessarily are high at that time for that particular vintage.

Senator LEVIN. It is irrelevant?

Ms. BARNES. I would not say it was irrelevant. What I would say that it was ignored.

Senator LEVIN. He was told to ignore it. Ms. Barnes, take a look at 93a.[1] I mean, this is the thing which, it seems to me, is going to shake up folks that are listening to this testimony as to how much these credit ratings can be relied on. Here you have a chart. This is at the top of page 2, 93a. Now, this is a Moody's deal, so I am going to ask Moody's as well. "Here is the chart of the top ten issuers" of high delinquencies. It comes back: "Holy cow—is this data correct? I just graphed it and Fremont is such an outlier!!" In other words, they are terrible. Is that relevant?

Ms. BARNES. It is definitely relevant.

Senator LEVIN. So why doesn't the supervisor say, "You are damn right it is relevant"?

Ms. BARNES. Well, I guess I am trying to make a differentiating point——

Senator LEVIN. You are trying not to answer the question. Should the supervisor have said, "Yes, it is relevant. You better dig into this"?

Ms. BARNES. It should be relevant in looking at the collateral characteristics and estimating the performance, yes.

Senator LEVIN. Thank you.

Ms. Yoshizawa, this is Moody's. Should that have been relevant? Is that a factor that there are big delinquency folks that Fremont is such an outlier, they are one of the worst when it comes to delinquency? Is that relevant to your credit rating or should it be relevant to your credit rating?

Ms. YOSHIZAWA. Well, I am not part of the RMBS group.

Senator LEVIN. You are not what?

Ms. YOSHIZAWA. I am not responsible for the RMBS area. I have not worked in that area. However, my understanding is that the originator and servicer and their collateral quality is a factor in the analysis, yes.

Senator LEVIN. And should be?

Ms. YOSHIZAWA. Yes, it should be.

Senator LEVIN. I am glad to hear that.

We took an in-depth look in the early hearings into home loans being issued by Washington Mutual, and they were riddled with lax lending standards, fraud, borrowers whose income had not been

[1] See Exhibit No. 93a, which appears in the Appendix on page 587.

verified, appraisal problems, loan errors. They had among the worst delinquency rates in the country right there along with Fremont.

It seems to me it is obvious that you ought to distinguish between lenders when you do these kind of analyses, and I am glad that Moody's does. I do not know if you were at the time. But it seems to me that it is so obvious that you should that I am just kind of stunned at the reluctance of S&P to just say obviously they ought to be a factor. But I think at the end of the eighth time I asked the question, I think we got the answer that it ought to be a factor.

Let us take a look at, if you would, Exhibit 95. This is Delphinus. I am not sure what the pronunciation is of this. Exhibit 95 is a Moody's deal, so I will address this to you, Ms. Yoshizawa. This also was rated, then downgraded within 6 months by both Moody's and S&P. First, in July 2007 it was rated, then in January 2008, both of you downgraded it, and it became junk status.

In Exhibit 95a,[1] an investment banker wrote to a Moody's analyst that "Delphinus was a mezzanine deal with a lot of cushion, so we did not really care that much." That is July 2007. Well, that cushion obviously was not big enough.

And then you look at Exhibit 95b,[2] which is an email in August 2007. This is an S&P analyst. He is writing the following—or she is writing the following: "Regarding Delphinus, it appears that the closing date portfolio they gave us for analysis and the effective date portfolio . . . were not the same. It appears that the 25ish assets that they included in our closing date portfolio that were dummies were replaced in less than 24 hours with assets that would have been notched and made the portfolio worse."

Why are dummies being used in this way? I think this is Exhibit 95b, since this is a Standard & Poor's document, I will ask you again, Ms. Barnes. The dummies——

Ms. BARNES. I am sorry. I cannot speak to the CDO practice. I am not in that area.

Senator LEVIN. OK. Mr. D'Erchia, do you have an idea about the CDO practice?

Mr. D'ERCHIA. No. This would be discussing the individuals on the new transactions side, and it would——

Senator LEVIN. Well, do you know anything about the use of these dummies generally? Have you head about that practice, substituting assets shortly before the rating comes out? Have you heard about that at all? You are not familiar?

Mr. D'ERCHIA. I am not familiar with that.

Senator LEVIN. Are you familiar with the practice, Ms. Barnes?

Ms. BARNES. Not with respect to CDOs.

Senator LEVIN. Do you use dummies in RMBSs?

Ms. BARNES. Not in this manner, but at times, banks—I do recall, Mr. Chairman, where people could submit statistical pools that they think would be representative of the collateral that they would submit finally for rating. But it would not be a substitution,

[1] See Exhibit No. 95a, which appears in the Appendix on page 646.
[2] See Exhibit No. 95b, which appears in the Appendix on page 647.

so to speak. It would be once the collateral was originated from a timing perspective.

Senator LEVIN. All right. It would not be a substitution of one asset for another.

Ms. BARNES. No.

Senator LEVIN. OK. Do you know anything about the use of dummies, Ms. Yoshizawa?

Ms. YOSHIZAWA. I do not. As I mentioned in my opening testimony, CDOs can either be static or managed transactions. I do not know about this transaction, but to the extent that it was a static transaction, then we would expect that the portfolio that was provided to us at closing would be the same portfolio as of the effective date.

Senator LEVIN. Take a look at Exhibit 1i.[1] This is what happened to the AAAs. We ask all of you to take a look at this. BlackRock Solutions made an assessment in February of this year, and they looked at the entire universe of AAA ratings that have been given to RMBS securities from 2004 to 2007.

First, subprime RMBS securities—91 percent of the AAA ratings handed out in 2007 are now junk. Ninety-three percent of the AAA ratings in 2006 are now junk. Option ARM securities, these are securities that they looked at—we looked at these, actually, in our first hearing, full of negatively amortizing loans that are issued to borrowers with initial low interest rates but with a much higher loan payment that kicks in later. These are high-risk loans because nobody knew how many of the borrowers would default if they couldn't refinance and had to pay the higher loan payments. We examined at that hearing email traffic showing that Washington Mutual wanted to sell its Option ARM loans starting in early 2007, because it had already decided that they were likely to fail, so they had better get rid of them, get them off their inventory, securitize them, and get them out there, put them in the stream of commerce.

And then later, in 2007, they securitized billions of dollars of its Option ARM loans in several mortgage pools that resulted in dozens of securities. These pools won AAA ratings for their senior tranches, and this chart shows that 97 percent of the AAA ratings given to Option ARM securities in 2007 and 2006 have now been downgraded to junk status.

The numbers for other high-risk loans on the chart are equally shocking. Alt–A, fixed, and variable loans, and these are the loans with little or no documentation, their AAA ratings have fallen to junk status 96 to 98 percent of the time. Prime fixed and variable loans are not included in the chart.

So, does that chart shock you, to look what happened to all the AAA loans? Mr. D'Erchia.

Mr. D'ERCHIA. Yes, Mr. Chairman, it does shock—it is shocking, 98 percent, but my group would have been responsible for lowering these ratings, and in doing so, it is a tremendous amount of work, so——

Senator LEVIN. We will get to that. It took you quite a bit of time to downgrade the ratings, but we will get to that later.

Does this shock you, Ms. Yoshizawa?

[1] See Exhibit No. 1i, which appears in the Appendix on page 244.

Ms. YOSHIZAWA. Yes. It is certainly not what we would have expected, how our ratings would perform.

Senator LEVIN. Now, Ms. Yoshizawa, the first panel of witnesses raised a lot of concerns about Moody's handling of the CDOs, and here are some of the things that they said. Pressure by the investment bankers on your analysts. Pressure applied by managers at Moody's to maintain market share. Over and over and over again, that is what we heard. Pressure to maintain market share in RMBs and CDOs.

Next, managers felt like they would lose their job if they lost market share. Next, drive for market share led to deterioration of credit standards applied by Moody's. Next, emphasis on keeping the investment banker customer happy, keeping them appeased. Next, lack of adequate resources to rate deals effectively or to rerate them effectively. Change in culture. Great importance placed on meeting the investment bankers' demands. Next, the quality of assets assumed by Moody's model was not the same as the collateral provided by the investment bankers. Next, bankers were aggressively pushing the CDO to get done in the summer. Well, we didn't get into that one, so I won't ask you that.

But is all that you heard, does that trouble you?

Ms. YOSHIZAWA. Yes, all those statements are troubling.

Senator LEVIN. And were you surprised to hear them, or have you heard them before?

Ms. YOSHIZAWA. I have heard statements such as those before, yes.

Senator LEVIN. Senator Kaufman.

Senator KAUFMAN. Thank you, Mr. Chairman. To continue the testimony, I would like to, just for the record, kind of go through—thousands of RMBSes rated AAA in 2006 and 2007 are rated now as junk. Ms. Barnes, can you just give me what you think are the one, two, or three reasons why that happened?

Ms. BARNES. Well, Senator, the assumptions that we use in our criteria have obviously not panned out the way we had expected and the market deteriorated more precipitously and dramatically than we had expected.

Senator KAUFMAN. The assumptions didn't work out and the overall market went down?

Ms. BARNES. Yes.

Senator KAUFMAN. That is why an organization like yours, with a long and honorable tradition of rating AAA, all of a sudden had a massive failure—I think that is fair to say—and your assumptions were wrong and it was just a market thing because the housing market just went bad. Nobody could ever foresee that was going to happen, clearly. If you look at the housing market, it would seem that it was going into areas that it had never gone in before. I mean, there was no discussion at S&P about the fact that there was—I will just show this chart[1]—you had a chart like this to describe the housing prices, that might be a factor?

Ms. BARNES. Well, Senator, there are many assumptions that we use in the rating process, market value decline being one of them, ultimate default rates, things that impact the defaults and the se-

[1] See Exhibit No. 1j, which appears in the Appendix on page 245.

verity. So in looking at how market appreciation impacts people's equity positions and defaults, those would be things that we did consider, yes.

Senator KAUFMAN. OK. Ms. Yoshizawa, why do you think that there was this thousands of RMBSes that were graded AAA that are now—in 2006 and 2007—rated as junk?

Ms. YOSHIZAWA. Once again, I am not in the RMBS area.

Senator KAUFMAN. Well, I just used that as an example—I think you have the flavor——

Ms. YOSHIZAWA. We strive for and we believe we have achieved historically a long history of accurate and reliable ratings. And even outside of those structured transactions and others that have been affected by the housing crisis and the knock-on effects, we have ratings that have performed in structured as well as other parts of Moody's. I think that we certainly did not predict when we were rating these instruments and we were looking at the long-term credit expectations on these instruments, we did not predict the magnitude of the housing crisis. We did not predict the velocity and we did not even predict the length of time over which this crisis would extend. I think that is the main reason.

Senator KAUFMAN. Mr. D'Erchia, do you have any opinions of why it happened?

Mr. D'ERCHIA. Again, well, from a surveillance perspective, we had the value of seeing the actual delinquencies and we had never seen that precipitous a rise——

Senator KAUFMAN. Sure.

Mr. D'ERCHIA [continuing]. On a comparative basis with the previous vintages in that period of time.

Senator KAUFMAN. Yes. So this is 2006, 2007. You are doing surveillance, though. You are not really rating. You are not anywhere involved in the actual rating of these being AAA. You are just looking back and trying to see whether they should be re-rated or changed, right?

Mr. D'ERCHIA. Yes—well, Senator, we are trying—one singular goal is to make sure that rating is appropriate, yes.

Senator KAUFMAN. But in 2005, S&P was already talking about the deteriorating market. In your testimony on page six, you talk about an article entitled, "Subprime Lenders Basking in the Glow of a Still Benign Economy With Clouds Forming on the Horizon." Following the internal housing market simulation conducted in 2005, S&P had published a study concerning the potential impact of a housing downturn on RMBSes using the following assumptions: A January 19, 2006 article entitled, "U.S. RMBS Markets Still Robust But Risk Increases and Growth Drivers are Softening."

So it wasn't like a shock. In 2005, you were already discussing the fact that this is a real problem. But then in 2006—and I guess maybe you are the wrong person—I guess I should be talking to you, Ms. Barnes, in terms of you are just doing surveillance. You are not actually doing the ratings.

So I guess I will switch over to you, Ms. Barnes, and also just add to this, in your testimony, on page 11, you recount the same thing. So in 2005, now, you knew that there was a serious problem in the housing market. Take a look at that. There is the chart I was holding up there, which shows the fact that by 2006, we were now operating—June 2006, the housing bubble was twice the—anyway, it is just going through the roof.[1] So you knew in 2005 that this is a really big problem, yet through 2006 and 2007, you were still giving AAA ratings to a whole series of RMBSes which then ended up being junk.

Ms. BARNES. Yes, Senator. Through that time period, we were looking at the market and trying to understand the developments and what was happening, so the study in 2005 that you are discussing about the housing bubble, people were discussing that in the marketplace, so we were informing our opinions and then did an analysis to see what impact that would have on the ratings should that scenario occur.

So from 2005 on, we were looking at the different developments, the different types of collateral we were seeing——

Senator KAUFMAN. No, I got all that, but during that period, the main thing that I am interested in about these instruments is you didn't give them a lower rating. They still got the solid gold rating, which I understand, and I think it doesn't mean what everybody thinks it means, which is another problem which we can talk about today. So you are not indicating any kind of—I am really concerned about this subprime market and maybe I ought to take a look and not give every single one of these things, or the vast majority—not every single one—so many AAA which then turn out being junk.

Ms. BARNES. Well, Senator, through that time period, we did release and update our criteria—in many cases, which you would see that did increase our credit enhancements. So we did expect defaults and losses to occur through those periods and did increase our credit enhancement, which we believed at that time would be reflective of the ultimate exposure and default experience of those deals.

Senator KAUFMAN. Ms. Yoshizawa, I know in your testimony, page 18, by you and Mr. McDaniel, you go back to 2003. We identified and began commenting about the loosening of underwriting standards starting in 2003. And that was 4 years before 2007, if my math is right. So there had to be some knowledge in the management of Moody's that there is trouble here, and it didn't all of a sudden happen then in 2007, there is a housing problem here of massive proportions and we are still rating everybody AAA—not everybody, excuse me. We are still putting out a good portion of AAA bonds, which in retrospect was just——

Ms. YOSHIZAWA. Our RMBS group from 2003 on, as we mentioned in the testimony——

Senator KAUFMAN. Sure.

Ms. YOSHIZAWA [continuing]. Wrote about various concerns that they had in the market. At the same time, my understanding is that they were increasing enhancement levels required to get certain ratings. So there were changes being made to the methodology as well as requirements for reaching certain ratings. I don't know about the specific practices in terms of when they took certain actions or how much enhancement they changed, for example. It was not my area. However, I am aware that they had been continually identifying and adjusting their methodology.

[1] See Exhibit No. 1j, which appears in the Appendix on page 245.

Senator KAUFMAN. Did all three of you hear the previous panel?

Ms. YOSHIZAWA. Yes.

Senator KAUFMAN. Were you here for the previous panel?

Ms. BARNES. Yes, Senator.

Mr. D'ERCHIA. Yes, Senator.

Senator KAUFMAN. OK. Ms. Barnes, the previous panel said that is not it at all. The previous panel said it was lack of regulation. They said that there were the incentives given to folks within the organization. They said it was a search for profit. They said it was market share. Can you comment on any—I mean, did you have any firsthand experience of any of those things having an impact on what happened? Or it just didn't happen to folks you knew?

Ms. BARNES. Are you directing it——

Senator KAUFMAN. Yes.

Ms. BARNES. Well, Senator, I have no personal knowledge of people's incentives being directly tied to the number of deals they rate or rated. But overall financial performance of the organization did impact people's——

Senator KAUFMAN. But you don't think anybody in your organization you knew felt that the incentives distorted what decisions they were making?

Ms. BARNES. Not on the deal level, no.

Senator KAUFMAN. OK. Ms. Yoshizawa.

Ms. YOSHIZAWA. Well, first, from the personal incentives, the analysts were not compensated based upon the performance of an individual group or——

Senator KAUFMAN. No, I am not talking about the analysts. I am talking about everybody up the chain. You just went through the whole thing that the analysts—when Chairman Levin mentioned analysts, you said, wait a minute. There is a whole process here that we go through.

Ms. YOSHIZAWA. Right.

Senator KAUFMAN. Management is involved with that, is it fair to say, Mr. Chairman? So we are not talking about the analysts now, just the analysts. We are talking about the whole chain that you had, that both of you went into great detail to explain how this works. Do you think folks in that chain felt like there were incredible incentives for them to get as many deals out the door as they possibly could and with the highest possible rating?

Ms. YOSHIZAWA. I personally did not feel any undue pressure for market share.

Senator KAUFMAN. All right.

Ms. YOSHIZAWA. I had for a very long time been responsible for the synthetic CDO area. We had very low market share in the 20 and 30 percent range. It was an area that I was expected to explain why our market share may have been lower in terms of our methodologies——

Senator KAUFMAN. Right.

Ms. YOSHIZAWA [continuing]. In terms of could it be fees, but I was expected to know why that was the case. At no time was I told that my mandate was to increase that market share——

Senator KAUFMAN. Sure.

Ms. YOSHIZAWA [continuing]. Or to even maintain the market share.

Senator KAUFMAN. So you didn't feel any pressure to increase business at all. So what the other panel was talking about was something that happened with them but didn't happen with you? Everybody in the organization, that we want to be a, yes, we can organization, we want to expect as many deals as we can, the more deals the better, that happened to the folks that were on the first panel, but you didn't feel—and people around you, when you went out to lunch, people didn't talk about this, this pressure on us to do more business, to make deals work, to do whatever it took to make the deals work, to increase market share? You didn't feel any of that?

Ms. YOSHIZAWA. I did not feel the pressure to do deals at the cost of credit, not at the cost of everything else.

Senator KAUFMAN. How about pressure just to do deals?

Ms. YOSHIZAWA. We were expected to be able to rate the deals that we could rate——

Senator KAUFMAN. Right.

Ms. YOSHIZAWA [continuing]. Those that we could understand or those that we could come up with methodologies for.

Senator KAUFMAN. Right.

Ms. YOSHIZAWA. We were expected to rate them at the levels that we thought that they should be rated.

Senator KAUFMAN. Right.

Ms. YOSHIZAWA. So it is not a black or white as to whether you can or cannot rate something. Sometimes it is. Sometimes you don't have enough information.

Senator KAUFMAN. Sure.

Ms. YOSHIZAWA. Sometimes you think that the transaction complexity may not allow you to come up with an analysis for it a couple times——

Senator KAUFMAN. You were in a different environment than the first panel, clearly, right?

Ms. YOSHIZAWA. I was in the same——

Senator KAUFMAN. No, I mean, the environment they talked about was something that didn't impact on you. Didn't they—I mean, you were here when they said that there were incentives——

Ms. YOSHIZAWA. I did hear that. I never felt that my job——

Senator KAUFMAN. But you never felt—I am just trying to—basically, they were working in the same company, but they were just seeing things differently from what you did, which is perfectly—Mr. D'Erchia, what do you think?

Mr. D'ERCHIA. My plate was full. I had 100 percent market share.

Senator KAUFMAN. Right.

Mr. D'ERCHIA. My workload came from the new deal side, so that was a factor. I would be in a different place.

Senator KAUFMAN. Yes. I can perceive that.

I think, Mr. Chairman, I am going to turn it back to you.

Senator LEVIN. Ms. Yoshizawa, take a look, if you would, at Exhibit 24a.[1] It is an internal Moody's email chain from early October 2007. The second email is from Sunil Surana to you. Who is Sunil Surana, if I am pronouncing her name correctly?

[1] See Exhibit No. 24a, which appears in the Appendix on page 318.

Ms. YOSHIZAWA. Sunil was a business analyst reporting to my boss at that time.

Senator LEVIN. Reporting to your boss?

Ms. YOSHIZAWA. Yes.

Senator LEVIN. And here is what she wrote in Exhibit 24a. "Market share," and she is writing to you, "Market share by deal count dropped to 94%, though by volume it's 97%. It's lower than the 98+% in prior quarters. Any reason for concern, are issuers being more selective to control costs (is Fitch cheaper?) or is it an aberration." What was your answer to that?

Ms. YOSHIZAWA. We were expected to know why we were not on deals that we were not on. There were multiple reasons for that. It could be because of price. It could be because of credit enhancement. It could be because of other relationship issues, and we were——

Senator LEVIN. So market share mattered? Isn't that what that email says?

Ms. YOSHIZAWA. Market share mattered in that we were expected to know what the story was——

Senator LEVIN. Yes.

Ms. YOSHIZAWA [continuing]. And so I passed that on to my managing directors to find out. I am assuming there was a list of transactions and I was asking them to let me know what the story was for the transactions.

Senator LEVIN. So market share——

Ms. YOSHIZAWA. There was no mandate to rate those transactions. There was no punishment for not being on those transactions. But we were expected to know why we were not on those transactions.

Senator LEVIN. And so market share mattered, in a nutshell.

Ms. YOSHIZAWA. For various reasons.

Senator LEVIN. And to various people, higher up?

Ms. YOSHIZAWA. Yes. They wanted to know why we were not on certain transactions.

Senator LEVIN. And then if you will look at the email, Mr. D'Erchia and Ms. Barnes, look at Exhibit 5 talking about market share.[1] There is an S&P email chain, March 2005, and this is an email from Frank Parisi to you, Ms. Barnes. Who is Mr. Parisi?

Ms. BARNES. Oh, Frank Parisi at that time—I am trying to look at the time frame, because he performed different roles.

Senator LEVIN. Oh, I see. OK. March 2005.

Ms. BARNES. I believe he was part of our research group at that time——

Senator LEVIN. OK. Here is what he had to say. He said, "When we reviewed the 6.0 results a year ago, we saw the sub-prime and the Alt–A numbers going up and that was a major point of contention which led to all the model tweaking we've done since. Version 6.0 could've been released months ago and resources assigned elsewhere if"—and listen to this—"we didn't have to massage the subprime and Alt–A numbers to preserve market share." Market share mattered to him, wouldn't you agree, Ms. Barnes?

[1] See Exhibit No. 5, which appears in the Appendix on page 258.

Ms. BARNES. Mr. Chairman, I would say yes. He was saying that was a point he believed was being considered for the implementation of the model at that time.

Senator LEVIN. Yes. It mattered. Preserving market share mattered, isn't that what he is saying, point blank?

Ms. BARNES. He is saying that was his interpretation, yes, Mr. Chairman. Could I clarify for——

Senator LEVIN. Well, you can try to clarify. I am just reading the words. It says here something could have been released months ago, which should have been released months ago, and resources assigned elsewhere if that had happened, "if we didn't have to massage the subprime and Alt–A numbers to preserve market share." Isn't that pretty clear?

Ms. BARNES. Right. Well, I guess there are two points I would make related to this. I mean, one, there are people with a client focus on the email and market share would have an impact in relation to them. But also, from a——

Senator LEVIN. It mattered to them.

Ms. BARNES. Yes.

Senator LEVIN. And that was transmitted, was it not, to the staff?

Ms. BARNES. This email is to the analytic managers of the mortgage group.

Senator LEVIN. Yes, to the analysts. It was transmitted to the analysts that market share was important.

Ms. BARNES. It was a factor at that time for people to consider, yes, Mr. Chairman.

Senator LEVIN. OK. How about you, Mr. D'Erchia. Pretty clear?

Mr. D'ERCHIA. Well, I am reading the words and I can't pretend to know what Frank is thinking when he is saying this.

Senator LEVIN. Well, just about what he is saying. Forget what he is thinking.

Mr. D'ERCHIA. Well, the words itself, I mean——

Senator LEVIN. Pretty clear, aren't they?

Mr. D'ERCHIA. You just repeated them——

Senator LEVIN. Would you say they are pretty clear?

Mr. D'ERCHIA. With the caveat that I don't know what he is thinking when he says it. But just the words themselves, yes, they are clear.

Senator LEVIN. We heard from Mr. Michalek this morning, Ms. Yoshizawa, that there was a dramatic change in culture at Moody's led by Brian Clarkson, and that Moody's moved away from a more analytical, academic environment to an environment which is aimed more at satisfying the investment bankers who are paying Moody's for the ratings. Did you hear that testimony?

Ms. YOSHIZAWA. I did.

Senator LEVIN. Did that trouble you?

Ms. YOSHIZAWA. It troubled me that was his view, yes.

Senator LEVIN. And he testified that some of the bankers had complained to Brian Clarkson that Mr. Michalek was asking too many questions, he was doing too thorough of a review. They wanted him removed from their deal reviews, and they got their wish. Did you hear that?

Ms. YOSHIZAWA. I don't think I heard him say that they got their wish.

Senator LEVIN. Well, he said that he was not with two banks. He was taken off the case, right?

Ms. YOSHIZAWA. I don't know of a case where he was, no.

Senator LEVIN. You didn't hear him say that he was no longer allowed to work with a couple banks?

Ms. YOSHIZAWA. No. In fact, to my knowledge, he worked with at least one of those banks that I know of——

Senator LEVIN. But did you hear him say that he was taken off the case with those two banks, taken off the client list with those two banks?

Ms. YOSHIZAWA. I did listen to his testimony. I don't recall——

Senator LEVIN. No, I am saying, did you hear him testify——

Ms. YOSHIZAWA. I did hear him testify——

Senator LEVIN. And was it true that he was, in fact, told not to work with one or more banks?

Ms. YOSHIZAWA. I am not aware of that.

Senator LEVIN. Were you there at the time?

Ms. YOSHIZAWA. I was there at the time.

Senator LEVIN. OK. So you were not aware that he was restricted in any way from working on CDO deals with certain banks? You were not aware of that?

Ms. YOSHIZAWA. I was not aware of that, no. We had a quite contentious relationship with most of the investment banks that were out there, and there were many times that we would be requested either to remove an analyst from a transaction or that they not be put on the next transaction because it was that contentious relationship. That happened quite commonly. We did not make it a practice to remove people from transactions.

Senator LEVIN. Did you ever do that? Did you ever remove a person from transactions with particular banks because of complaints from that bank?

Ms. YOSHIZAWA. Not because of the complaints, because of timing, because of——

Senator LEVIN. Following conversations with banks—where they asked for the removal of somebody from the relationship, did you ever accommodate that?

Ms. YOSHIZAWA. There would be cases where they would ask, because the timing that the analyst told them that they needed in order to be able to work on a transaction, because their plate was full or because they had other things on their transaction, that at that time that I would say that I would see if I could get somebody else on the transaction.

Senator LEVIN. It was only a complaint that the analyst was not moving quickly enough?

Ms. YOSHIZAWA. No, it would be because they were not able to start or work on the transaction, so——

Senator LEVIN. And that complaint came from the banks?

Ms. YOSHIZAWA. It could come from—it usually would come from the banks. However, it could also come from the analyst who comes back and says, I have a vacation or I have a conflict in terms of my time and so I would not be able to work on this transaction.

Senator LEVIN. But you never heard from a bank that they really would prefer you to remove somebody, it is just not working out well with that person? It always related just to the person not having enough time?

Ms. YOSHIZAWA. No, we did get complaints from banks that they wanted people removed because they were unhappy with the——

Senator LEVIN. But you never accommodated that?

Ms. YOSHIZAWA. No, we did not. We may add other people to the transaction. However, we would emphasize that the decisions were made on a committee basis, and so we would keep that analyst on. I may go to the analyst to find out what the issues were. However, I do not remember an instance where I took somebody off because the bank complained about their performance or because they were upset about some of the things that they may have said.

Senator LEVIN. And you are telling us under oath that you never removed somebody because of a conflict between that person and the bank?

Ms. YOSHIZAWA. I cannot remember an instance where I did.

Senator LEVIN. You don't remember? So you are not denying that happened, is that correct?

Ms. YOSHIZAWA. I cannot remember an instance where I did that.

Senator LEVIN. How about personality conflict?

Ms. YOSHIZAWA. There were cases where transactions would occur—as I mentioned, a lot of transactions could be very contentious. We typically had a couple of analysts who would work on transactions with us or arrangers so that they understood the transactions. But sometimes those relationships could get very contentious and very abusive and so sometimes for the next transaction, I would not put them on it, both from the perspective of protecting the analyst, because sometimes, as I said, the relationships could get very contentious and very abusive and——

Senator LEVIN. So it wasn't just a matter of there wasn't adequate time. Now you are protecting the analyst from abuse, is that it?

Ms. YOSHIZAWA. To the extent that we thought that the discussions could get very—if somebody was being yelled at or if we thought that the discussions were getting very aggressive, it was a very difficult situation, and so we did not necessarily want to put them on the next transaction or——

Senator LEVIN. Or if the bank got mad enough at an analyst and it was contentious enough, then you might tell the analyst, we are removing you for your own sake.

Ms. YOSHIZAWA. Not during a transaction. It would be for the next transaction——

Senator LEVIN. Yes, for the next transaction with that bank. We are removing you for your own sake.

Ms. YOSHIZAWA. We could do that. In other cases, I have brought in more senior people into the transaction.

Senator LEVIN. Yes, but you could removed analysts. You might have remove analysts for that reason.

Ms. YOSHIZAWA. Not removing them from the transaction——

Senator LEVIN. No, from the next transaction with that bank.

Ms. YOSHIZAWA. We may assign it to another person.

Senator LEVIN. Yes.

Ms. YOSHIZAWA. We didn't necessarily have the same analysts working on every transaction——

Senator LEVIN. Right, but you may have decided not to put that analyst with a particular bank because there was that kind of a personality conflict.

Ms. YOSHIZAWA. That could be the case, yes.

Senator LEVIN. That, you do remember?

Ms. YOSHIZAWA. Yes.

Senator LEVIN. Why would you not just tell the banker, knock it off?

Ms. YOSHIZAWA. We did.

Senator LEVIN. So you stopped your relationship with bankers——

Ms. YOSHIZAWA. We would——

Senator LEVIN [continuing]. Based on their abuse?

Ms. YOSHIZAWA. We would ask them to knock off the——

Senator LEVIN. Did you ever tell them, we are not going to do any more credit rating for you with this kind of abuse of our analysts?

Ms. YOSHIZAWA. I do not remember whether we did. I don't think we did.

Senator LEVIN. Would you consider that pressure from banks?

Ms. YOSHIZAWA. There was always pressure from the banks.

Senator LEVIN. That type of pressure, to remove analysts?

Ms. YOSHIZAWA. There was always pressure from banks, including——

Senator LEVIN. Including that?

Ms. YOSHIZAWA. Including that type of pressure, yes. It was our job as managing directors to push back against that.

Senator LEVIN. I want to let you know, in your testimony you are shifting around here a little bit. I want to let you know that. First, you were saying you only would do it because of time, that you only would not have somebody assigned to a particular bank. Then you are saying, well, you didn't remember. Now you are saying that, yes, you might have not assigned a particular analyst to a particular bank in the next transaction because of that kind of heated conflict between the two. So I just want to let you know the way your testimony comes across. It is very unsatisfactory and——

Ms. YOSHIZAWA. If I can clarify, there——

Senator LEVIN. Sure.

Ms. YOSHIZAWA. To me, when you say "remove," I think of removing——

Senator LEVIN. That you did not assign somebody to that bank for the next transaction because of that conflict.

Who are you talking to here?

Ms. YOSHIZAWA. I am sorry. It is our legal——

Mr. ROSS. I am her counsel and I am handing her a note, just like your counsel handed you a note.

Senator LEVIN. I just want to know who.

Mr. ROSS. I am Stephen Ross from Akin Gump.

Senator LEVIN. Thank you.

Mr. ROSS. Thank you.

Ms. YOSHIZAWA. I am sorry. I just wanted to clarify the difference between removing someone in the middle of a transaction——

Senator LEVIN. I understand.

Ms. YOSHIZAWA [continuing]. Because we were being—versus assigning somebody to the next transaction——

Senator LEVIN. OK. You did not assign that person to a particular bank for the next transaction because of that conflict.

Ms. YOSHIZAWA. Because there could be—because of the conflict or what happened during that in terms of the relationship.

Senator LEVIN. All right.

Ms. YOSHIZAWA. However, I wanted to make clear——

Senator LEVIN. The bank got their way. Don't assign that person to me from now on. The bank got their way for the next transaction.

Ms. YOSHIZAWA. I think that was something that was asked of us quite often——

Senator LEVIN. And you sometimes did it.

Ms. YOSHIZAWA [continuing]. It would depend on how we felt about how that analyst——

Senator LEVIN. Right.

Ms. YOSHIZAWA [continuing]. Felt about that—the pressure and the relationship.

Senator LEVIN. And you sometimes then did what the bank asked you to do, which is not to assign that person for the next transaction.

Ms. YOSHIZAWA. Not for the benefit of the bank, no. It was for the benefit of—because we felt that our analysts were being abused and we did not want that to happen. We want to have—we may have assigned a more senior person that we felt could push back better.

Senator LEVIN. And the bank got their way, though. That person would not have been assigned to the next transaction. So they succeeded.

Ms. YOSHIZAWA. They may have succeeded in that instance, but it was not a practice and it was not for their benefit.

Senator LEVIN. There was at Moody's, I believe—a man named Andy Kimball, is that correct?

Ms. YOSHIZAWA. Yes.

Senator LEVIN. Does that strike a bell? If you would take a look at Exhibit 24b,[1] this is attached to the cover sheet from Mr. McDaniel to himself for his file. This is a long memo about credit policy issues at Moody's. It looks like it came at about October 2007, Exhibit 24b. We understand this is a memo that Mr. Kimball wrote. Are you familiar with this?

Ms. YOSHIZAWA. I am not.

Senator LEVIN. You are not? OK.

Ms. Yoshizawa, we were advised by Moody's Chief Credit Officer that it was common knowledge that ratings shopping occurred in structured finance. In other words, investment bankers sought ratings from credit rating agencies who would give them their highest ratings. Would you agree with that?

[1] See Exhibit No. 24b, which appears in the Appendix on page 319.

Ms. YOSHIZAWA. I agree that credit shopping does exist, yes.

Senator LEVIN. Ms. Barnes, would you agree that the same thing existed in your area?

Ms. BARNES. Yes, Mr. Chairman.

Senator LEVIN. And Mr. D'Erchia?

Mr. D'ERCHIA. No. There would be no reason to shop——

Senator LEVIN. OK. So because you were doing surveillance, right, it would not be applicable.

Mr. D'ERCHIA. That is correct.

Senator LEVIN. OK. Mr. D'Erchia, whenever S&P made a criteria change to its RMBS model and that change was more conservative than the previous model, did S&P retest the old deals to see if their structure still passed for rating purposes?

Mr. D'ERCHIA. Traditionally, no.

Senator LEVIN. And if you would take a look at that exhibit we talked about before, Exhibit 5,[1] this is a March 2005 memo. I don't think I asked you about this memo. I think I talked to Ms. Barnes about it. Are you familiar with this email?

Mr. D'ERCHIA. Well, not really, Senator. I am just reading it now with you.

Senator LEVIN. OK. Well, let me read it. "When we first reviewed 6.0 results a year ago, we saw the sub-prime and Alt–A numbers going up and that was a major point of contention which led to all the model tweaking we've done since. Version 6.0 could've been released months ago and resources assigned elsewhere if we didn't have to massage the sub-prime and Alt–A numbers to preserve market share." Are you familiar with Version 6.0?

Mr. D'ERCHIA. Not really, Mr. Chairman.

Senator LEVIN. OK. That was not something that you had any dealings with?

Mr. D'ERCHIA. The situation is different on the new deal side. They are rating a transaction by looking at certain information and making projections and assumptions. I had the luxury of getting monthly runs and seeing what the actual delinquencies were——

Senator LEVIN. All right.

Mr. D'ERCHIA [continuing]. And so I could measure against the actual information.

Senator LEVIN. So this was not relevant to your work doing the surveillance?

Mr. D'ERCHIA. I wouldn't say that. There is certain information you can get when you are doing new transactions that you just don't have once the transaction has been issued. A FICO score, you would get from the banker, I would assume, on the deal side, which I couldn't get current consistently. It was a difficult thing to get on a regular basis. If the home was sold and refinanced, it was very difficult to get current loan-to-value information, and the like.

Senator LEVIN. OK. Ms. Barnes, if you would take a look at Exhibit 45,[2] please. This was an email sent to you in June 2005. This is a mortgage broker who was writing you saying, "I saw you today on CNBC and the reason for my email is that I am extremely afraid of the seeds of destruction the financial markets have plant-

[1] See Exhibit No. 5, which appears in the Appendix on page 258.
[2] See Exhibit No. 45, which appears in the Appendix on page 383.

ed." This is now June 2005. "I have been a mortgage broker for the past 13 years and I have never seen such a lack of attention to loan risk. I am confident our present housing bubble is not from supply and demand of housing, but from money supply."

"In my professional opinion the biggest perpetrator is Washington Mutual." And then listing what Washington Mutual was all about—"no income documentation loans;" "Option ARMs, negative amortization on over-leveraged collateral;" "Interest income on negative amortization is not taxed," going down to 2C, or 3, "Option ARMs make up 90% of Bay Area loans in California." "4, "WaMu's recent bid for Providian is the purchase of another highly leveraged/securitized bank." 5, "100% financing loans. I have seen instances where WaMu approved buyers for purchase loans; where the fully indexed interest only payments represented . . ."—these are interest only payments—"100% of the borrower's gross monthly income. We need to put a stop to this madness!!!"

Did you know the person who wrote about that madness, Michael Blomquist? Did you know that person?

Ms. BARNES. No, not that I recall.

Senator LEVIN. This was just an email that you got from somebody?

Ms. BARNES. I believe so. Yes, sir.

Senator LEVIN. All right. He sure put his finger on WaMu.

So S&P, you raised credit protection for investment grade RMBS securities because of issues that were raised like this, however, is that correct? Did you not——

Ms. BARNES. Yes, we did, sir——

Senator LEVIN. You did?

Ms. BARNES. In the middle of 2005, what precipitated my appearance on CNBC was that we increased our credit enhancement requirements for the Option ARM loans.

Senator LEVIN. All right. And so you also had data showing that the subprime was not performing in the first part of 2006, as well, is that correct?

Ms. BARNES. It started to perform a little differently, but from a delinquency perspective.

Senator LEVIN. That meaning worse?

Ms. BARNES. Worse, yes, sir.

Senator LEVIN. Now, these were some of the factors that led to a major model change to levels in July 2006. According to the testimony, I believe, that you gave to the Senate Banking Committee in April 2007, this model change resulted in more protection against loss, so-called credit enhancements. "They were increased by 50 percent in the average subprime ratings as compared to deals rated in the first half of 2006 and during 2005." Is that correct?

Ms. BARNES. Yes, it is, Mr. Chairman.

Senator LEVIN. And, Ms. Yoshizawa, Moody's also increased its credit enhancement for its model by 30 percent during that time frame, is that correct?

Ms. YOSHIZAWA. I don't know about the RMBS model, sir.

Senator LEVIN. OK. But your model that you were using, was that increased by 30 percent?

Ms. YOSHIZAWA. I am not aware of how the RMBS model was changed.

Senator LEVIN. OK. Let me go back, then, to you, Ms. Barnes. The model changes to Levels was finalized in July 2006. You had better data. You had improved assumptions about how subprime would behave in the future and that would allow you to better predict how deals would behave. It was a better model than the previous model. If you had used the new model to reevaluate existing RMBS securities, it would have resulted in downgrades for many of those securities, is that correct? If you had used that model?

Ms. BARNES. If we had used that model at that time?

Senator LEVIN. Yes. It would have resulted in downgrades for many of the RMBS securities.

Ms. BARNES. Well, if we had rated them at the point of issuance, it would have ended up with different ratings being issued at that time, yes.

Senator LEVIN. OK.

Ms. BARNES. Possibly.

Senator LEVIN. Mr. Barnes, your company did not use that revised model to reevaluate the existing RMBS securities, is that correct?

Ms. BARNES. I am sorry. I didn't understand your question.

Senator LEVIN. You did not use this revised model to reevaluate existing RMBS securities, is that correct?

Ms. BARNES. We did not, Mr. Chairman.

Senator LEVIN. Even though those were all under surveillance, is that correct?

Ms. BARNES. That is correct.

Senator LEVIN. OK. And were you familiar with that decision, Mr. D'Erchia?

Mr. D'ERCHIA. Yes. As I said, Mr. Chairman, we had the luxury, if you will, of receiving the current information on a monthly basis.

Senator LEVIN. Right. And you did not have resources, as well, is that correct, to apply those revised models to reevaluate all the existing RMBS securities? It was also a resource issue, is that correct?

Mr. D'ERCHIA. No, Mr. Chairman.

Senator LEVIN. That is not correct? It was not a resource issue?

Mr. D'ERCHIA. No. Having the ability to look at the actual delinquencies and monitor them to see what percentage, if any, turn into losses was something that I didn't have to be predictive. I can see what was happening.

Senator LEVIN. OK. Now, take a look at Exhibit 62.[1] At the top of page two, this is a Standard and Poor's memo from Roy Chun, is that correct?

Mr. D'ERCHIA. Yes.

Senator LEVIN. Did you ever see this memo before, or this email before? Disseminated to surveillance——

Mr. D'ERCHIA. I haven't seen it since 2005.

Senator LEVIN. OK. "How do we handle existing deals especially if there are material changes that can cause existing ratings to change?" Who is Mr. Chun again?

[1] See Exhibit No. 62, which appears in the Appendix on page 471.

Mr. D'ERCHIA. Mr. Chun worked in the surveillance group and reported to me.

Senator LEVIN. All right. "How do we change existing deals . . . if there are material changes that can cause existing ratings to change? I think the history has been to only re-review a deal under new assumptions . . . when the deal is flagged for some performance reason." And then he said, "I do not know of a situation where there were wholesale changes to existing ratings when the primary group changed assumptions or even instituted new criteria. The two major reasons why we have taken the approach is, (i), lack of sufficient personnel resources." That wasn't the reason? What he said was the reason, one of two, is not the reason, lack of personnel resources?

Mr. D'ERCHIA. Mr. Chairman, I can't speak to the specifics——

Senator LEVIN. No, but you disagree with that, is that correct? That was not a reason why that new model was not applied to the existing deal.

Mr. D'ERCHIA. In 2005, I did not know that resources was——

Senator LEVIN. Did you ever have a problem in existing resources when it came to your job of surveillance? Did you ever raise the issue?

Mr. D'ERCHIA. Oh, yes——

Senator LEVIN. You needed more resources?

Mr. D'ERCHIA. Yes, I did.

Senator LEVIN. OK. Tell us about that.

Mr. D'ERCHIA. Well, when we started to see the increased delinquencies, we switched to doing vintage reviews on the 2006 and 2007 transactions. We worked in conjunction with a number of people throughout the organization, criteria, data, management, the new deal side, and also in New York. I had the luxury, if you will, again, it was moving targets with attrition and new hires and terminations, etc., anywhere from 100 to 125 people reporting to me in New York. So when I would have a particular area that needed additional resources, I would shift people around to cover that. At the same time, I would make requests for additional resources for the future so that I could adequately cover all of our workload.

Senator LEVIN. Right. And you didn't get those resources, did you?

Mr. D'ERCHIA. I got resources.

Senator LEVIN. Were they adequate to do your job?

Mr. D'ERCHIA. I would say they were adequate to do the job at the time it needed to be done.

Senator LEVIN. Take a look at Exhibit 86,[1] if you would. Who was Ernestine Warner?

Mr. D'ERCHIA. Ernestine Warner was the head of the RMBS surveillance area.

Senator LEVIN. And she was asking for help?

Mr. D'ERCHIA. She is asking for resources.

Senator LEVIN. Yes. And you told her, I believe, is it not true, that they would be coming later on?

Mr. D'ERCHIA. Well, I was identifying a potential avenue where we can get additional resources.

[1] See Exhibit No. 86, which appears in the Appendix on page 531.

Senator LEVIN. She was asking for additional resources, was she not?

Mr. D'ERCHIA. Yes.

Senator LEVIN. To do the surveillance job, and right in the middle of that Exhibit 86, you write, "[Y]ou should be getting 4 or 5 new Associates from the 2007 Associate class for 12 and continuing to get them going forward. That might help." Her response, I believe, was at the top——

Mr. D'ERCHIA. That is right.

Senator LEVIN. "They will be a great help but they . . ."—and this is February 2007, this is a critical time—"They will be a great help but they will not start until August, right?" So she needs help now, she is telling you, and now being February, and you are telling her she will get a few in August. And then she says, "Let's talk about anything we might be able to do in the interim. I talked to Tommy yesterday and he thinks that the ratings are not going to hold through 2007." Your ratings, your surveillance, you are supposed to make sure those ratings stay.

Mr. D'ERCHIA. Yes, sir.

Senator LEVIN. And she has talked to Tommy—I am not sure who that is—but he thinks the ratings are not going to hold through 2007. "He asked me to begin discussing taking rating actions earlier on the poor performing deals. I have been thinking about this for much of the night. We do not have the resources to support what we are doing now."

You kept saying to my questions, you thought the resources were adequate now. But she is telling you, we do not have resources to support what we are doing now. A new process without the right support would be overwhelming. What was your response?

Mr. D'ERCHIA. Oh, my response was to request resources, but here is——

Senator LEVIN. Did you get them?

Mr. D'ERCHIA. I got some, as I said——

Senator LEVIN. Did you get what you needed?

Mr. D'ERCHIA. Well, it depends on the job. On this particular job, I feel we were adequately covered and I think that was——

Senator LEVIN. Were there some jobs you weren't adequately covered? In your judgment then?

Mr. D'ERCHIA. I would triage according to volatility.

Senator LEVIN. Triage? That means something was being shorted. That is the meaning of triage. If you have two sick patients, you are going to deal with the one that can live. I mean, come on. Triage means you were not providing adequate resources where they were needed.

Mr. D'ERCHIA. Well, if I could, Mr. Chairman——

Senator LEVIN. Sure. Go ahead.

Mr. D'ERCHIA. Ernestine Warner is in charge of the Residential Mortgage Group. Her job is to inform me when she needs resources and what those resources are. This email is her doing her job.

Senator LEVIN. Right.

Mr. D'ERCHIA. What I am doing is trying to address that request. I am looking to move the entire associate class over. I understand we are talking February to August, and she is asking about the interim. The "Tommy" she is referring to is the head of the Criteria

Group. In the interim, I am looking for help. I am also shifting people over from other areas where they can help support me. This is in addition to and including the data area and the deal side if there was the luxury of people available, because to go out and hire, you are looking at at least a 6-month learning curve but she needs the help now. And so I had to address this situation at that time by shifting people over and making sure that we can help now.

Senator LEVIN. Did she get the resources that she needed when she needed them?

Mr. D'ERCHIA. I think, sadly enough, your chart shows that with the amount of downgrades that we had to do to make that rating, to make the ratings be appropriate—and at that particular time, I would say I was never satisfied with anything, and that typically was the budget process, is where I would go and I would request and document the need for those requests and then we would get them. But at this particular time, and knowing what I did in shifting over personnel, this particular issue, yes, this was resolved.

Senator LEVIN. It was resolved. Were the resources adequate? She was warning you, the storm is coming. The ratings aren't going to hold. You are going to need to start downgrading. We need people. We need resources now. And you are telling me she got the resources that she needed? That is what your testimony is, under oath?

Mr. D'ERCHIA. Yes. We increased our staff—as I said, I had about 100—over 115 people to 125 people at any given time.

Senator LEVIN. All right. Now take a look at Exhibit 84,[1] if you would, the third page. This is Ernestine Warner again writing. "In light of the current state of residential mortgage performance, especially sub-prime, I think it would be very beneficial for the RMBS surveillance team to have the work being done by the temps to continue. It is still very important that performance data is loaded on a timely basis as this has an impact on our exception reports. Currently, there are nearly 1,000 deals with data loads aged beyond one month." Was that satisfactory, to have that kind of a backlog?

Mr. D'ERCHIA. No, and that is what we did. Also, we used—for data loading and data collection, I would in addition use our affiliate company—CRISIL—and have them do a lot of the data loading and data collection. The people she is talking to are people in the data group, and she is seeking additional help in loading data.

Senator LEVIN. And, Ms. Barnes, you had to borrow staff for new ratings, I understand, from surveillance, is that correct?

Ms. BARNES. Yes, Mr. Chairman. At different times, we shifted resources between the two.

Senator LEVIN. How about at that time, at that time that we are talking about?

Ms. BARNES. In December 2006?

Senator LEVIN. Yes.

Ms. BARNES. I don't think so in December 2006, but in February, we were working jointly.

[1] See Exhibit No. 84, which appears in the Appendix on page 526.

Senator LEVIN. Jointly, but you were short of staff at the same time they were short of staff, is that correct? You were both short of staff?

Ms. BARNES. Yes, Mr. Chairman. Everyone was working very hard and——

Senator LEVIN. I know everyone was working hard. Were you both short of staff?

Ms. BARNES. Right. As a manager, you are always asking for more resources to do more things——

Senator LEVIN. This is just a routine time, right?

Ms. BARNES. Right.

Senator LEVIN. This was all routine.

Ms. BARNES. No, not at all.

Senator LEVIN. There wasn't a collapse, or a calamity that was about to hit us. It was just ordinary, bureaucratic, everyone can always use more staff. Everybody is working pretty hard. You needed more staff. You saw something coming, didn't you?

Mr. D'ERCHIA. Yes.

Senator LEVIN. And didn't you also need more staff, and didn't you make requests for more staff? Didn't you have to pull staff from other parts of the operation?

Ms. BARNES. Yes, we did, Mr. Chairman.

Senator LEVIN. February 2007, we need to talk about getting more resources in general. I see evidence that I really need to add staff to keep up what is going on with subprime and mortgage performance in general. And the company was doing well, wasn't it, pretty well profit-wise at this time, S&P at that time?

Ms. BARNES. I can't speak to the financial performance.

Senator LEVIN. Can you speak to that?

Mr. D'ERCHIA. No. We, as I said, had our hands full with monitoring delinquencies to see if they would lead to realized losses.

Senator LEVIN. And in 2006, delinquency rates for loans supporting subprime securities were hitting record levels, is that true, Mr. D'Erchia?

Mr. D'ERCHIA. In 2006, yes.

Senator LEVIN. And they outpaced any previous year for subprime RMBSes, is that correct?

Mr. D'ERCHIA. To my knowledge, yes, Mr. Chairman.

Senator LEVIN. And by the end of 2006, delinquencies in the high-risk subprime securities, RMBS securities, were approaching 10 percent and the vintage was not even a year old, is that correct?

Mr. D'ERCHIA. The specific numbers sound correct.

Senator LEVIN. There were a lot of reasons for the 2006 loans that were going bad so quickly. Fraud in mortgage applications was up substantially. Low and no doc loans were prevalent. stated income loans, in which a bank doesn't verify the borrower's income, were everywhere. Combined loan-to-value was pushing 90 percent for subprime. Housing prices had peaked and were beginning to fall, making refinancing difficult. Is it correct that by late 2006, that you were of the opinion that subprime was rapidly deteriorating? Is that correct, Ms. Barnes?

Ms. BARNES. I am sorry, which month?

Senator LEVIN. What time?

Ms. BARNES. I am sorry, I didn't catch the last part of your——

Senator LEVIN. Is it correct that by late 2006, you were of the opinion that subprime was rapidly deteriorating?

Ms. BARNES. I would say it was deteriorating at a pace that was higher than the previous vintages, yes.

Mr. D'ERCHIA. Yes, I agree.

Senator LEVIN. How about you, Ms. Yoshizawa?

Ms. YOSHIZAWA. I think our RMBS group was publishing that it was higher than previous vintages, but it was still tracking with some of the previous downturn years.

Senator LEVIN. OK. In late 2006, I believe that Standard and Poor's advised the head of structured finance was a person named Joanne Rose?

Ms. BARNES. Yes, it was, sir.

Senator LEVIN. That subprime was rapidly deteriorating and that you felt that Standard and Poor's should start downgrading subprime, is that correct?

Mr. D'ERCHIA. We were downgrading subprime.

Senator LEVIN. So that you felt Standard and Poor's should downgrade subprime, significantly.

Mr. D'ERCHIA. At this time period.

Senator LEVIN. Yes.

Mr. D'ERCHIA. Yes.

Senator LEVIN. And you continued to bring that up in 2007, is that correct?

Mr. D'ERCHIA. Your charts show——

Senator LEVIN. And was she resistant at all?

Mr. D'ERCHIA. I wouldn't say resisted. She would want us to work more in conjunction with the deal side and others, including Frank and our research and our criteria groups, in order to ascertain whether or not we are seeing an anomaly where the delinquencies are front-end loaded, and the reality over the life of the transaction, if that became true, then we wouldn't be seeing such large losses and downgrades. When it became apparent that those losses were being realized, yes, we made those ratings appropriate.

Senator LEVIN. Yes. But you had kind of a bone of contention, was there not, between you and Joanne Rose? Isn't that a fair statement? There was a disagreement between you and Joanne Rose on this issue, was there not? I mean, people have disagreements. Was there a disagreement about this issue?

Mr. D'ERCHIA. About this issue?

Senator LEVIN. Yes.

Mr. D'ERCHIA. Yes.

Senator LEVIN. OK. And as a matter of fact, it became such a bone of contention that she gave you a bad performance evaluation, didn't she? You had strong convictions on this subject, about the rapid deterioration of subprime mortgages and the need to downgrade, is that not true?

Mr. D'ERCHIA. Yes, but it wasn't clear to me that the evaluation was personal issues or related to this issue.

Senator LEVIN. But it may have been related to this issue, is that what you are saying? It wasn't clear to you——

Mr. D'ERCHIA. It wasn't clear to me why she wrote that.

Senator LEVIN. All right. It followed, however, some continued disagreements about the issue of the rapid deterioration of the subprime mortgages and the need to downgrade. Is that fair, that bad performance evaluation came at that time?

Mr. D'ERCHIA. I guess I am not clear on what the exact question is.

Senator LEVIN. You made a comment about her evaluation, I believe, is that not true——

Mr. D'ERCHIA. My evaluation.

Senator LEVIN. Yes.

Mr. D'ERCHIA. Yes.

Senator LEVIN. Of you.

Mr. D'ERCHIA. I responded.

Senator LEVIN. Who evaluated you?

Mr. D'ERCHIA. Who evaluated me?

Senator LEVIN. Was she evaluating you?

Mr. D'ERCHIA. She wrote that evaluation.

Senator LEVIN. That is what I am saying. And you had previously had a disagreement with her about the issue of downgrading subprime mortgages and the rapid deterioration, in your judgment, which was occurring, and she and you had a disagreement about that, and you have acknowledged that you did have a disagreement. Did you not write in your comment about her evaluation that you had a disagreement over subprime debt deterioration? Did you not write that in your reaction?

Mr. D'ERCHIA. Yes, Mr. Chairman.

Senator LEVIN. OK. The bottom line is that the credit rating agencies continued to issue AAA ratings on new subprime RMBS and CDOs in 2007 despite warnings, despite a large percentage of the 2007 vintage turning out to be problematic and downgraded, and it is a pretty sad story. A sad chapter in the history of credit rating agencies, folks. People put a lot of reliance, maybe too much reliance, on what you do, but that is a fact and it is no longer as much of a fact as it was a couple of years ago and there was a real failure here.

How we deal with it, we will know in the next few weeks. There are some structural problems here in terms of conflict of interest, but there are some other issues, as well. We, I think, see some of it in the history which are in these exhibits. As much as exhibits can come to life, these problems are coming to life.

I thank you all.

Mr. D'ERCHIA. Thank you, Mr. Chairman.

Ms. YOSHIZAWA. Thank you, Mr. Chairman.

Ms. BARNES. Thank you, Mr. Chairman.

Senator LEVIN. We are going to recess for 10 minutes.

[Recess.]

Senator LEVIN. OK. We will come back to order.

Our third and final panel of witnesses for today's hearing is Raymond McDaniel, Jr., Chairman and Chief Executive Officer of Moody's Corporation, and Kathleen A. Corbet, the former President of Standard and Poor's from 2004 to 2007.

I don't know if you were with us before when we said that under Rule 6 of our Subcommittee, all of our witnesses are required to be sworn. So I would ask you both to stand, raise your right hand, and answer the following question. Do you swear that all the testimony you are about to give will be the truth, the whole truth, and nothing but the truth, so help you, God?

Mr. MCDANIEL. I do.

Ms. CORBET. I do.

Senator LEVIN. Thank you. And under our timing system, we will give you one minute notice. The light will turn from green to yellow. It will become red in 5 minutes, so we would ask that you try to limit your oral testimony to no more than 5 minutes. I know that sometimes that goes over, and if it does, it does, but we would ask you to make that effort.

Mr. McDaniel, I think we will have you go first, followed by Ms. Corbet, and then we will turn to questions. Thank you both for being here today. Mr. McDaniel.

TESTIMONY OF RAYMOND W. MCDANIEL, JR.,[1] CHAIRMAN AND CHIEF EXECUTIVE OFFICER, MOODY'S CORPORATION

Mr. MCDANIEL. Thank you, Mr. Chairman and Senator Kaufman. I am Ray McDaniel, Chairman and CEO of Moody's Corporation, the parent of the credit rating agency Moody's Investor Service. I want to thank you for the opportunity to contribute Moody's views today.

The global financial crisis has sparked a necessary debate about the role and performance of numerous participants in the financial markets. With respect to credit rating agencies, many market observers have expressed concerns that ratings did not better predict the deteriorating conditions in the subprime mortgage market.

Let me assure you that Moody's is not satisfied, and I am not satisfied, with the performance of our ratings during the unprecedented market downturn of the past 2 years. We did not anticipate the extraordinary confluence of forces that drove the unusually poor performance of subprime mortgages. We were not alone in this regard, but I believe that we should be at the leading edge for predictive opinions about credit risk.

Some key issues influencing the unanticipated performance included the steep and sudden nationwide decline in home prices and the sharp contraction that followed in credit available from banks for mortgage refinancing. Moody's did observe a trend of loosening mortgage underwriting and escalating home prices. We highlighted that trend in our reports and incorporated it into our analysis of mortgage-backed securities. And, as conditions in the U.S. housing market began to deteriorate beyond our expectations, we took the rating actions that we believed at the time were appropriate based on the information we had.

Let me summarize our actions during the 2003 to 2007 time frame. First, starting in 2003, we identified and began commenting on the loosening of underwriting standards and escalating housing prices through our sector publications.

Second, we tightened our ratings criteria in response to these loosening standards. In fact, between 2003 and 2006, we steadily increased our loss expectations and the levels of credit protection required for a given rating level. In practical terms, this meant

[1] The joint prepared statement of Mr. McDaniel and Ms. Yoshizawa appears in the Appendix on page 186.

that by 2006, half the mortgages in a pool would have to default and provide a recovery of just half the appraised value of the home before a subprime RMBS bond rated AAA by Moody's would suffer its first dollar of loss. This is a level of anticipated loss that far exceeded the losses that actually occurred in the past four real estate recessions. But even these conservative assumptions proved insufficient.

Third, we took steps to watch and analyze the unprecedented market conditions and the behavior of various market participants as the crisis continued to unfold. For example, one question before the market was how borrowers, servicers, and banks would respond to the resetting of mortgage interest rates and how that behavior would affect default rates. Faced with extraordinary conditions, we saw market participants, including borrowers, mortgage servicers, mortgage originators, and the Federal Government, behave in historically unprecedented ways.

Fourth, we took rating actions when the mortgage performance data warranted. Moody's monitors the actual performance of the mortgages and the securities that we rate throughout the life of the security. The early performance of the 2006 loans was, in fact, comparable to the performance of similar subprime loans during the 2000 and 2001 recession. And not until performance data from the second quarter of 2007 was available did it become clear that many of the 2006 vintage bonds might perform worse than those from the prior recession.

In short, Moody's did see the loosening of some prime lending standards. We reported our observations to the market and we incorporated our increasingly unfavorable views into the ratings we assigned. However, let me emphasize again that we, like most other market participants, did not anticipate the severity or the speed of deterioration that occurred in the U.S. housing market, nor did we anticipate the behavior of market participants in response to the housing downturn, including the speed of credit tightening by financial institutions that followed and exacerbated the situation.

The unprecedented events of the last few years provide critical lessons to all market participants, certainly including us. At Moody's over the past 2 years, we have undertaken a wide range of initiatives to strengthen the quality, transparency, and independence of our ratings. Some of these measures include establishing common macroeconomic scenarios for rating committees, publishing volatility scores and sensitivity analysis on structured finance securities, consolidating surveillance activities and structured finance under one leadership, and further bolstering the independence of and resources for our credit policy function.

Moody's is firmly committed to meeting the highest standards of integrity in our rating practices. We wholeheartedly support constructive reforms and we are eager to work with Congress, regulators, and other market participants to that end.

I am happy to respond to your questions.

Senator LEVIN. Thank you very much, Mr. McDaniel. Ms. Corbet.

TESTIMONY OF KATHLEEN A. CORBET,[1] FORMER PRESIDENT (2004–2007), STANDARD AND POOR'S

Ms. CORBET. Thank you, Mr. Chairman and Senator Kaufman. My name is Kathleen Corbet and my career spans over 25 years of experience within the financial services industry. For a 3-year period during my career, I served as President as Standard and Poor's, a division of the McGraw-Hill Companies, from April 2004 until my voluntary departure in September 2007.

Before turning to the substantive issues raised by the Subcommittee's investigation, I would like to acknowledge the important work of the Subcommittee and Congress more broadly in its examination of the causes and consequences of the financial crisis.

It is difficult not to feel personally touched by the pain experienced by many as a result of the turmoil in the subprime market and the financial crisis that followed. Many people feel anger, and in my view, that anger is understandable. Accordingly, I believe strongly that we should collectively use the lessons from this crisis to focus on effective reforms, stronger investor protections, better industry practices, and accountability.

As background, I was recruited to join the McGraw-Hill Companies as an Executive Vice President of its Financial Services Division in April 2004 and served as President of Standard and Poor's until my successor, Deven Sharma, took over that position in September 2007. During my 3-year tenure, I led an organization of 8,000 employees based in 23 countries which provided financial information and market analysis to its customers and the broader market as a whole.

The company was organized across four primary business units, including Rating Services, Equity Research Services, Index Services, and Data and Information Services. Each business unit was led by a seasoned executive having direct operating responsibility in the respective area and reporting directly to me.

One of those units was Rating Services, which issued credit ratings on hundreds of thousands of securities across the globe, including corporate securities, government securities, and structured finance securities. Rating Services was led by an Executive Vice President for Ratings, an executive with over 30 years of experience in the ratings business, who had day-to-day operational responsibility for that business. Among her direct reports was the Executive Managing Director of Structured Finance Ratings, who was responsible for the day-to-day operations of the Structured Finance Ratings Group, the group that issued the ratings that are the subject of this Subcommittee's focus.

Consistent with S&P's longstanding and publicly disclosed practice, ratings decisions were and are solely the province of committees comprised of experienced analysts in the relevant area. This practice is based on the principle that the highest quality analysis comes from the exercise of independent analytical judgment free from both undue external or internal pressure. Accordingly, during my tenure, I did not participate in any rating or analytical criteria committee meetings regarding ratings on any type of security, including mortgage-backed securities.

[1] The prepared statement of Ms. Corbet appears in the Appendix on page 210.

All that said, I do hope to be able to provide a business perspective that is helpful to the Subcommittee, and in my view, it is clear that many of the ratings S&P issued on securities backed by subprime mortgages have performed extremely poorly. S&P has publicly stated its profound disappointment with that performance, and I deeply share that sentiment.

From my personal perspective, I believe the primary reason for these downgrades is that, despite its efforts to get the rating right and despite rooting its analysis in historical data, S&P's assumptions did not capture the unprecedented and unexpected outcomes that later occurred with respect to the housing market, borrower behavior and credit correlations.

S&P, along with others, has been criticized for its failure to predict what happened in the subprime market, and in many ways, that criticism is justifiable. Moreover, the subsequent outcome of the severe economic downturn and downgrades of securities backed by subprime mortgages highlight the challenges inherent in the nature of ratings. At their core, ratings are opinions about what may happen in the future, specifically, the likelihood that a particular security may default.

I think that most people agree that predicting the future is always challenging and outcomes can often turn out very differently than even the most carefully derived predictions anticipate. The key from my perspective is to learn from these experiences and to take specific actions to improve. The credit rating industry has begun to respond in a constructive fashion, but there is much more to be done.

Through the course of history and through many market cycles, the credit rating industry has played an important role in the financial system for nearly a century, and I do believe that it has the opportunity to continue to do so through the commitment to continual improvements and from appropriate regulatory reform.

Again, I appreciate the goals of the Subcommittee's work and would be glad to answer any questions that you have.

Senator LEVIN. Thank you, Ms. Corbet. Thank you both.

Before we start with questions, let me put into the record a statement of the Attorney General of the State of Connecticut, Richard Blumenthal. He has made a very powerful statement about the topic of the hearing today, which is "Wall Street and the Financial Crisis: The Role of Credit Rating Agencies," and that will be made part of the record at an appropriate place.[1]

Were you both here earlier?

Ms. CORBET. Yes, I was.

Senator LEVIN. Mr. McDaniel, were you here, too?

Mr. MCDANIEL. I was here for the second panel.

Senator LEVIN. The second panel.

Mr. MCDANIEL. Yes.

Senator LEVIN. OK. Well, in that case, I may have to repeat some of the questions.

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[1] The prepared statement of Mr. Blumenthal appears in the Appendix as Exhibit 109, on page 1201.

The first exhibit that we have used is Exhibit 94b,[1] where a Standard and Poor's analyst wrote—maybe, Ms. Corbet, you could take a look at Exhibit 94b—"Vertical is politically closely tied to Bank of America and is mostly a marketing shop - helping to take risk off books of Bank of America. Don't see why we have to tolerate lack of cooperation. Deals likely not to perform." This deal was rated by Standard and Poor's anyway, even though the analyst said that the deal was not likely to perform.

Then the next transaction that I want to look at with you was Fremont, which is Exhibit 93b.[2] Standard and Poor's was asked to rate an RMBS with subprime loans issued by Fremont Investment. This was a subprime lender known for poor quality loans. An email was sent by an S&P ratings analyst to his supervisor saying, "I have a Goldman deal with subprime Fremont collateral." He says, "Fremont collateral has been performing not so good. Is there anything special I should be aware of?" One supervisor says, "No, we don't treat their collateral any differently." Another one says, "if the current FICO scores are there, the answer is good to go."[3]

Now, there was a whole lot of evidence, a whole lot of evidence beside evidence right inside of S&P that Fremont collateral was problematical, to put it mildly. Fremont had stopped using 8,000 brokers—that is Exhibit 93d[4]—due to the loans that those brokers were forwarding, which had some of the highest delinquency rates in the country. As a matter of fact, there was an exhibit where—Exhibit 93a[5]—a Moody's analyst in late December 2006, before the Fremont deal was rated, said, "Holy cow . . . Fremont is such an outlier," talking about their delinquency rates being one of the worst in the country. That is Exhibit 93a at the bottom. This analyst almost couldn't believe it. "Holy cow—is this data correct? I just graphed it and Fremont is such an outlier!!"

It was well known, publicly, inside of the credit rating agencies, that Fremont collateral was problematical. There had also been a California Court of Appeals decision described in an 8(k) filing by Fremont where there was sufficient evidence in a lawsuit by the California Insurance Commissioner talking about Fremont. There was a cease and desist order at the FDIC involving Fremont. But all we get internally here is, you are good to go. The fact that we know that they are problematical does not affect us.

And I am just wondering—first, let me start with you, Ms. Corbet. Your own employees know that Fremont issued poor quality loans, high delinquency rates, and yet they handle Fremont loans the way they do any other loans. Shouldn't that kind of a history be taken into account by S&P?

Ms. CORBET. Well, first of all, Mr. Chairman, I am not familiar with this particular transaction or the people that wrote this email or corresponded with this email. I would say, however, that in the analysis of any transaction in terms of both the quantitative analysis and qualitative model, that all factors are considered in the consideration of a rating.

[1] See Exhibit No. 94b, which appears in the Appendix on page 599.
[2] See Exhibit No. 93b, which appears in the Appendix on page 589.
[3] See Exhibit No. 93c, which appears in the Appendix on page 590.
[4] See Exhibit No. 93d, which appears in the Appendix on page 592.
[5] See Exhibit No. 93a, which appears in the Appendix on page 587.

Senator LEVIN. Should be.

Ms. CORBET. All factors should be considered, yes.

Senator LEVIN. So that Standard and Poor's assigns lower ratings to lenders that are known for poor quality loans with high delinquency rates? Does Standard and Poor's assign lower ratings to lenders that are known for poor quality loans?

Ms. CORBET. I would suggest to you that in this particular case, in terms of discussing the collateral, again, this is perhaps just one piece of a larger discussion around a transaction, but I think the question was, should anything be considered about the FICO scores, and that is something that has nothing to do necessarily with, in this particular case, the provider of this transaction, and I believe that whoever this person was that was responding said that shouldn't make a difference. That is another element of data. It doesn't mean that not everything was considered. It is just that means that it shouldn't be changed in terms of treating it any differently. That would be my observations. Again, I don't know anything specific about this transaction.

Senator LEVIN. Well, I am asking you generically. In this transaction, you have got an analyst who says, "I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?" Answer, "we don't treat their collateral any differently."

My question, when you got Fremont, which has been not only publicly, but now internally an analyst says Fremont collateral has not been performing good, was that the right answer, don't treat their collateral any differently?

Ms. CORBET. I am not sure what they were referring to, whether they are treating it in a model, whether they are considering it in any other context, so I couldn't say——

Senator LEVIN. Is that the right answer?

Ms. CORBET. Again, I think it is——

Senator LEVIN. That is the whole answer.

Ms. CORBET [continuing]. In a small context. It is not clear whether he is suggesting that it should be different in any other kind of model. It is the underlying collateral that I think he is referring to.

Senator LEVIN. Should the collateral be treated differently where the collateral is coming from a company that is not performing so good?

Ms. CORBET. Again, in the context of all the different variables that need to be considered, I could not comment as to whether or not the particular query that he is asking about——

Senator LEVIN. No, I am asking you a generic question. Should collateral that is coming from a company whose collateral in general is not performing so good, should that collateral be treated differently?

Ms. CORBET. I think that certainly should be taken into consideration.

Senator LEVIN. It wasn't here. That is all I can tell you. It is your company, and I don't know if anyone cares to do anything about it when you get that kind of an answer, but I would think that the message ought to go from the leadership of an agency—that is something which should be looked at, not, it doesn't make any difference. The answer is here from a supervisor, it doesn't make any difference that their collateral is not performing well.

Ms. CORBET. No.

Senator LEVIN. You just said finally, after the fourth time I asked, it should be looked at differently.

Ms. CORBET. And it doesn't mean that it wasn't.

Senator LEVIN. You don't know that it wasn't. I don't know that it wasn't.

Ms. CORBET. I don't——

Senator LEVIN. All we know is what the response was, and you are saying it was the wrong response. It should be a factor in how it is treated, right?

Ms. CORBET. And it very well might have been.

Senator LEVIN. I am not asking you whether it might have been or was. It got a AAA rating. My question is, should it be treated differently?

Ms. CORBET. I would expect it would be considered——

Senator LEVIN. And should?

Ms. CORBET. I would expect that it would be considered, yes, sir.

Senator LEVIN. And would you believe it should be considered differently?

Ms. CORBET. I would expect that all of the different provisions of the transaction should be considered, yes, Senator.

Senator LEVIN. Thank you.

Now let me ask you, Mr. McDaniel, does Moody's assign lower ratings to lenders that are known for poor quality loans with high delinquency rates?

Mr. MCDANIEL. Do you mean to the lenders themselves?

Senator LEVIN. No, to the loans of those lenders.

Mr. MCDANIEL. Clearly, pools of lower-quality loans versus higher-quality loans is a credit factor, absolutely.

Senator LEVIN. No, I am not asking you that. I am asking you whether or not you assign a lower rating if you know that the lender involved is known for poor quality loans with high delinquency rates. Is that something you look at when you rate their loans?

Mr. MCDANIEL. It absolutely is something we look at, yes.

Senator LEVIN. Senator Kaufman.

Senator KAUFMAN. Thank you very much.

Just so I get it clear, it is in your statements, I mean, but just to kind of concentrate on what it is, we know that thousands of RMBSes that were rated AAA in 2006–2007 are now rated as junk. Mr. McDaniel, what would you give precisely as what you think are the main reasons why that happened?

Mr. MCDANIEL. I think there were a number of reasons. Among the principal or the most proximate reasons would be that we went from a period where there was a long period of home price appreciation. There was low interest rates and low credit spreads so that there was a lot of credit availability. We had the introduction of—when we had the introduction of a softening in the housing market, the loose credit that had been available tightened very rapidly and that curtailed refinancing opportunities for many borrowers who were anticipating that they were going to be able to refinance their mortgages.

Senator KAUFMAN. OK. Ms. Corbet.

Ms. CORBET. I would concur with all of that statement. Indeed, it was predicting what the likely outcome would be, not only in terms of the housing market, but also unemployment, borrower behavior, also credit correlations. All of those in terms of the forecast were certainly not as great as the outcome that actually transpired.

Senator KAUFMAN. So essentially it was the housing market. I mean, it was the housing market, all the things that were happening——

Ms. CORBET. It was the confluence, many factors——

Senator KAUFMAN [continuing]. The meltdown of all the things.

Ms. CORBET. Yes.

Senator KAUFMAN. Mr. McDaniel, is that——

Mr. MCDANIEL. That was it.

Senator KAUFMAN. Mr. McDaniel, as you said in your testimony, and as you mentioned here earlier, as early as 2003, you were talking about the housing market. You were saying that the housing market—on page 18 of your testimony. So you knew as early as 2003 this was going to be a problem. This just didn't come on you in 2006 and 2007 like I think sometimes it is characterized by certain people, as kind of like a natural disaster. It was like a volcano or a hurricane. This housing thing happened, and you have just got to understand when things like that happen. We had years and years and this never happened before. Therefore—I mean, this is a constant theme we are hearing in these hearings.

But as early as 2003, you knew the housing market was a problem and you lay out what your concerns are. So you are now at 2006 and 2007, and I understand you have tightened your standards, but when it is all over, an incredible number of these thousands—they said something like 10,000 RMBSes from 2002 to 2007, the majority of AAA ratings are now rated as junk. How does that happen?

Mr. MCDANIEL. First, Senator, we did not identify a housing bubble in 2003. We certainly——

Senator KAUFMAN. No. I mean you saw the oncoming.

Mr. MCDANIEL. Yes, we saw loosening underwriting standards——

Senator KAUFMAN. Right.

Mr. MCDANIEL [continuing]. And we were certainly aware that home price appreciation was occurring through this period.

Senator KAUFMAN. So, it is hard—Ms. Corbet, I will get back to it and maybe the two of you can work together. There is the chart. Oh, that bubble just came on.

Look, I am not saying we are all victims of our own personal experience. In 2005, I sent my children a printout from Merrill Lynch of essentially that chart, and I sent with them what Merrill Lynch said. People say that this is because there are so many more people buying houses, but if that was true, they showed another chart and it showed then rental use would go up, too, and rental use was rock solid. So we have a housing bubble. That is what Merrill Lynch sent out to me as a Merrill Lynch investor and I sent it to my kids.

The fact that we were coming onto a bubble, as you say, you didn't say it in 2003, but you are talking about it generally and you are still—do you see my point? These products are still rolling off the assembly lines with AAA on them.

Mr. McDANIEL. That is exactly why we were raising the credit protection levels associated with the highly-rated securities. I acknowledge they proved to be insufficient upward adjustments in credit protection. Those adjustments were overwhelmed by the actual performance of the mortgages that were created in the 2006–2007 period.

Senator KAUFMAN. Ms. Corbet, does that agree with some of your position?

Ms. CORBET. Yes. In fact, Standard and Poor's was reporting on what they saw was the increasing risks of the housing bubble, and throughout the course of 2004, 2005, through 2007, those analyses and research vis-a-vis publications and teleconferences were provided to the market, as well as what the expected impact might be on subprime mortgages.

Senator KAUFMAN. But you must admit, and I understand and I have understood for a long time that what most people think is AAA and most people think is what you do is not what you do, but it is fair to say that if you are sending out all kinds of advisories and putting all kinds of prints, but the AAAs are still rolling off the assembly line, that is really what affects investors, right? I mean, we have a problem here, but by the way, I am just going to send another group of AAAs down the old pike. And the argument is kind of like, well, historically, we really did well. This never happened before.

But you had to have some kind of seeing that there is a dark cloud on the horizon, and you didn't see those in the corporation. You get up every day kind of thinking about it. How am I going to make this work? How am I going to protect my brand? How am I going to make money? How am I going to make all this work?

And, Ms. Corbet, I know you don't take any part in doing the ratings, but was there any—I mean, did either of you feel a little bit uncomfortable? Did you get up in the morning and say, we are still rating these things AAA and it doesn't look good, Mr. McDaniel? Let me put it this way, when did it hit you that maybe we ought to really take a hard look at what we are rating AAA, not what we are sending out, not that we are setting up credit backup, but what we are actually—RMBSes that we are rating AAA? About when did you start feeling, there is a problem here and I am the CEO. I am going to have to address that.

Mr. McDANIEL. We endeavor to take a hard look at everything we rate——

Senator KAUFMAN. No, but, I mean——

Mr. McDANIEL [continuing]. Regardless of the rating level——

Senator KAUFMAN. No, I know, but there are some——

Mr. McDANIEL [continuing]. Including AAA.

Senator KAUFMAN. But somewhere in here, there was a point at which you did something differently, didn't you? Or did this just kind of peter out on its own? Was there any modification of behavior as you—did you ever go to any of the people on your board or people that were working for you and say, look, this is a bad situation. We ought to start doing something a little different than what we did yesterday.

Mr. McDANIEL. We certainly were aggressively monitoring the market and looking at the performance of mortgages and associating that performance with the credit protection levels in these deals. If you are asking what was probably the most important point in time, at least for me——

Senator KAUFMAN. Yes.

Mr. MCDANIEL [continuing]. It was when we saw that the delinquency and default trends for the mortgages originated in 2006 departed from the delinquency and default trends that we had seen in prior recessions, most recently the 2000–2001.

Senator KAUFMAN. And when would you think that was?

Mr. MCDANIEL. That was in the second quarter of 2007. Until then, they had been tracking almost identically to the default and delinquency trends we saw in the previous recession, and we knew that the transactions had more than sufficient credit protection to withstand that kind of a downturn.

Senator KAUFMAN. So if I went back and looked, the number of AAAs rolling out the door as a percentage after the first quarter of 2007 would have begun to change?

Mr. MCDANIEL. The credit protection levels were raised, and then the market shut down very quickly after that.

Senator KAUFMAN. Ms. Corbet, when did you first pull your management team together and say, I don't think this is like what has happened in the past. We are producing products—way too many of our AAAs are defaulting. We should really change the way things are going.

Ms. CORBET. Well, I think Standard and Poor's, concurrent with its own research and publications of some of the stresses that they were beginning to see in the marketplace back in 2005, they began to make, as earlier testified by the S&P folks, that they began to make changes in their criteria and their credit enhancement levels in 2005 and in 2006, as well. In fact, in 2006, the number of downgrades exceeded the number of upgrades for subprime residential mortgage-backed securities. So the actions were following the research and the findings that were being reported to the marketplace.

In 2007, following again the two previous credit enhancement increases, again, the performance data was suggesting that it was even more serious than was previously contemplated, and so, therefore, in February 2007 S&P made another change and announcement of downgrades to—credit watch, excuse me, for subprime mortgages.

In March, we reported also in a teleconference about what our outlook was in terms of expectations for the housing market and what the impact may be in terms of downgrades——

Senator KAUFMAN. And again, this reporting is great, but really, the key——

Ms. CORBET. Is actions, yes.

Senator KAUFMAN. Yes. But, I mean, the key is how many AAAs are we sending out the door that in retrospect, when you look back on it 2 years later, are not AAA but they are junk? I mean, that is really the key. I think—and, Ms. Corbet, were you here for the first panel?

Ms. CORBET. I was in and out, yes.

Senator KAUFMAN. OK. That is not what they said in the first panel. They said a number of things, and what I would like to do is kind of go through them and see what you say. They said it was incentives.

Ms. CORBET. Yes.

Senator KAUFMAN. Mr. McDaniel, they said that there were incentives in the organization, in Moody's, to get more business out the door, to not worry so much about what the rating is going to be, just move it out there, quantity over quality, I think, is the term that one of the gentlemen used. Clearly, you haven't raised that as one of the problems.

Mr. MCDANIEL. Ratings quality is paramount at Moody's. It has been, I think, throughout our history and it continues to be. We rate according to published methodologies. Our thinking is as transparent as we can make it, to provide the market the opportunity to——

Senator KAUFMAN. So, basically, you just think that there was no incentive problem inside Moody's, that essentially everything went just exactly as you just said. This is an operation that was smoothly functioning and there was no—the incentives—to the extent there were incentives for people to do things other than what you said, to take a cold eye view at everything, you just didn't see it and you had no reports of anyone in your organization saying, maybe we are incentivizing people to maybe move the process a little bit one way or the other.

Mr. MCDANIEL. We have many business objectives at the firm. None of those objectives are permitted to compromise ratings quality. People actively talk about whether our protocols and procedures are sufficient, whether they are best practice, should they be changed, and if they can be and we can improve ourselves, we do.

Senator KAUFMAN. Yes. So I am just saying, in terms of what these four gentlemen were up here saying uniformly is something that you didn't hear about at the time, don't see it being a problem in terms of incentives, and that, essentially, everything was working smoothly from your view as CEO?

Mr. MCDANIEL. I was not aware of any incentives being misaligned——

Senator KAUFMAN. When you talked about incentives in business meetings, did you ever say, look, we had better be careful that we don't create too many incentives for market share and profits, that maybe someone down in the organization might get the wrong message and begin to kind of—especially when you had the explosion of business that you had during this period? Can you put the chart up that shows how much business grew?[1] I mean, this was literally an explosion of business. And what they said was, this was a market. This is great. Look at this.

Mr. MCDANIEL. Well——

Senator KAUFMAN. That usually happens in every business organization I have been involved in, management comes to me and says—let us get it out the door. Let us watch our profit line. Let us get this business. Let us be competitive. There were stories about market share where managers were in trouble if their market share dropped, and when they checked on why the market share dropped, the person said, look, these were just bad loans. We

[1] See Exhibit No. 1g, which appears in the Appendix on page 242.

didn't do them. And the manager came back and said, well, look, other people are doing it. You have dropped three points. We can't have that. Do you believe any of that went on at Moody's?

Mr. MCDANIEL. I have been with Moody's 23 years. I am unaware of any employee at Moody's ever being removed or terminated for a market share——

Senator KAUFMAN. Or how about just basically said, get with the program?

Mr. MCDANIEL. As I said, we are interested in——

Senator KAUFMAN. What would you attribute the incredible growth during this period to, great management practices?

Mr. MCDANIEL. The growth in the debt markets.

Senator KAUFMAN. Right.

Mr. MCDANIEL. That is what I attribute that growth to.

Senator KAUFMAN. OK. Ms. Corbet, in S&P, did you——

Ms. CORBET. In S&P, certainly the growth in the credit markets, but also in the three other businesses that S&P is involved in. The index services business is a very large and growing business with indices and ETFs, the data and information business, and, as well as equity research, and all four contributed to the growth at S&P.

Senator KAUFMAN. Mr. McDaniel, I am not asking about this specific email because it was a long time ago, it was October 2007, but it says, analysts—this is from Moody's Chief Risk Officer—"Analysts and managing directors are continually pitched by bankers, issues, and investors, all with reasonable arguments. These views can color credit management judgments, sometimes improving it, other times degrading it. We call it, drinking the Kool-Aid. Coupled with strong—and this is a market share, market focus—this does constitute a risk to ratings quality."[1]

And I am not asking you about this specific thing, but you still say that you never had any feelings in the organization that the incentives and desire for short-term profits had any impact on your ratings?

Mr. MCDANIEL. I am aware of the passage that you just read and the author of that passage was talking about the fact that we are gathering information from many different sources in the marketplace, issuers, investors——

Senator KAUFMAN. Yes.

Mr. MCDANIEL [continuing]. Bankers, all with point of view——

Senator KAUFMAN. Right.

Mr. MCDANIEL [continuing]. And that runs the risk of having our thinking match the consensus thinking in the marketplace——

Senator KAUFMAN. Right.

Mr. MCDANIEL [continuing]. And that the strength of the work that we do is to have independent points of view.

Senator KAUFMAN. Sure. No, I got that.

And, Ms. Corbet, I didn't get a chance for you to answer the question. When you were CEO of Standard and Poor's, did you ever run into someone coming to you and saying, I feel under pressure to do some things, maybe in order to build business, in order to increase profitability? Never once, right?

Ms. CORBET. No.

[1] See Exhibit No. 24b, which appears in the Appendix on page 319.

Senator KAUFMAN. OK. One of the men on the first panel who had been there for a number of years said the whole time he is worried, aren't they going to see that they are destroying our brand? Aren't they seeing by doing these short-term things we are destroying our brand? Mr. McDaniel, you never felt any problem during this period that what was going on—clearly, since you don't think anything was going to hurt the Moody's brand.

Mr. MCDANIEL. The ability to run a successful business in the credit ratings industry is first and foremost dependent on having predictive ratings. And so business success is very tightly aligned with the quality of the ratings, which is——

Senator KAUFMAN. That is the point he was making. He is saying that our whole business depends on this.

Mr. MCDANIEL. And that is why the performance of the subprime mortgage securities, particularly in 2006 and 2007, is so frustrating to me as a CEO, among other reasons.

Senator KAUFMAN. Well, I don't see why it would be frustrating, because basically, what happened was we had this housing market blow-up, and through no fault of our own, everything went south. There was nothing—you have not identified a single thing that was going on at Moody's other than just you guys got caught in a bad housing market, not in a bad business market, a bad housing market.

Mr. MCDANIEL. There are a number of things that, in hindsight, I wish we had done differently, absolutely.

Senator KAUFMAN. That is really what I was trying to get at with the first question. What are some of the things that, in hindsight, you would have done differently?

Mr. MCDANIEL. There are a number. I think at the macro level, we were insufficiently rigorous in thinking about trends in housing at an overall system level, and even more importantly, having thought about that, pushing that macroeconomic, macro housing perspective down into the rating committee deliberations.

Senator KAUFMAN. How would you have done that? I mean, the system that you have laid out was, as Ms. Corbet even said—I didn't have anything to do with this rating thing. I think your testimony is essentially—how would you have done that? How would you have, in this system, been able to communicate down and you say, look, we are not being rigorous enough in this analysis? What would you do mechanically? Would you send a memo to everybody and say, while we are doing this thing, let us take a look at these?

Mr. MCDANIEL. What we are doing now is a formal macro risk perspective series. It is updated every 6 months. This is done on a global basis. And we are taking the relevant components of that macro risk perspective and the stress scenarios around that and delivering those to—not only to our own employees, but to the marketplace, as well, and instructing the managers and rating analysts that they should utilize the relevant parts of that macro analysis.

We are also using, particularly in the mortgage sector, we are relying much more heavily on work done by a company that we purchased back in, I think it was late 2005, perhaps early 2006, Moody'seconomy.com, which provides housing analysis nationwide, housing demographic and econometric analysis.

Senator KAUFMAN. Is there anything else just short, any other thing you think in retrospect——

Mr. MCDANIEL. Yes. As I said, there are a number of things.

Senator KAUFMAN. Right.

Mr. MCDANIEL. In addition, we determined that we had to have more cross-disciplinary expertise in the rating committees, that there are other elements operating in the credit markets that may affect housing, that bringing different disciplines to bear in the rating really brings a richer perspective.

We have changed governance practices in the ratings business. We have changed our methodologies and our enhancements. We have added different types of research to try and communicate our views as clearly as possible. There is a very long list and I am trying to hit on——

Senator KAUFMAN. I have got it. No, that is not good enough.

Ms. Corbet, is there anything in retrospect that you would have done differently?

Ms. CORBET. Well, similarly to Moody's, Standard and Poor's has taken increased steps in terms of governance, in terms of including in their forecasts and ratings elements of stability, the stability of ratings, the comparability of ratings——

Senator KAUFMAN. How about have you thought at all about the way you incentivize people within the organization? Has that been a concern at all?

Ms. CORBET. Well, historically, and I believe that is the case today, that analysts have never been incentivized based on——

Senator KAUFMAN. No, I am not talking about analysts. I am talking about people from top to bottom in the organization, the business part of the organization.

Ms. CORBET. At Standard and Poor's throughout—certainly during my tenure—it has always been about the analytical quality and independence of the ratings being first and foremost and not being compromised.

Senator KAUFMAN. Yes. I am sorry you didn't hear the first panel because it was pretty unanimous that it stopped at some point and moved to a situation where the business part of—and by the way, just so you don't feel bad, the hearing we had last week, Washington Mutual, exactly the same discussion went on, is it fair to say, that people that were involved in it feel that the incentives were such and the disincentives were such within the organization that things were done that they wish they hadn't done, that quality was overlooked, that it was more about quantity than quality.

So it is not just at Standard and Poor's and Moody's, and I am sure we are going to find, from everything I can see, it has happened in loads and loads of organizations. Things are going great. Let us do it. We know what we are doing. Let us just get the stuff out the door. So anyway, I am just saying, it is of concern, that also at Washington Mutual, the head of Washington Mutual had no idea this was going on while many people in the organization felt that was going on, so——

Ms. CORBET. Well, to the extent that was, and again——

Senator KAUFMAN. And I am going to ask you to comment later.

Ms. CORBET [continuing]. I think that it is important that, and certainly was the case, I believe, at S&P, is that they should have had the ability to raise those concerns with their management team——

Senator KAUFMAN. Sure.

Ms. CORBET [continuing]. And hopefully those would have been addressed if those were——

Senator KAUFMAN. Yes, I know, and they did and they weren't. A lot of people think it is CEO pay that makes Americans so upset. I have my own opinion that the CEO pay thing is. The average pay of a CEO as compared to the average working person has grown quite exponentially, and I know people are concerned about that.

But I think it is more that when these things happen. I mean, the idea that one of the smartest people I ever met, Robert Rubin—one of the smartest people I ever met, I am not overstating that, smart from a standpoint of knowledge, smart in terms of politics, smart in everything else—is making $30 million a year as the Vice Chairman of Citigroup and says, I didn't know there was this $49 billion bomb down in the bottom of my business. I mean, that is what I think people are really upset about. They are upset about the pay, but then they are upset that when these things are going on and when things are going on down in their business, as these four—and they seem to me dedicated employees, they are not disgruntled employees. They said it almost like they were as upset as anyone else. And I know the companies I worked at, people would have been upset if they felt like the brand was being hurt, because people live it.

But do either one of you want to comment a little bit on barbelling, the idea that FICO scores—that the way that you calculated FICO scores and used averages allowed ne'er-do-wells to kind of pick mortgages so that they could take advantage of the averages? Are you familiar with barbelling?

Mr. MCDANIEL. As far as barbelling by taking strong and weak FICO scores——

Senator KAUFMAN. Right.

Mr. MCDANIEL [continuing]. And averaging those out, we do not look at FICO scores on an average basis, so that barbelling, I don't——

Senator KAUFMAN. And you never have?

Mr. MCDANIEL. I don't believe so, so I don't think that would have achieved what someone might have wanted to achieve.

Senator KAUFMAN. And, Ms. Corbet, do you——

Ms. CORBET. I am unfamiliar with the term.

Senator KAUFMAN. Unfamiliar with the term. How about stated income loans? Mr. McDaniel, you are familiar with what a stated income loan is, aren't you?

Mr. MCDANIEL. Yes.

Senator KAUFMAN. And, Ms. Corbet, are you familiar with stated income loans?

Ms. CORBET. Yes.

Senator KAUFMAN. Did you feel at any point there was like an explosion of stated income loans throughout the business? With the explosion of the business went the explosion of stated income loans, and from the data we have, there are many companies that were going—it started out as just a small part of the business and becoming more. At any point, did you get concerned or would you be concerned, or is that part of the calculation of the ratings, that there were a lot of stated income loans in a particular security?

Mr. McDaniel. Yes, that would absolutely be a credit factor for an analyst or rating committee to consider.

Senator Kaufman. Do you know if any was, if it was?

Mr. McDaniel. I have not participated in the rating committees——

Senator Kaufman. Right.

Mr. McDaniel [continuing]. But I would be extremely surprised if they hadn't.

Senator Kaufman. Ms. Corbet.

Ms. Corbet. I would expect the same.

Senator Kaufman. Yes. OK. Mr. Chairman.

Senator Levin. Thank you so much, Senator Kaufman.

I think it is all well and good to look back and figure out what we would have done differently if we had known. Part of the responsibility is to look at what happened at the time. When we look at what happened at the time, we see the huge impact on the drive for market share on these companies, and there is just no getting away from it. The testimony this morning was very powerful about it.

Just take a look at a few of the exhibits, Exhibit 3,[1] first, in your book, if you would. It is August 17, 2004, importance, high. "Rich, We are meeting with your group this week to discuss adjusting criteria for rating CDOs of real estate assets this week because of the ongoing threat of losing deals." Now, that is a Standard and Poor's exhibit, August 2004, an "ongoing threat of losing deals."

Then you look at the next exhibit, Exhibit 2.[2] This is Standard and Poor's, as well. "We just lost a huge . . . RMBS deal to Moody's due to a huge difference in the required credit support level." Down a paragraph, "Losing one or even several deals due to criteria issues, but this is so significant that it could have an impact in future deals. There's no way we can get back on this one but we need to address this now in preparation for future deals." That is Exhibit 2.

Then you look at Exhibit 5,[3] the new S&P ratings model could have been released months ago, which is called Version 6.0, and "resources assigned elsewhere if we didn't have to massage the sub-prime and Alt–A numbers to preserve market share." Preserve market share. We could have done the right thing, in other words, months ago if we didn't have to massage the subprime and Alt–A numbers to preserve market share. This is contemporaneous. This isn't looking back. This isn't looking in the rearview mirror. This isn't benefit of hindsight. This is what is going on at the time.

Then you look at the testimony of Mr. Michalek this morning, a former analyst at Moody's, pretty compelling testimony. He testifies that the President of Moody's and the former head of Structured Finance, Brian Clarkson, who he believed was leading a change in culture at Moody's away from the more analytical environment to a profit-driven one, more to their customer, the investment bank, instead of the real customer, the investing public, but

[1] See Exhibit No. 3, which appears in the Appendix on page 250.
[2] See Exhibit No. 2, which appears in the Appendix on page 249.
[3] See Exhibit No. 5, which appears in the Appendix on page 258.

nonetheless what he says is that a number of bankers complained to Mr. Clarkson that Mr. Michalek was asking too many questions, doing too thorough a review. They wanted him removed from their deals, and they got their wish on future deals.

Instead of rewarding Mr. Michalek for asking the probing questions and doing his job, he testified that Mr. Clarkson suggested that he provide an explanation for what he was doing and he ultimately was then not allowed to work on deals with certain banks. That message is a pretty clear message to employees. It is contemporaneous. It is at the time.

Then you have another exhibit, Exhibit 11,[1] email, May 2006. A UBS banker writes to S&P, "heard you guys are revising your residential [mortgage-backed securities] rating methodology - getting very punitive on silent seconds. [h]eard your ratings could be 5 notches back . . . [g]onna to kill your [residential business]. [m]ay force us to do moodyfitch only cdos!" So, an S&P employee forwards the email to a colleague and he says, "Any truth to this?" The colleague responds, "We put out some criteria changes a couple of weeks ago that we will begin to use for deals closing in July. . . . We certainly did not intend to do anything to bump us off a significant amount of deals." God forbid we do something which bumps us off a significant amount of deals.

So, you want to look backwards, and we all do. When mistakes are made, we all love to just say, let us look forward. Don't look in the rearview mirror. But folks, there was huge pressure, according to these documents and testimony, to preserve market share contemporaneously at the time this happened.

And one of the reasons according to testimony and according to the exhibits that there was not downgrading of existing RMBSes and CDOs, despite existing delinquencies, was you have got to hold on to market share. Analysts didn't have the data or the resources needed to do the volume of high-risk deals that they were asked to rate. You guys were making a lot of money. They didn't have enough resources. Investment bankers had excessive influence. Why? You needed their business.

Now, I want to give some other testimony. The manager of the CDOs, a guy named Gus Harris, used to tell staff that if they lose market share, they are going to be fired. And we have that testimony, contemporaneous testimony. Were you troubled by it when you heard it? I don't know if you heard it all.

Mr. McDANIEL. As I said, no employee at Moody's has ever been fired for market share issues, ever.

Senator LEVIN. Have they been threatened that they would be fired?

Mr. McDANIEL. Not that I am aware of.

Senator LEVIN. Is there any evidence that market share drove ratings? Have you seen it? Have you looked at these exhibits? Have you listened to what I just told you?

Mr. McDANIEL. As I testified earlier, ratings quality is paramount.

Senator LEVIN. Of course. It is supposed to be paramount.

[1] See Exhibit No. 11, which appears in the Appendix on page 287.

Mr. McDaniel. We look at other things that are relevant to running a business. That includes market share, and in particular in ratings includes market coverage, whether we are paid for that coverage or not because we are operating a system in which the comparative elements are important. So being able to compare one security to another with a common view of credit or a common language for credit as expressed in the rating, I do think is important. That is different from market share for financial purposes.

Senator Levin. Ms. Corbet, are you surprised to hear testimony and exhibits about the impact of market share at the time?

Ms. Corbet. Well, also, let me say, Mr. Chairman, that indeed, one of the things that Standard and Poor's, I think early on, recognized, that to mitigate any pressure if it came from externally, as some of the emails indicated, was really to separate the commercial from the analytical process, and so I think that was important in terms of—and exists today in terms of there is separation of the business from the ratings.

Market share in many different ways can be a measure of the market's acceptance of the quality of the ratings, and so to the extent that market share declined, it could be many different things that would be looked into in terms of whether or not—and first and foremost, in any respect, that the quality of the ratings was in any way not useful to the marketplace.

Senator Levin. If you look at Exhibit 24a,[1] this is a Moody's exhibit. This is the one we talked about before. "Market share by deal count dropped to 94%." Any lower—"It's lower than the 98+% in prior quarters. Any reason for concern . . .?"

And then you have this Exhibit 24b.[2] If you look at that, Mr. McDaniel, I think that exhibit was put together by your Chief Credit Officer, is that correct, Mr. Kimball?

Mr. McDaniel. Yes. That is correct.

Senator Levin. He says that—he disputes that quality is king. He says it is at risk due to pressure from bankers. "Analysts and managing directors are continually 'pitched' by bankers, issuers, investors—all with reasonable arguments—whose views can color credit judgment, sometimes improving it, other times degrading it. (we drink the 'kool-aid'). Coupled with strong internal emphasis on market share & margin focus, this does constitute a 'risk' to ratings quality." That is his analysis.

And then he says—I don't know if you followed what I was reading on page two, "Analysts and MDs are continually pitched by bankers, issuers, investors." Continually pitched. This constitutes "a risk to ratings quality." Do you agree with that?

Mr. McDaniel. As I had commented before, the observation that our information sources oftentimes have points of view, whether it is issuers or investors, they have the risk of causing us to think on a consensus basis with the market and we want to have independent views. So I appreciate that Chief Credit Officer is thinking about these issues. I appreciate that he is raising them to my attention. And I have reacted by implementing many of the recommendations and thoughts that are included in his comments.

[1] See Exhibit No. 24a, which appears in the Appendix on page 318.
[2] See Exhibit No. 24b, which appears in the Appendix on page 319.

Senator LEVIN. When you say, you shouldn't operate from consensus, it says that there is a strong internal emphasis on market share.

Mr. MCDANIEL. Yes. That is—as I said, we have market coverage.

Senator LEVIN. And that constitutes a risk to ratings quality. Does your emphasis on market share constitute a risk to ratings quality?

Mr. MCDANIEL. If we are not attentive——

Senator LEVIN. That is what he is saying. He says it is coupled with an emphasis.

Mr. MCDANIEL. He is saying——

Senator LEVIN. He is not saying if. He is saying, coupled with an emphasis. "With a strong internal emphasis on market share . . . this does constitute a risk to ratings quality." That is him.

Mr. MCDANIEL. Those are risks and they must be managed properly so that the rating system is not compromised in any way.

Senator LEVIN. It says it is coupled with a strong internal emphasis, and you are saying that there is no such coupling?

Mr. MCDANIEL. I am saying that is a risk and it must be managed properly so that the ratings are not compromised.

Senator LEVIN. You say there is a strong internal emphasis, then, on market share? You agree to that?

Mr. MCDANIEL. I pay attention to market share——

Senator LEVIN. I know you pay attention to it, but do you agree there is a strong internal emphasis on market share?

Mr. MCDANIEL. I believe he thinks there is——

Senator LEVIN. Did you agree with him when you read that?

Mr. MCDANIEL. I believe that attention to market share is one thing we must pay attention to in running the business.

Senator LEVIN. Well, that is not my question.

Mr. MCDANIEL. It is not as important as ratings quality, but I pay attention to it and I care about it.

Senator LEVIN. But that wasn't my question.

Mr. MCDANIEL. I apologize, Mr. Chairman, I am trying to answer——

Senator LEVIN. Well, let me try again. Was he right that there is a strong internal emphasis on market share?

Mr. MCDANIEL. There is a strong internal emphasis on market coverage, yes.

Senator LEVIN. So you would not word it the way he does?

Mr. MCDANIEL. I would not, but I understand that market coverage and market share can be conflated.

Senator LEVIN. Can be what?

Mr. MCDANIEL. Conflated.

Senator LEVIN. Does that mean confused?

Mr. MCDANIEL. No, used interchangeably.

Senator LEVIN. But you would not phrase it that way?

Mr. MCDANIEL. No. As I said, I think the market coverage issue is the more important issue.

Senator LEVIN. Did he prepare this at your request?

Mr. MCDANIEL. I actually don't remember if he prepared it at my request or independently, but I do remember receiving it.

Senator LEVIN. Ms. Corbet, were you familiar with an FBI report that came out in 2004 that said that mortgage fraud was becoming more prevalent?

Ms. CORBET. I am not specifically aware of that particular report.

Senator LEVIN. Were you aware that the FBI in 2006 reported that the number of suspicious activity reports surrounding mortgage fraud rose by 700 percent?

Ms. CORBET. Again, I am not familiar with that specific report.

Senator LEVIN. And in the period 2004 to 2006, were you aware of the growth of interest-only loans, the broad use of interest-only loans? Do you know what I mean by interest-only loans?

Ms. CORBET. I believe so, yes.

Senator LEVIN. Were you aware that there was a large use of interest-only loans during that period?

Ms. CORBET. I don't know that I was aware of the amount, but I was aware that there were different types of loans being offered in the marketplace, yes.

Senator LEVIN. Were you aware that there was a large growth in the utilization of interest-only loans during that period?

Ms. CORBET. I am not aware of what percentage of growth. I was aware that those loans existed.

Senator LEVIN. Were you aware that there was a large growth? I am not asking you for a percentage. Were you aware?

Ms. CORBET. Yes. I was aware that those were new products in the marketplace, yes.

Senator LEVIN. Were you aware in 2004 to 2006 of the growing use of no doc and low doc loans?

Ms. CORBET. I am aware of that, yes.

Senator LEVIN. Do you know what silent seconds are?

Ms. CORBET. Honestly, I do not.

Senator LEVIN. That is OK. I didn't know a few months ago, either. Were you aware of the second liens? Do you know what second liens are?

Ms. CORBET. I am familiar with the term——

Senator LEVIN. Second mortgages?

Ms. CORBET. Yes.

Senator LEVIN. This is Standard and Poor's, an email—this is Exhibit 14[1]—from Richard Koch to Michael Gutierrez. Do you know who those folks are or were?

Ms. CORBET. No, I don't.

Senator LEVIN. OK. That email says, "[T]here has been a rampant appraisal and underwriting fraud in the industry for quite some time as pressure has mounted to feed the origination machine." Would you agree that there was great pressure to feed the origination machine?

Ms. CORBET. I am not aware of this specific email——

Senator LEVIN. No, I know that, but in general, were you aware that there was a huge demand for mortgages, to securitize mortgages?

Ms. CORBET. I was certainly aware of the growth in securitized mortgages, yes.

[1] See Exhibit No. 14, which appears in the Appendix on page 293.

Senator LEVIN. And the great demand for mortgages for that purpose?

Ms. CORBET. And the demand from investors to invest in those securities, yes.

Senator LEVIN. And from Wall Street to securitize——

Ms. CORBET. Yes.

Senator LEVIN. You were aware of that?

Ms. CORBET. Yes.

Senator LEVIN. Were you aware of this Exhibit 5?[1] I don't know if I asked you specifically or not, Ms. Corbet. "Version 6.0 could've been released months ago and . . . assigned"—I don't know if I asked you specifically about that—if they "didn't have to massage the subprime and Alt–A numbers to preserve market share." Did I ask you what your reaction is to that?

Ms. CORBET. You did not ask, but I can say——

Senator LEVIN. What is your reaction?

Ms. CORBET. I am not familiar with what the topic that they are referring to or the people who they are addressing.

Senator LEVIN. What is your reaction now that you read that, that something that would have been done otherwise could not be done because the writer, a Standard and Poor's employee, had to "massage the subprime and Alt–A numbers to preserve market share?" What is your reaction now that you read that?

Ms. CORBET. Well, it is certainly troubling, but to the extent—again, it is probably—in the larger context, I am not sure what the subject might be addressing. But to the extent that was a concern, I would expect that would be reviewed, and to the extent it wasn't addressed, it should have been raised to my attention.

Senator LEVIN. Exhibit 87[2] is the subject we talked about with an earlier panel. There was a message from Ms. Warner in Exhibit 87 pleading for resources. They are short-staffed, analyzed, overwhelmed. That is Exhibit 91.[3] There are a number of exhibits that show the overwhelming shortage of staff, both to do the ratings, but also to do the reviews. Were you aware of that kind of shortfall of staff at that time?

Ms. CORBET. Well, certainly in early 2007, as the number of securities were, again, starting to show deteriorating performance data, that indeed, the number of employees needed for this particular group needed to be increased. As I understand from Mr. D'Erchia's testimony, this group did receive the needed resources.

Senator LEVIN. Well, that is not the part of the testimony he finally acknowledged, which is they were short of resources and didn't get what they requested. He tried to say that they shuffled back and forth, but they were short of resources.

Exhibit 90, Mr. McDaniel, take a look at Exhibit 90.[4] This is a document from a Moody's employee, January 2006. ". . . I think we need full functionality with M3"—that is the Moody's model—"first, especially if we're to remain short-staffed for yet another year." Were you short-staffed in January 2006?

Mr. MCDANIEL. Yes.

[1] See Exhibit No. 5, which appears in the Appendix on page 258.
[2] See Exhibit No. 87, which appears in the Appendix on page 535.
[3] See Exhibit No. 91, which appears in the Appendix on page 541.
[4] See Exhibit No. 90, which appears in the Appendix on page 539.

Senator LEVIN. Were you aware of that?

Mr. MCDANIEL. We had stress on our resources in this period, absolutely.

Senator LEVIN. And you were making pretty good profit at that time, though, weren't you?

Mr. MCDANIEL. We were profitable, yes.

Senator LEVIN. And take a look at Exhibit 91, another Moody's employee in May 2007, if you would, Mr. McDaniel. The second paragraph. "Our analysts are overwhelmed." This is Mr. Kolchinsky's email.

Mr. MCDANIEL. As I remarked, there were definitely resource stresses at this point in time. People were working longer hours than we wanted them to, working more days of the week than we wanted them to. It was not for lack of having open positions, but with the pace at which the market was growing, it was difficult to fill positions as quickly as we would have liked.

Senator LEVIN. Did Moody's reevaluate wholesale or just certain transactions?

Mr. MCDANIEL. We monitor in our surveillance all transactions.

Senator LEVIN. But did you reevaluate, for instance, an entire CDO or an entire RMBS?

Mr. MCDANIEL. I apologize. I am not following——

Senator LEVIN. All right. If you have a new metric, you have got a new model that you are using to rate new securities, will you go back and use that model on existing securities?

Mr. MCDANIEL. It would depend.

Senator LEVIN. You didn't retest the old deals, did you?

Mr. MCDANIEL. In many cases, we do. In other cases, we do not.

Senator LEVIN. And what about Standard and Poor's?

Ms. CORBET. There are two different processes once a security was issued. The surveillance group was looking at actual loan performance data to determine whether or not there would be any impact to the rating.

Senator LEVIN. And you didn't go and take a look at the entire rating for an entire issue?

Ms. CORBET. Every issue was looked at for—in terms of the actual performance data.

Senator LEVIN. So you went back and used the new model, or did you grandfather the old rating? Which one?

Ms. CORBET. It was a different procedure for existing transactions, to look at actual performance data. And to the extent that criteria was changed on new issues, it would always be disclosed to the marketplace as to what extent any past transactions needed any criteria change or modification.

Senator LEVIN. So you didn't retest your old deals. You just disclosed the new rating to the marketplace?

Ms. CORBET. We disclosed the new criteria and how it would impact securities that were to be rated going forward, that is correct.

Senator LEVIN. In the future, going forward.

Ms. CORBET. That is correct.

Senator LEVIN. Is one of the reasons that you didn't go back and apply your new model, what you now knew, to the old deals was because of a shortage of resources to do that?

Ms. CORBET. No.

Senator LEVIN. Was that one of the reasons that you didn't do that, Mr. McDaniel? When you didn't do that, was that shortage of resources?

Mr. MCDANIEL. There are a number of reasons not to go back——

Senator LEVIN. Was that one of them?

Mr. MCDANIEL. I don't believe it would be.

Senator LEVIN. OK. This is Exhibit 62.[1] This is a Standard and Poor's exhibit. It is at the bottom of page one. "How do we handle existing deals especially if there are material changes that can cause existing ratings to change?" And if you look at the top of page two, again, this is Standard and Poor's, it says, "I do not know of a situation where there were wholesale changes to existing ratings when the primary group changed assumptions or even instituted new criteria. The two major reasons why we have taken this approach is, (i) lack of sufficient personnel resources." Are you familiar with that document, Ms. Corbet?

Ms. CORBET. No, I am not. This is the first—I just reviewed it this week.

Senator LEVIN. All right. But this is not accurate This is not true? You said that——

Ms. CORBET. This is not my understanding of how securities were surveiled.

Senator LEVIN. OK. And then if you take a look at Exhibit 92a,[2] Mr. McDaniel.

Mr. MCDANIEL. Yes.

Senator LEVIN. This is a focus group associate survey. If you take a look at page three, you apparently were there at a series of interviews and focus groups. If you look at that first dot. And if you look at the findings, most indicated that SFG business objectives included increasing market share and/or coverage. Do you see that?

Mr. MCDANIEL. Yes.

Senator LEVIN. Now, after your mass downgrades in 2007, during the last 6 months, Moody's rated about 500 subprime RMBS securities and S&P rated over 700. So you are still allowing these dubious mortgages to be put into the market. Hadn't you already decided that these securities were high-risk in July? Hadn't you already reached that conclusion?

Mr. MCDANIEL. I don't believe there were new RMBS transactions in late 2007——

Senator LEVIN. You don't? In the last 6 months?

Mr. MCDANIEL. Not that I recall.

Ms. CORBET. I actually departed S&P at the beginning of September, so I am not familiar what the last 6 months of transactions were.

Senator LEVIN. All right. Well, Moody's did rate RMBS——

Mr. MCDANIEL. OK. I apologize. I did not recall that.

Senator LEVIN. And in July, I guess, there was that massive downgrade of securities. Were you consulted when that happened?

Mr. MCDANIEL. I was aware of the downgrade, yes.

Senator LEVIN. Were you consulted?

[1] See Exhibit No. 62, which appears in the Appendix on page 471.
[2] See Exhibit No. 92a, which appears in the Appendix on page 543.

Mr. McDANIEL. I was not consulted from a credit perspective in terms of whether it should happen or not. I was informed so that I would have an understanding of the action the rating committees were taking.

Senator LEVIN. All right. But it was not your job to be part of that decision?

Mr. McDANIEL. That is correct.

Senator LEVIN. Did you see the impact of those downgrades, those mass downgrades, on the market? Were you aware of the huge impact it had on the market when it happened?

Mr. McDANIEL. We were observing deterioration in performance of mortgages. That is what had the impact on the market, I believe——

Senator LEVIN. Yes. The subprime market just collapsed, right.

Mr. McDANIEL. And we were recognizing the deterioration with the rating downgrades, not causing the deterioration.

Senator LEVIN. Well, if you would have done them a year earlier when you had information that the market was going under and was in trouble, if you would have done that over the year period and taken those early warning signs seriously and done your downgrading then, there wouldn't have been such a mass downgrading a year later. That is the whole issue that we are looking at.

I am sure you won't agree with that, but it is, nonetheless, factually the case, that you had the information, you were applying the new model to new securities that you were rating. You did not rerate the old securities, according to one of the documents, because you didn't want to apply the resources to do it and some other reasons. In any event, you didn't do it. And as a result, you did it in a massive way and it had a huge effect. If you would have done it in a different way when you first got the information and first had those storm warnings, I think the argument, which is much more persuasive at that point, is that you would not have had this massive downgrading which had such a huge impact in July 2007.

And again, I am happy to have your comment on that, if you want, but I don't think you will probably want to agree with that. Maybe you do want to agree with it.

Mr. McDANIEL. We were managing the ratings system to react to actual performance data, and when it deviated from what we had seen in the previous recessions, that is when we took our actions.

Senator LEVIN. In July 2007, did you know who David Goldstein was?

Mr. McDANIEL. No, I didn't.

Senator LEVIN. OK. Do you know who Dania Corledo was?

Mr. McDANIEL. No.

Senator LEVIN. How about David Oman?

Mr. McDANIEL. No. I am sorry.

Senator LEVIN. That is OK. How about David Bawden?

Mr. McDANIEL. No.

Senator LEVIN. OK. Ms. Corbet, take a look at Exhibit 52c,[1] if you would. This is an email dated March 20, 2007. This is an S&P employee who writes that, "In a meeting with Kathleen Corbet

[1] See Exhibit No. 52c, which appears in the Appendix on page 439.

today, she requested we put together a marketing campaign around the events in the subprime market"—now, this is March 2007—"the sooner, the better." Why would you want to put together a marketing campaign in March 2007?

Ms. CORBET. I would not use the term marketing campaign. What I did ask was for a more responsive communications campaign around the subprime market, and again, this followed along with a teleconference, an investor teleconference that we put on just about this time, shortly thereafter.

Senator LEVIN. So you didn't use the term that they said you used?

Ms. CORBET. I don't think that I would have used that term. It was clearly a communications effort.

Senator LEVIN. Going back to this question of what happened late in 2007, in the last 6 months of 2007, after the crunch came, one of the last subprime RMBS deals that was rated was called Citigroup Mortgage Loan Trust, and both S&P and Moody's rated this deal in December 2007. I don't have any exhibits for you to look at, so I will just have to read this more slowly. December 2007, that was months after both of your companies had downgraded thousands of subprime RMBSes.

First of all, were you aware that your agency, each of you, gave a AAA rating to four tranches of a $386 million Citibank subprime deal in December 2007? Were you aware of that?

Mr. MCDANIEL. No, I was not.

Ms. CORBET. I was no longer with the company.

Senator LEVIN. OK. And the press release from your firm—and I will just address this to you, Mr. McDaniel—when you rated the Citibank deal stated that you expected heightened losses and had accounted for that in the structure of the deal, but there was a 37 percent loss. That is the actual losses as of today. They exceeded any expected loss, obviously, when you rated the deal. But does it surprise you that you were still rating those subprime RMBSes in December 2007, after what happened in July? Does that come as any surprise to you?

Mr. MCDANIEL. I am surprised that there was a subprime RMBS security issued in the market. To the extent that we had updated our views and felt that those views would now be sufficient to provide protection for the ratings assigned, I can understand why the rating committee would do so.

Senator LEVIN. Let me go back again to Exhibit 24b.[1] There are a lot of interesting things there that your Chief Credit Officer, Mr. Kimball, wrote in October 2007 about issues and weaknesses that the organization needs to address after the subprime market had collapsed.

One of the things he wrote, and this is under market share, he says in paragraph five, "Ideally, competition would be primarily on the basis of ratings quality"—that is ideally—"with a second component of price and a third component of service. Unfortunately, of the three competitive factors, rating quality is proving the least powerful."

[1] See Exhibit No. 24b, which appears in the Appendix on page 319.

Then two lines down, he says, "The real problem is not that the market does underweights rating quality but rather that, in some sectors it actually penalizes quality by awarding rating mandates based on the lowest credit enhancement needed for the highest rating. Unchecked competition on this basis can place the entire financial system at risk. It turns out that ratings quality has surprisingly few friends; issuers want high ratings; investors don't want rating downgrades; short-sighted bankers labor short-sightedly to game the rating agencies for a few extra basis points on execution."

Would you agree with that?

Mr. MCDANIEL. In this section, he is talking about the issue of rating shopping, and I agree that existed then and exists now.

Senator LEVIN. All right. He is analyzing in paragraph seven. He says, "[T]he market share pressure persists" in certain areas. This is near the top. "Moody's has erected safeguards to keep teams from too easily solving the market share problem by lowering standards. These protections do help protect credit quality. Ratings are assigned by committee, not individuals. However," he says, "entire committees, entire departments are susceptible to market share objectives." Do you agree with that?

Mr. MCDANIEL. Well, in terms of financial incentive, the analysts would not be rewarded for market share or penalized for lack of market share. At management levels, there is more incentive associated with how the overall firm does financially, and so to the extent that there is a greater paid market share as opposed to just market coverage, that would have some impact on compensation at management levels, which is why we need appropriate safeguards and checks and balances.

Senator LEVIN. Do you agree that entire committees are susceptible to market share objectives?

Mr. MCDANIEL. Actually, no, I don't agree——

Senator LEVIN. All right.

Mr. MCDANIEL [continuing]. The committees are susceptible to that——

Senator LEVIN. Fair enough.

Mr. MCDANIEL [continuing]. Because they are not standing committees. They are ad hoc committees.

Senator LEVIN. In Exhibit 24b,[1] paragraph 7(b), he says, "Methodologies and criteria are published and thus put boundaries on rating committees' discretion." Then he says, "However, there is usually plenty of latitude within those boundaries to register market influence." Do you agree with that?

Mr. MCDANIEL. I am not sure what he means by market influence, so I don't know if I agree or not.

Senator LEVIN. OK. In paragraph 23 of that same exhibit, "From a credit policy perspective, we want to be in a position to just say no to a market opportunity when imperative to do so from a quality perspective. We have done that in the past." He gives some examples. "How to do it more aggressively without simply exiting whole market sectors is an unsolved problem." Would you agree it is an unsolved problem?

[1] See Exhibit No. 24b, which appears in the Appendix on page 319.

Mr. McDANIEL. It is an unsolved problem to the extent that the market is not rewarding ratings quality. If we don't have customers for the highest quality ratings, this is an ongoing problem.

Senator LEVIN. OK. You have a Town Meeting, Exhibit 98.[1] It is a transcript of Moody's managing directors. You spoke at that Town Meeting in September 2007. On page 63, you said that "What happened in 2004 and 2005 with respect to subordinated tranches is that our competition, Fitch and S&P, went nuts. Everything was investment grade. It didn't really matter. . . . No one cared because the machine just kept going." What do you mean by that? Pretty powerful stuff. Do you stand by that?

Mr. McDANIEL. I was talking about the subordinated tranches in the mortgage-backed securities area. We had a different opinion from our competitors, and we were obviously not being persuasive with the investor community in our more conservative opinion and it was having an impact.

Senator LEVIN. Having an impact on what?

Mr. McDANIEL. On our business. We didn't have as much coverage as a result.

Senator LEVIN. Does that mean as much market share?

Mr. McDANIEL. Both. But really, I was talking about coverage in that case. There were—and the reason I keep making the distinction between market share and market coverage is, I think, that most people would associate market share with paid coverage, and I am talking about the coverage necessary to provide a comparative rating system, comparing one security to another.

Senator LEVIN. Well, you were part of the competition there, Ms. Corbet.

Ms. CORBET. Yes.

Senator LEVIN. It says here that S&P "went nuts. Everything was investment grade."

Ms. CORBET. I don't know what he is referring to.

Senator LEVIN. "It really didn't matter. No one cared, because the machine just kept going." Is that true? I wish you would just say, yes, I stand by that, and that is what got us into trouble.

Mr. McDANIEL. For the sector I was talking about, I do stand by it.

Senator LEVIN. Ratings kept churning out with poor models. Now, I will use your words. I think that the agencies really went overboard here and really went off the deep end, and here is the reason. You had poor models for these new structures. You had too few resources you were willing to commit. You had too much pressure from investment bankers. And the nuts didn't end until these mass downgrades of July 2007, when it cratered the market for structured finance.

This is what one of your managing directors said at that Town Meeting, Exhibit 98, and this is what he or she wrote. "[W]hy didn't we envision that credit would tighten after being loose, and housing prices would fall after rising, after all most economic events are cyclical and bubbles inevitably burst." And then he said, what happened in 2004—he asked then, too, for the leaders to be candid and to acknowledge what the problems were and what had

[1] See Exhibit No. 98, which appears in the Appendix on page 684.

happened, and I think you have a long way to go in acknowledging what happened to your agencies.

And this is what he is saying, and I happen to agree with him, that "Moody's franchise value is based on staying ahead of the pack." I would apply this, though, to both. It just happened you guys had a Town Meeting at Moody's. I think the truth of this manager applies to both. He said, "Moody's franchise value is based on staying ahead of the pack on credit analysis and instead we are in the middle of the pack. I would like more candor from senior management about our errors and how we will address them in the future."

That is one of the best comments that I have seen, and I hope you would see it that way, but I could understand that may not be the case.

The SEC, Ms. Corbet, I think is conducting an investigation of S&P. They conducted an investigation. They found many problems, including staffing levels may have impacted various aspects of the ratings process. Is that true, that the SEC made that finding?

Ms. CORBET. I don't know, sir.

Senator LEVIN. OK. They found that S&P made changes to its rating criteria without publishing those changes, that S&P, like Moody's, had undocumented policies—I am quoting here—"and procedures for rating RMBSes and CDOs." Were you familiar with that finding of the SEC?

Ms. CORBET. I am not familiar with that finding, no.

Senator LEVIN. The SEC found relative to Moody's that you had inadequate staffing levels which impacted the rating process, that Moody's analysts were using unpublished models, that Moody's analysts could be influenced in their rating by the fees charged to the issuers, that they were unable to find all the records surrounding a Moody's rating, that Moody's failed to retain or document certain significant steps in the rating process which made it difficult for the staff to assess compliance with its rating policies and procedures, and to identify the factors that were considered in developing a particular rating. Are you familiar with that?

Mr. MCDANIEL. I am familiar with the SEC examination and the overall findings, yes.

Senator LEVIN. Did you agree with them?

Mr. MCDANIEL. The actions that the SEC asked us to take, we said we would take, so we are complying.

Senator LEVIN. This is going to complete this panel, but I just have one very brief statement.

The Subcommittee now has completed three of its four hearings examining some of the causes and consequences of the 2008 financial crisis. Last week, on Tuesday, we looked at the role of high-risk mortgages. Last Friday's hearing looked at the failures of the bank regulators. Today, we looked at the role of credit rating agencies. It hasn't been a pretty picture so far and I don't think it is going to improve, although, frankly, the beginning of the Senate debate on strong financial reform next week does give us some hope.

The final hearing of this quartet will be next Tuesday, when we are going to look at the role of investment banks, with Goldman Sachs being the case history. Our investigation has found that investment banks, such as Goldman Sachs, were not market makers helping clients. They were self-interested promoters of risky and complicated financial schemes that were a major part of the 2008 crisis. They bundled toxic and dubious mortgages into complex financial instruments, got the credit rating agencies to label them as AAA safe securities, sold them to investors, magnifying and spreading risk throughout the financial system, and all too often betting against the financial instruments that they sold and profiting at the expense of their clients.

I am introducing into the record now four exhibits that we will be using at the Tuesday hearing to explore the role of investment banks during the financial crisis. We will be putting those exhibits up on the Subcommittee's Website either tonight or tomorrow.

We thank this panel. We appreciate your being here. You have given us a great deal of documents. You have cooperated with this Subcommittee and we appreciate it.

We will stand adjourned.

Ms. CORBET. Thank you.

Mr. MCDANIEL. Thank you, Mr. Chairman.

[Whereupon, at 3:41 p.m., the Subcommittee was adjourned.]

APPENDIX

PRESS RELEASE

U. S. Senate Permanent Subcommittee on Investigations

Homeland Security and Governmental Affairs Committee

Carl Levin, Chairman

FOR IMMEDIATE RELEASE
April 23, 2010

Contact: Tara Andringa: 202-228-3685

Opening Statement of Senator Carl Levin
U. S. Senate Permanent Subcommittee on Investigations

Wall Street and the Financial Crisis:
The Role of Credit Rating Agencies

Today's hearing is the third in a series of Subcommittee hearings focusing on some of the causes and consequences of the 2008 financial crisis, a man-made economic assault on our country that is still foreclosing on homes, shuttering businesses, and driving unemployment. We saw the beginning of the assault in our first two hearings, which examined how U.S. financial institutions turned to high risk lending strategies to earn quick profits, dumping hundreds of billions of dollars in toxic mortgages into the financial system, like polluters dumping poison upstream in a river. At the second hearing, we showed how regulators saw what was going on, understood the risk, but sat on their hands or fought each other rather than stand up to the banks profiting from the pollution.

Those toxic mortgages were scooped up by Wall Street firms that bottled them in complex financial instruments, and turned to the credit rating agencies to get a label declaring them to be safe, low-risk, investment grade securities. Today, we are focusing on the role played by the credit rating agencies. Next week, we will look at the last stage of the economic assault, when Wall Street investment bankers magnified and spread the risk posed by toxic mortgages through the use of complex structured finance transactions.

For a hundred years, Main Street investors trusted U.S. credit rating agencies to guide them toward safe investments. Even sophisticated investors, like pension funds, municipalities, insurance companies, and university endowments, have relied on credit ratings to protect them from Wall Street excesses and distinguish between safe and risky investments.

But now, that trust has been broken. We used as case histories the two biggest credit rating agencies in the United States, Moody's and Standard & Poor's, and the ratings they gave to the key financial instruments that fueled the financial crisis -- residential mortgage backed securities, or RMBS, and collateralized debt obligations, or CDOs. The Subcommittee investigation found that those credit rating agencies allowed Wall Street to impact their analysis, their independence, and their reputation for reliability. And they did it for the money.

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This chart, Exhibit 1g, shows that from 2002 to 2007, the 3 top credit rating agencies doubled their revenues, from less than $3 billion to over $6 billion per year. Most of this increase came from rating complex financial instruments. According to Standard & Poor's, between 2000 and 2006, investment banks underwrote nearly $2 trillion in mortgage-backed securities, $435 billion or 36% of which were backed by subprime mortgages. All of those securities needed ratings. Moody's and S&P each rated about10,000 RMBS securities over the course of 2006 and 2007. Credit rating executives got paid Wall Street sized salaries.

At the same time, the credit rating agencies were operating with an inherent conflict of interest, because the revenues they pocketed came from the companies whose securities they rated. It's like one of the parties in court paying the judge's salary, or one of the teams in a competition paying the salary of the referee. The credit rating agencies assured Congress and the investing public that they could "manage" this conflict, and that their ratings were independent and rigorous. But the documents tell a different story.

First, some background. Credit ratings assess the creditworthiness of a particular financial instrument like a corporate bond, mortgage backed security, or CDO. Essentially, they predict the likelihood that the debt will be repaid. We've all heard of AAA ratings, which are at the top of the credit rating scale and are supposed to designate the safest investments. The ratings below that, which range from AA down to C, designate investments at greater risk of default. Investments with AAA ratings have historically had an expected loss rate of less than .05 percent, while the expected loss rate for BBB investments is under 1 percent. That's why financial instruments with AAA through BBB ratings are generally called "investment grade," while those with ratings of BBB- or Baa3 or below are referred to as "below investment grade" or sometimes "junk" investments.

A variety of U.S. laws and regulations rely on credit ratings to gauge risk. For example, the amount of risk-based capital that a bank must hold is determined in part by the credit ratings of its investments. Some investors, like pension funds, are barred from holding below investment grade assets. Because so many statutes and regulations reference ratings, issuers of securities and other financial instruments work hard to obtain favorable credit ratings to ensure more investors can buy their products.

Over the last ten years, Wall Street has engineered ever more complex financial instruments for sale to investors. Because these so-called "structured finance products" are so hard to understand, investors often place heavy reliance on credit ratings to determine whether they can or should buy them.

Residential mortgage backed securities, or RMBS, are one of the oldest types of structured finance. To create these securities, issuers bundle up large numbers of home mortgages into a pool, figure out the total revenue coming into the pool from all the mortgages, and then design a "waterfall" that assigns portions of the total incoming revenue to what are called "tranches." Tranches are not collections of mortgages, they are simply recipients of income from the waterfall of mortgage payments coming into the pool.

Each tranche is used to issue a mortgaged backed security that receives a credit rating and is then sold to investors. The tranches that are first in line to receive revenues represent the safest investments in the pool, and are designed to get AAA ratings. Tranches lower down the line get their revenues only after the more senior tranches are paid, and their securities get lower credit ratings.

Wall Street didn't stop there. They collected securities from RMBS transactions, put those into a pool, and resecuritized them into what are called collateralized debt obligations or CDOs. A CDO might contain, for example, BBB rated securities from 100 different residential mortgage pools. CDOs often also contain other types of assets, such as corporate bonds or credit default swaps. Wall Street firms also created so-called "synthetic CDOs" which did not contain actual assets, but simply referenced them. Like RMBS mortgage pools, CDOS were sliced and diced into tranches, and the resulting tranches used to create securities. The securities were rated – some AAA – and then sold to investors.

In exchange for large fees, Wall Street firms helped design the RMBS and CDO securities, worked with the credit rating agencies to obtain favorable ratings, and then sold the securities. Without credit ratings, Wall Street would have had a much harder time selling these products, because each investor would have had to rely on themselves to figure them out. Credit ratings helped make the sales possible by labeling certain investments as safe, using their trademark AAA ratings.

Wall Street firms also used financial engineering to combine AAA ratings – normally reserved for ultra-safe investments – with riskier securities, such as RMBS securities backed by high risk mortgages. Because the underlying mortgages were high risk, those RMBS paid out a higher return than safer loans. When those higher-paying securities also got AAA ratings, investors snapped them up. For awhile, everyone made money -- banks and mortgage brokers got rich selling high risk loans, Wall Street investment banks earned big fees creating and selling mortgage based securities, and investors profited from the higher returns.

But those AAA ratings created a false sense of security. High risk RMBS and CDOs turned out not to be safe investments. We heard in our first hearing how many of the high risk mortgages backing those securities were riddled with poor quality loans, contained fraudulent borrower information, or depended upon borrowers being able to refinance their loans before higher loan payments kicked in. When housing prices stopped climbing, and many borrowers could no longer refinance their loans, delinquency rates skyrocketed. RMBS and CDO securities rated as investment grade began incurring losses and were sharply downgraded.

Take, for example, a CDO known as Vertical ABS CDO 2007-1. In early 2007, UBS, which is a major bank, asked S&P and Moody's to rate this CDO. The UBS banker, however, failed to cooperate with the analysts. One S&P analyst wrote in an email to colleagues: "Don't see why we have to tolerate lack of cooperation. Deals likely not to perform." That's Exhibit 94b.

Despite the analyst's judgment that the CDO was unlikely to perform, S&P rated it. So did Moody's. In April 2007, both agencies gave AAA ratings to the CDO's top 4 tranches. Six months later, both agencies downgraded the CDO which later collapsed. One of the purchasers, a hedge fund called Pursuit Partners, sued over the CDO's quick demise. S&P and Moody's were dropped from the lawsuit since current law does not authorize private lawsuits against them even for reckless or unreasonable ratings, but the court ordered UBS to set aside $35 million for a possible award to the investor. The legal pleadings included internal emails at UBS referring to the supposedly investment-grade Vertical securities as "crap" at the same time the bank was selling them.

Take another example. In January 2007, S&P was asked to rate an RMBS being assembled by Goldman Sachs using subprime loans from Fremont Investment and Loan, a subprime lender known for loans with high rates of delinquency. On January 24, 2007, an analyst wrote seeking advice from two senior analysts: "I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?" One analyst responded: "No, we don't treat their collateral any differently." The other asked: "are the FICO scores current?" "Yup," came the reply. Then "You are good to go." In other words, the analyst didn't have to factor in any greater credit risk for an issuer known for poor quality loans, even though three weeks earlier S&P analysts had circulated an article about how Fremont had severed ties with 8,000 brokers due to loans with some of the highest delinquency rates in the industry. In the spring of 2007, Moody's and S&P provided AAA ratings for 5 tranches of RMBS securities backed by Fremont mortgages. By October, both companies began downgrading the CDO. Today all five AAA tranches have been downgraded to junk status.

These are just two examples of securities given AAA ratings that turned out not to be worth the paper they were written on. There are many more.

In fact, throughout 2006 and 2007, the toxic mortgages flooding the financial markets began going bad in record numbers. Delinquency rates skyrocketed. It became more and more apparent that the investment grade ratings given to subprime RMBS securities couldn't hold. Finally, in July 2007, within days of each other, Moody's and S&P announced mass downgrades of hundreds of subprime mortgage backed securities. The mass downgrades shocked financial markets, and the subprime secondary market dried up overnight. Banks, securities firms, pension funds, and others were left holding billions of dollars of suddenly unmarketable securities. The value of those securities began dropping like a stone. The financial crisis was on.

Two months later, in October, Moody's began downgrading over $10 billion of CDOs. On January 30, 2008, S&P downgraded over 8,000 securities, including 6,300 RMBS and 1,900 CDO securities, an unprecedented onslaught of downgrades. The CDO market, like the RMBS market, evaporated. Financial firms around the world were suddenly stuck with even more unmarketable securities. By September 2008, major global financial institutions like Lehman Brothers, AIG, Citibank, Goldman Sachs, and Morgan Stanley were bankrupt, bailed out, or struggling.

Looking back, if any single event can be identified as the immediate trigger of the 2008 financial crisis, my vote would be for the mass downgrades starting in July 2007, when the credit rating agencies realized their AAA ratings wouldn't hold and finally stopped labeling toxic mortgages as safe investments. Those mass downgrades hit the markets like a hammer, making it clear the investment grade ratings had been a colossal mistake.

This chart, Exhibit 1i, shows just how big a mistake it was. It shows that 91% of the AAA subprime RMBS securities issued in 2007, and 93% of those issued in 2006, have since been downgraded to junk status. The numbers for Option ARM mortgages are even worse. Option ARMs, which we examined at our first hearing on Washington Mutual Bank, allow borrowers to pick from several types of payments each month, including a "minimum payment" that results in a growing, rather than declining, loan balance. The chart shows that 97% of the Option ARM securities issued in 2006 and 2007 are now in junk status.

Had the credit rating agencies taken more care in handing out their initial ratings, or had they issued downgrades in a more responsible manner, they could have reduced the impact of the toxic mortgages. But they didn't, and there are a whole host of reasons why.

Inaccurate Rating Models. First let's talk about the credit rating models. Credit rating agencies use complex mathematical models to predict foreclosure rates for mortgages which, in turn, are critical to determine the ratings for mortgage backed securities. The key problem was that the mortgage industry had changed drastically in the last ten years. High risk mortgages like subprime, interest-only, option ARMs, and hybrids became widespread, displacing traditional, low-risk, 30-year fixed rate mortgages. The credit rating agencies simply did not have data on how these higher-risk mortgages would perform over time. Traditional 30-year fixed rate mortgages had default rates of 1 to 2 percent; the higher-risk mortgages were expected to have higher default rates, but no one knew how high. With little real data, the credit rating agencies made assumptions in their models that turned out to be wrong.

Moody's and S&P knew their modeling assumptions were wrong, and began revising their models. In the summer of 2005, S&P had revamped its CDO model, but put the model on hold for more than a year, as it struggled to rationalize why it would not use the new model to retest existing CDO securities. It is clear from over a year of internal emails that S&P delayed and delayed the decision, anticipating that the revised model would require existing CDO securities to be downgraded, disrupt the CDO market, and reduce public confidence in its CDO ratings. It would have also disrupted S&P profits from CDO ratings.

In July 2006, S&P made a major change to its RMBS rating model, but decided not to retest existing RMBS securities. The revised RMBS model projected much higher default rates for high risk mortgages and required greater protections against loss, including 40 percent more credit protection for BBB graded subprime securities. That meant a 40 percent larger cushion to protect against losses. Re-evaluating existing RMBS securities with the revised model would likely have led to downgrades, angry issuers, and even angrier investors, so S&P didn't do it. Moody's didn't either; after strengthening its RMBS model to issue new ratings, it chose not to apply it to existing securities. Recently, S&P has adopted a policy requiring retesting of rated securities within one year of a model change.

Competitive Pressures. A second reason the credit rating agencies didn't blow the whistle sooner on poorly performing RMBS and CDO securities was competition. The drive for market share, and the revenues from increased volumes of ratings, created pressure on both agencies to provide favorable credit ratings to the investment bankers bringing in business.

A 1995 article captures how the credit agencies used to operate. A journalist wrote: "Ask a treasurer for his opinion of rating agencies, and he'll probably rank them somewhere between a trip to the dentist and an IRS audit. You can't control them, and you can't escape them." But all that changed as the revenues from structured finance ratings came pouring in.

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Ratings and fees began to be played off each other. For example, after a Moody's analyst emailed that he could not finalize a rating until the issue of fees was resolved, an investment banker from Merrill Lynch responded: "We are okay with the revised fee schedule for this transaction. We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try to get to some middle ground with respect to the ratings." Moody's assured the Merrill analyst that its deal analysis was independent from its fees. In another email, an S&P analyst commented: "Version 6.0 [of the ratings model] could've been released months ago and resources assigned elsewhere if we didn't have to massage the sub-prime and Alt-A numbers to preserve market share." Witnesses here today will describe how the environment changed from an academic culture focused on accurate ratings to one of intense pressure to get the deals done.

The documents also show how the crushing volume of ratings undermined the ratings process. Despite record profits, both credit rating agencies were understaffed and overwhelmed with complex deals that investment bankers wanted to close within days. The documents show how investment bankers argued with the credit rating analysts, substituted worse assets at the last minute, and pressured analysts to waive their procedures and standards. We even saw instances of bankers pushing to remove analysts who were not playing ball. At times, analysts who resisted banker demands or challenged ratings were restricted from deals.

A focus on short-term profits also permeated the industry. One of the witnesses here today will describe how when he once questioned a banker about the terms of a deal, the banker replied, "IBG-YBG." When asked what that meant, the banker explained, "I'll be gone you'll be gone" – in other words, why give me a hard time when we are both making a lot of money and will be long gone before the house of cards comes crashing down.

Mortgage Fraud. In addition to inaccurate models and competitive pressures, the credit rating agencies failed to adjust their ratings to take into account credit risks from the fraud and lax underwriting standards that increasingly characterized the mortgages securitized and sold on Wall Street.

In August 2006, an S&P employee wrote: "[T]here has been rampant appraisal and underwriting fraud in the industry for quite some time as pressure has mounted to feed the origination machine." In September 2006, another S&P employee wrote: "I think it's telling us that underwriting fraud; appraisal fraud and the general appetite for new product among originators is resulting in loans being made that shouldn't be made." A colleague responded that the head of the S&P Surveillance Group "told me that broken down to loan level what she is seeing in losses is as bad as high 40's – low 50% I'd love to be able to publish a commentary with this data but maybe too much of a powder keg." Not taking into account mortgage fraud and lax underwriting standards did, indeed, turn into a powder keg, one that helped blow up the RMBS and CDO markets and triggered the 2008 financial crisis.

Conclusion

In the fall of 2007, Moody's CEO Ray McDaniel called a town hall meeting to talk to his employees after the mass downgrades that shut down the subprime market. "What happened in '04 and '05," he said, "is that our competition, Fitch & S&P, went nuts. Everything was investment grade. It really didn't matter[.] ... No one cared because the machine just kept going."

A Moody's managing director later responded our "errors make us look either incompetent at credit analysis, or like we sold our soul to the devil for revenue, or a little bit of both. ... I would like more candor from senior management about our errors and how we will address them in the future."

That's what we are looking for today as well: candor not only about what went wrong, but what can be done to prevent still another credit rating disaster in the future. The House and Senate financial reform bills before Congress offer a number of measures to increase credit rating oversight. Both bills would, for example, eliminate the statutory prohibition on the SEC's evaluating rating models, though clearer language authorizing the SEC to set standards for credit rating models, methodologies, and criteria is needed. The bills would also beef up the SEC's enforcement authority toward credit rating agencies, and subject the agencies to lawsuits by investors for reckless or unreasonable ratings. The bills should be further strengthened by directing regulators to tackle the inherent conflicts of interest that arise when rating agencies are paid by the people they rate. Our investigation provides strong support for better controls on agencies whose failures contributed to the economic damage still plaguing our country.

One more matter. Yesterday, the Subcommittee was made aware of a longer version of an email included in the Exhibit Book as Exhibit 23. We were not aware of the longer version earlier. We have added it to the book as Exhibit 23 Addendum. The emails show Merrill Lynch making a direct link between the fees it paid and the ratings it received on a deal, but the longer email shows that Moody's told Merrill Lynch its deal analysis was independent of any fee discussion.

My Ranking Republican, Senator Coburn, wanted to be here today but was called away to matters in Oklahoma, so we will have to proceed without him, but I want to thank him and his staff for their ongoing support of this investigation.

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Statement of Senator Tom Coburn
Wall Street and the Financial Crisis: The Role of Credit Rating Agencies
April 23, 2010

I would like to thank Chairman Levin for holding this third hearing in the subcommittee's investigation into the roots of the financial crisis.

In the eighteen months since the U.S. economy collapsed, many have asked whether anything could have been done differently. Nowhere is there a clearer "yes" to that question than in the example of the credit rating agencies.

While they were paid to forecast creditworthiness, the rating agencies proved they were not up to the task.

They failed to see the coming subprime mortgage meltdown, and kept AAA ratings on what should have been junk. This provided a false sense that the economy was stronger than it really was. It is not an exaggeration to say that the errors of the credit rating agencies prolonged the housing bubble, and quite possibly delayed the economic correction.

Unfortunately, their mistakes have cost many Americans dearly. To understand what happened we have to go back to the events leading up to July 2007.

In July 2007, Moody's, Standard and Poor's and Fitch all at once massively downgraded subprime residential mortgage backed securities or put them on notice for downgrade.

Moody's downgraded 399 subprime securities, while S&P and Fitch put out warnings on hundreds more.

In what was to that point the biggest downgrade event in history, the rating agencies rocked the financial industry that had heavily invested in housing.

Investments in subprime mortgages that were once given AAA ratings were revealed to be worthless. Investors and banks worldwide that had amassed mortgage-backed securities, collateralized debt obligations and more were suddenly all looking to sell at once. Only there were no buyers.

For the rating agencies it was also a devastating blow to their credibility, and for good reason. Never before had they gotten it so wrong.

But, what if they had made the right call? What if they accurately forecasted the housing crisis?

Moody's and S&P could have downgraded a significant number of residential mortgage backed securities in late 2006, rather than in mid-2007. E-mail evidence clearly shows that employees in these companies were growing increasingly uncomfortable with the ratings as they watched subprime loans deteriorate.

In February 2007, one S&P analyst projected that "the ratings are not going to hold through 2007." Instead of downgrading RMBS at that point, the firm waited more than four months.

In the meantime, during that four month period S&P rated more than 900 securities based on mortgage loans and gave each of them an "investment grade" rating. In every case, the securities rated in that time period would be downgraded to "junk," showing that the original ratings were far off base.

One of those securities was ABACUS 2007-AC1, the synthetic CDO at the heart of a current SEC fraud complaint. It was one of the worst performing CDOs in the market.

Had S&P or Moody's acted faster, none of these securities would likely have been rated so highly to begin with—and many investors could have been spared enormous losses. After all, synthetic CDOs like ABACUS 2007-AC1 were built on top of highly rated, but ultimately shaky, RMBS structures.

Instead, the downgrades were delayed until the rating agencies could not wait any longer. And as soon as S&P made the first move, a torrent of downgrades followed from the others.

Yet, as with so many of the problems in the financial industry, trouble in the credit rating industry traces its roots to a misguided federal "reform." By designating three rating agencies as National Recognized Statistical Rating Organizations—or NRSROs—the SEC unwittingly sowed the seeds of our problems today.

The purpose of the NRSRO designation was a noble one—to help regulated entities invest in safe capital and protect depositors or taxpayers. Rather than decide what exactly was "safe capital" for investment, regulated entities were simply told that they had to invest in AAA assets.

But the impact was perverse.

The NRSRO designation has become for many investors a "government seal of approval." The ratings they assign have received the tacit blessing of the government—whether they were right or wrong.

By requiring investors to purchase only AAA assets, it created an incentive for ratings to be *high*, though not necessarily *accurate*.

Our hearing today will be an important step in documenting exactly what went wrong.

If we are ever going to fix these problems we are going to need to start by ending the regulatory use of ratings.

Second, we need to tear down the NRSRO designation and open up ratings to competition where reputation is more important than in being in a government-approved club.

These simple steps would do more to help our financial markets than almost any other step.

I appreciate our witnesses being here today and look forward to their testimony.

Written Statement of

Frank L. Raiter

On

"Wall Street and the Financial Crisis: The Role of Credit Rating Agencies"

Before the

Permanent Subcommittee on Investigations

United States Senate

April 23, 2010

Good morning Senator Levin and Senior Minority Member Dr. Coburn. My name is Frank Raiter. From 1995 until my retirement in 2005, I was a Managing Director at Standard & Poor's and head of the Residential Mortgage Rating Group. As such, I had an inside view of the role of rating agencies in the recent economic crisis.

The failure of the major rating agencies-Fitch, Moody's and S&P- to adequately assess the risks associated with new mortgage products introduced in the past decade is a result of several factors. The first was the lack of oversight of the rating agencies by the SEC and the various financial regulatory bodies that wrote regulations requiring ratings, the second was the impact these decisions had on management of the rating agencies and the third factor was the disconnect between senior managers and the analytical managers responsible for assigning ratings. The final factor was the separation of the initial ratings process from the subsequent surveillance of performance of the rated bonds.

The first factor, a lack of regulatory oversight, resulted from the failure of regulators to appreciate the unique position the rating agencies assumed in the financial markets. The rating agencies were granted their preferred status by the SEC. Other regulators followed suite and incorporated ratings into their investment and capital rules. There was no regulatory oversight nor were standards established to measure the performance or quality of the ratings.

The preferred position of the rating agencies lead directly to the second factor. Management of the rating agencies came to believe that the increasing revenues and profits they were enjoying were the result of superior management skill and insight rather than the oligopoly granted them by various regulators and accommodative Fed interest rates. Thus success bred complacency and an aversion to change.

This resistance to change was a primary cause of the failure of the ratings and the ultimate financial crisis. Analytical managers were driven by the desire to create and implement the best risk analytical models and methodologies possible. Senior management, on the other hand, was focused on revenue, profit and ultimately share price. Management wanted increased revenues and profit while analysts wanted more staff, data and IT support which increased expenses and obviously reduced profit.

In the residential mortgage group, as in all the rating groups in structured finance, the analysts were responsible for both producing ratings and developing and maintaining rating criteria. Balancing these two missions was a significant issue in the residential ratings group where revenues grew tenfold between 1995 and 2005 and rating volumes grew five or six fold without similar increases in staffing. Rating production was achieved at the expense of maintaining criteria quality.

Adequate staffing was not the only challenge faced in trying to maintain the quality of the rating process. The accuracy of the predictive models used to evaluate risk was also critical to the quality of the ratings. The version of LEVELS model developed in 1996 was based on a data set of approximately 250,000 loans. It was, I believe, the best model then used by a rating agency. As new models were programmed and tested, analysts continued to collect larger data sets for the next versions of the model. In late 2002 or early 2003, another version of the model was introduced based on approximately 650,000 loans. At the same time, a data set of approximately 2.8 million loans was collected for use in developing the next version of the model. By early 2004 preliminary analysis of this more inclusive data set and the resulting econometric equation was completed. That analysis suggested that the model in use was underestimating the risk of some Alt-A and subprime products. In spite of this research, the development of this model was postponed due to a lack of staff and IT resources. Adjustments to the model used in 2004, with the identified problems, were not made until March, 2005. To my knowledge a version of the model based on the 2.8 million loan data set was never implemented.

The final condition contributing to the failure of the rating agencies was the separation of the initial ratings process from the subsequent surveillance of rating performance. While the rating process utilized ever improving models, surveillance operated under their own criteria. At S&P, the manager of surveillance refused to use the rating model in reviewing the performance of outstanding bonds. In fact, the resistance to "re-rating" bonds with each new model came from upper management. The concern was that "re-rating" outstanding deals with new information would significantly increase rating volatility and possibly result in lost revenue. By 2005, when adjustments were made to the model, it should have been intuitively obvious that some bonds rated in 2004 did not provide the necessary protection to support the assigned ratings.

In conclusion, it is my opinion that if S&P had vigorously pushed to implement the version of the model based on the 2.8 million loan data set in late 2004 or early 2005, the economics of deals incorporating the lowest quality subprime and Alt-A loans would have disappeared. In addition, the riskiest transactions submitted for ratings in 2005, 2006 and 2007 would likewise have been assigned much higher enhancement requirements which might have made it unprofitable for lenders to make additional loans. If the surveillance department had "re-rated" existing deals each time ratings criteria were adjusted, transactions would have been put on Credit Watch or been downgraded in 2005 which would certainly have sent an early warning to investors and tempered their demand for similar bonds.

This concludes my opening comments. Detailed responses to the committee's questions are provided in the written statement I have provided.

The Residential Mortgage Bond Rating Process

There is a significant difference between the rating process associated with traditional credits, corporate bonds, municipal bonds, and sovereign bonds and the process for rating structured products, including mortgages.

Traditional credit analysis looks at financial ratios, business practices, products, markets and management and a myriad of other factors. In rating corporate bonds a committee, made up of analysts from the same industry as well as analysts from associated industries, reviews the rating proposal and analysis and the committee vote is a significant factor in establishing a published rating.

Structured finance, covering residential mortgages, commercial mortgages, asset backed paper (credit cards, auto loans, etc.) has two distinct parts, the analysis of the collateral supporting the transaction and the review of the legal documents that structure the flow of returns to the investors. In mortgage ratings the initial analysis is of the tape sent in by mortgage bankers or investment bankers who are requesting the rating.[1] The tape provides loan level detail on each mortgage in the pool which is then run through the rating model. By 2003, tapes typically included a thousand loans and, in the case of home equity pools, could include ten thousand or more loans. Each loan on a tape had 85 or more data points. Thus, models were absolutely necessary to analyze this huge volume of information. The model assesses the expected credit performance of each loan and then aggregates this information for the pool as a whole. The output of the model establishes the enhancement or credit support for each bond in the proposed issue (AAA down to B and the first loss non-rated tranche). The model also provides a quality check to assure that the information on the tape is consistent with criteria. Loans that fail the quality control check are eliminated from the analysis and if not corrected, not included in the final pool analysis.

It is important to note that the rating process does not include a "due diligence" review of the accuracy of the information on the tape. (We were discouraged from even using the term "due diligence" as it was believed to expose S&P to liability.) Rather the ultimate issuers of the bonds were required to provide Representation and Warranties on the accuracy of the information on the tapes and were required to repurchase any mortgages that were subsequently found to have incorrect data.

Once the pool analysis is completed, a committee is convened to verify the quality control of the pool run. There is no vote on the results of the analysis; rather, the chair verifies that all the steps

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[1] In 1999, nine of the top ten issuers of mortgage backed securities were mortgage banks or mortgage affiliates of commercial and savings banks, some of which had their own securities affiliates which requested the ratings and sold the bonds, while others used investment bankers to structure and sell the bonds. By 2005, five of the top ten issuers were investment banks or their mortgage company affiliates.

for an accurate pool analysis were followed. The enhancement requirements are then given to the mortgage or investment banker who requested the rating. If they accept the analysis they award the rating to the agency and follow up with draft documents (the structure) for review. Typically, the pool analysis takes place several weeks before the documents begin to surface. The usual schedule was for the tape to arrive in the middle of month 1, with the documents following in the middle of month 2 and the closing expected at the end of month 2. The challenge facing the managers of the rating groups was scheduling a fixed number of rating analyst to support a growing volume of ratings requests. The situation was particularly difficult at month end when the flow of documents at its peak with new drafts and responses often arriving in the dark hours of the morning with closings scheduled for the same day. In addition to the stress of meeting the closing schedules established by the issuer there was the requirement for a final committee meeting on each mortgage rating to review the legal (structure) analysis and final pool analysis (if the issuer had substituted mortgages for those with anomalies from the first committee.) All in all, as volumes grew in the middle years of the decade the residential mortgage group (as well as other structured groups) were aggressively pushing for more staff analysts. In fact, a number of Managing Directors asked the Chief Criteria Officer for structured finance to render an opinion on the number of ratings an analyst could be expected to handle in a month while maintaining the quality of the rating. This would have tied staffing to volumes and (we thought) force senior management to meet our requests for additional staff. No opinion was ever delivered.

Residential Mortgage Rating Model Development

In 1995, the model used by S&P in rating residential mortgage pools was "rules based", meaning the enhancement requirements for a pool were calculated from a number of "scores" assigned to the various characteristics of each loan as provided on the tape submitted by the mortgage company or investment bank requesting the rating. The model introduced in 1996 was instead based on a rigorous analysis of the performance of approximately 250,000 mortgage loans. The "rules" were replaced by a statistically determined econometric formula that calculated the probability of default for each loan in a pool based on the characteristics of the loan. A major variable incorporated in the new model was the individual borrower's FICO score. This allowed the model to determine the expected credit score of the loan. This was significant as in the past the rules based model relied on the loan score provide by the banker (the old model used the then standard designation for loan quality, A, A-, B, etc.). The quality of the new model (and all subsequent models) was based on the amount of data available to update the econometric equation driving the credit analysis. When I joined S&P, I believed that the rating agencies had enormous amounts of data that were used to develop criteria. In fact, S&P had no loan level performance data. We relied on our rating customers to provide the data sets to build the 1996 model. Subsequently we purchased data from vendors.

While the econometric equation was based on the analysis of historic loan performance the modeling team was continuously looking to incorporate more forward looking variables to improve the forecasting capabilities of the model. To this end the team met with members of the S&P economic group to pursue the development of macroeconomic indices for the MSAs covered by the house price index already embedded in the model. (A house price index was incorporated in the "old" model as well. It had been included to capture declines in house prices but was used to adjust for both declines and increases in prices for the MSAs tracked by OFHEO.) There were also meetings held with the corporate rating group to assist in developing credit scores for the providers of the Representations and Warranties supporting rated mortgage bonds. Many of these providers where considered "too big to fail", including WaMu, Countrywide, IndyMac, Ameriquest, Lehman Brothers, Merrill Lynch and Bear Stearns. While admitting that economic indices and corporate scores would improve the quality of residential bond ratings, neither group had the resources to dedicate to the development of criteria in another area.

Market Share, Profitability and Budgeting for Criteria Development

By 2004 the structured finance department at S&P was a major source of revenue and profit for the parent company, McGraw-Hill. Focus was directed at collecting market share and revenue data on a monthly basis from the various structured finance rating groups and forwarded to the finance staff at S&P. Market share was not a problem for the residential mortgage group as by that time the share ranged between 92 and 96%. The annual budgeting process was likewise focused on revenue projections. From 2000 to 2004, the residential rating group's budget submissions included requests for additional staff as well as funding for purchasing data and IT programming support. Staff requests were routinely reduced below levels required to meet rating volume increases. As a result criteria development had to be postponed or cancelled. Support for model development and data ran out in 2002, when the 2002/2003 version of the model was implemented. Requests for funding the development of the version of the model, based on the 2.8 million loan data set, were denied in the 2003, 2004 and 2005 budget submissions. No reasons were provided for the denials.

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Statement of Richard Michalek

Former VP/Senior Credit Officer, Moody's Investors Service

Submitted to Permanent Subcommittee on Investigations

Committee on Governmental Affairs

United States Senate

April 23, 2010

Mr. Chairman and Members of the Subcommittee, my name is Richard Michalek. I am a former employee of Moody's Investors Service, a subsidiary of Moody's Corporation. I joined the Structured Derivative Products Group (the "Group") at Moody's in June of 1999, and my position was eliminated in December of 2007. At the end of my tenure at Moody's, I held the title of Vice President/Senior Credit Officer.

My responsibilities during my tenure included performing legal analysis on the structure and documentation of complex structured finance transactions in order to assign a Moody's rating to that transaction; reviewing and analyzing forms of standard and customized documentation used in interest rate hedging transactions and complex interest rate and credit risk swap transactions; participating in rating committees within the Group, and on request for other groups at Moody's; consulting on legal matters for other groups in the New York, London and Asian offices of Moody's when requested by applicable managing directors for those groups; speaking at industry conferences as and when requested by my managers; preparing and publishing the Group's quarterly and annual review and survey of activity; and participating in and, when requested, organizing and leading, the legal portion of semi-annual training sessions for all new Moody's analysts working in structured finance.

During my last year at Moody's, my responsibilities were split between serving as the senior legal analyst on the team responsible for developing, refining and implementing the methodology for rating Credit Derivative Product Companies, and being the project leader responsible for developing a methodology for rating collateral managers and rationalizing the Group's use of resources in maintaining accurate data on collateral managers.

Immediately prior to joining Moody's, I was a securitization consultant advising the pre-eminent New Zealand law firm of Chapman Tripp, and prior to that I was an associate lawyer in the structured finance group in the New York office of the law firm Skadden Arps. I am admitted to practice law in New York State, and was admitted to the bar as a solicitor in Wellington, New Zealand. I have a JD/MBA from Columbia University Law School and Columbia University Graduate School of Business.

My statement today is not delivered with the intention to bring harm to any individual or to stand in judgement of individual behavior. On the contrary, as I hope my remarks will illustrate, I believe that any imperfections, flaws and failures observed or identified in the credit rating process are neither surprising nor unexpected in light of the context and framework of incentives presented to the competent and otherwise capable and rational people comprising the employees and management of the credit rating agencies.

I. Practical Overview of the Rating Process

Credit rating agencies serve the important function of providing buyers and sellers of credit – that is, investors in and issuers of a promise to pay – an independent measure of the risk presented. In theory, these agents are independent, and because of repeat experience and a rationalization of costs, are able to provide this measure of risk at a lower cost than would otherwise be faced if the buyers or sellers produced the analysis themselves.

In practice, issuers of debt obligations buy a published rating from a credit rating agency to enable investors to compare the issuer's offering to other debt obligations that also carry a published rating. Investors use the ratings to also satisfy any number of possible needs: institutional investors such as insurance companies and pension funds may have portfolio guidelines or requirements, investment fund portfolio managers may have risk-based capital requirements or investment committee requirements. And of course, private investors lacking the resources to do separate analysis may use the published ratings as their principal determinant of the risk of the investment.

Even though each rating agency is attempting to describe the same thing – the risk presented by an investment opportunity – the ratings themselves differ both in form, and in definition, as between the rating agencies.

Without going into detail, Moody's ratings assigned to the derivative structured finance products that I used to rate are a measure of the "expected loss" facing an investor, given the tenor of the instrument. The determination of expected loss includes making an estimate of both the probability of a default in the promised payment, and the severity of the loss experienced given such a default.

In essence, the Moody's rating assigned to a derivative instrument is a function of the probability that underlying assets will default, and a measure of how much the consequent losses due to such defaults will impair the ability of the pool of assets to pay the promised amounts due on the derivative instruments. Keep in mind that these derivative instruments are obligations backed not by a single payer, but by a pool of underlying assets, and it is the funds raised by the issuance of the derivative instruments that are used to purchase the pool of underlying assets.

I.A. Structured Finance – The basics

Structured finance – the ability to raise capital and reduce financing costs through the aggregation and organization of both pre-existing and future obligations – in more ways than one raised the profile and magnified the importance of the rating agencies. Almost by definition, structured finance products beget new structured finance products, with ever increasing degrees of complexity.

At the first level of finance, there are corporate bonds and loans, and mortgages issued by banks to home buyers. These obligations consist of a single obligor/borrower. While a credit rating assigned to the obligation might help in transferring or selling the obligation, many issuers of these obligations held them to maturity.

From the home mortgage issued by the bank to a single borrower, there comes "RMBS" or residential mortgage backed securities. From the corporate bond or loan sold in a debt offering by a company, there comes "CBOs" and "CLOs" or collateralized bond and loan obligations. From credit card receivables and car loan receivables and other purchase account receivables, there comes "ABS", or asset backed securities. And then, when you issue debt backed by a variety of these structured finance products, you have a "CDO" or collateralized debt obligation.

No matter what the name is, the basic aggregation and organization is similar. An investment bank or other structurer buys the cash-paying obligation (whether a mortgage from a bank, a credit card account from a retailer, or a corporate bond or loan in the secondary market) at a discount from the bank, card issuer or retailer who offers them at a discount because they are more interested in generating fees from originating (new) assets than in the income (and risk) of holding those assets until they pay off.[1]

The purchase of those assets is funded by the issuance of the structured finance obligation, which itself is sold in slices (or "tranches"). The "top" tranche typically holds an entitlement to the first dollars generated every month by the pool of assets. Since there is little risk that the pool will fail to generate those 'first dollars', investors buying this tranche will accept lower returns. Following that tranche may be any number of tranches, each with a slightly lower priority and/or different entitlement to the next dollars generated by the pool. The bottom tranche of course bears the greatest risk that the pool will not be able to produce the expected dollars, either periodically or upon maturity, and investors at that level of priority will demand a very healthy rate of interest.[2]

Because the issuer of the structured product is free to appeal to the preferences of different investors, the tranches may differ not only in priority, but also in entitlement. Some investors may want "interest only", while others may want the coupon to depend on the general rate of interest in the market, while others may want a fixed rate of interest. The same structured finance instrument can offer a wide variety of promised payments, for which the risk analysis can be – and quite often is – formidable. Enter the rating agency.

1 The bonds and loans are purchased in the secondary market from owners that prefer cash today – in an amount less than par, or 100% of the face value of the obligation. The amount paid for the obligations does impact the rating analysis (because paying too much risks exhausting the "issuance proceeds" without buying the entire pool needed and necessarily will result in a shortfall of anticipated future cash flows, and because paying too little could result in "excess issuance proceeds" being released to the benefit of the most junior issued class of debt and to the detriment of the senior class of issued debt). However, the analysis is performed at the pool level, and not on an asset by asset basis. So, the rating does not necessarily evaluate whether each or any particular purchase of the assets comprising the pool was at a correct or appropriate price. This embedded opportunity to "overpay" for one or more assets represented a "collateral benefit" to investment banks and structurers, particularly if they wanted to remove an asset from their balance sheet.

2 It is a well-known feature of structured finance and CDO structures in particular that investors in the lower classes of the structured finance issuance considered their investment to be equity or equivalent to equity, and accordingly, evaluated their investment opportunity by considering the expected or targeted *internal rate of return* ("IRR"). Because the lowest class typically was entitled to all residual cash flows after more senior obligations received their stated coupons, the investor favored a structure that "front-loaded" excess cash flows. By accumulating a significant proportion of the pool in very high yielding instruments with coupons well above the weighted average coupon of the obligations above them, an equity tranche structured finance investor could collect enough excess cash flow in the first few years to achieve the desired IRR even if – due to defaults by the riskiest assets in the pool - the class prematurely stopped receiving payments altogether. This extreme misalignment of interests as compared to the senior obligations (who very much want the assets to perform over the full life of their senior investment) represents only one of the challenges to be addressed by a structured finance credit rating analyst.

I.B Role of the Quantitative and Legal Analyst in Moody's Derivatives Group, and Typical Timeline for Rating a Transaction

The Group's policy on staffing deals for which a rating was requested was to assign both a quantitative analyst (a "Quant") and a lawyer. In general, the Quant was responsible for reviewing the structurer's model and confirming adherence to published and necessary required parameters.[3] To the extent that the structure presented failed to include the necessary parameters or should the model produce results inconsistent with the desired measure of expected loss, the Quant would work to identify acceptable modifications proposed by the client and then confirm that those modifications did not otherwise alter the stability and robustness of the model outcomes.

The lawyer assigned to rate the transaction was responsible for (1) ensuring that there was no structural risk presented due to a failure to fulfill minimally necessary legal requirements (i.e., the issuer received appropriate legal opinions addressing key elements common to all structured finance transactions such as legally isolating the assets and confirming, by receipt of legal opinions, that those assets were not subject to prior competing claims, the issuing documentation was in compliance with applicable regulations, etc.) and (2) confirming that the deal documentation accurately and faithfully described the structure that was being modeled by the Quant. Of these two tasks, the process of conforming the documentation to the terms that were modeled was the most time-consuming, and more directly responsible for the ultimate performance of the transaction.

For example, while the Quant could quickly scan the 10 or 20 cells and rows in the banker's spreadsheet representing the priority of payments in the structure and then compare them to the ten bullet point lines that are represented in a banker's "terms sheet", those same ten bullet points might result in 10 to fifteen <u>pages</u> of turgid prose describing, in legal language in the indenture, how the trustee is to apply cash flows each month in respect of the interest and principal payment obligations due on the issued debt obligations financing the deal. Even minor errors in punctuation or syntax, like a misplaced decimal in the spreadsheet, could significantly alter the resulting obligation, and such errors would – particularly as the timelines for rating transactions compressed – regularly turn up. While the deal counsel invariably considered the "second set of eyes" valuable, the bankers considered that level of detail a barely tolerable annoyance.

Similarly, when last minute changes were introduced, the quant could sometimes confirm the consequences of the change by re-ordering two steps in a single sequence of steps in the model. Those changes might entail changes in several documents, and in a variety of locations, re-introducing the need for careful, if tedious, review.

Flaws in the documentation that remained beyond the closing date would require subsequent amendments, insisted upon by "liability abhorrent" trustees, and occasionally, where the error resulted in making a change to a previously assumed element of the model, could require placing the transaction on review for downgrade.

3 Initially, the Group did not publish or use "its own model", but instead would take each structurer's model and examine the assumptions, test it for robustness, and independently confirm that the results shown by the structurer could be replicated. Later, Moody's made a "standard" model available (but not required) for a limited number of transactions.

This "post hoc" consequence typically was borne not by the investment bank who structured the deal, but the investors who originally bought the transaction or by the asset manager who was (in fact) the instigator of the transaction and was, following closing, responsible for maintaining the fidelity of the transaction to the governing transaction documents.

The incentives for the "fee-based" structuring investment bank were clear: get the deal closed, and if there's a problem later on, it was just another case of "IBGYBG" - "I'll be gone, you'll be gone." (First quoted to me by an investment banker who was running out of patience with my insistence on a detailed review of the documentation.)

As a practical matter, a typical engagement for the purpose of assigning a Moody's rating to a client's structured obligation would include the following steps:

(1) Client (an investment bank, in the usual case) contacts one of the Group's MD's to discuss a proposed structure and to confirm, informally, whether or not the instrument can be rated by Moody's;

(2) If the discussion is positive,[4] a rating application is filled out by the client and analysts would be assigned to the transaction (one quantitative analyst, and one lawyer)[5];

(3) Initial discussions take place, first between the client (represented now by a junior banker responsible for the "terms sheet" describing the principal elements being offered to the investors in each tranche) and the quantitative analyst, for the purpose of setting up the modeling of the transaction;

(4) After the terms sheet is translated into an initial model and then generally verified as having features that can be modeled, client's counsel and the Moody's lawyer may go over the term sheet, and client's counsel produces the first draft of the principal transaction documents;

(5) Client and counsel would then hold a conference call with the Moody's lawyer (and often with the quantitative analyst present) to review the comments that the Moody's analysts may have on the draft documentation and to discuss the fidelity between what was described in the terms sheet, what is being modeled by Moody's;

(6) If the principal documentation is progressing well, client's counsel will begin secondary documentation drafts, including the asset management agreement, the administration agreement (for the trustee), the swap documentation and the legal opinions;

4 In 1999 and 2000, many of today's structures had not yet been created. There were any number of occasions when clients would present proposals for transactions that were simply beyond the ability of the then-current methodology. As discussed below, the culture of the Group at that time was more conservative and it was not considered inappropriate to decline to rate a structure if the methodology for assessing the risk presented was unsettled, or if there were questions or concerns for the expertise and experience of the asset manager or if the motivation for the structure was suspiciously unclear. It was not particularly relevant, in those days, whether or not our main competitor (S&P) was rating the deal.

5 Note that the Derivatives Group in NY was, at the time I left, the only group that I knew to retain – in general - the "two analysts per deal" staffing structure, and during the last two years of my tenure an increasing number of deals were being rated in NY by only one analyst. It is my recollection that the default for all the derivative transactions rated out of the London and Paris offices was for only one analyst to be used per deal. This shift away from two analysts per deal was, in my opinion, reflective of both the desperately under-resourced status of the Group, and the predominance of the concern for cost control (despite internally reported profit margins that were nothing short of extraordinary).

(7) Second drafts of the principal documentation are circulated along with first drafts of the secondary documentation and further conference calls are scheduled as necessary;

(8) Pricing the transaction and receiving comfort from a "rating committee" (these two steps generally occur simultaneously):

1. At a point in the development of the documentation when the client is confident that no more structural changes or material changes to the forms of documentation are likely to be forthcoming, the client will want to "price" the transaction, soliciting "indications of interest" from investors by issuing – when required – a preliminary offering memorandum describing all the principal terms and conditions of the offering;

2. Because the ability to commit on price means restricting or precluding significant changes, the client wants comfort that the rating is going to be assigned; accordingly, Moody's would schedule a rating committee for the purpose of confirming that the requested rating can be issued given the now evolved terms and conditions of the offering;

(9) To the extent that the pricing requires certain modifications, changes have to be modeled and tested, and documentation has to be modified and conformed;

(10) Once the price has been settled on, a final rating committee is convened authorizing the issuance of the rating upon the closing of the transaction based on the final terms and conditions of the offering, the satisfactory condition of the form of closing documentation and the acquisition of the underlying pool of collateral.[6]

The above steps could vary in time and in order. As a general guideline, the process would have taken anywhere from 4-8 weeks for CBOs and CLOs, and in some cases, longer.[7] As more and more issuances took the form of "series" deals (where each deal is identical to it's immediate predecessor, but for the underlying assets in the pool or some distinguishing feature), the timeline compressed enormously.

This compression of alloted time for completion unfortunately co-incided with emergence of three critical forces that I believe contributed to perception of a degradation to the quality of ratings

6 In fact, in cash-based deals (as opposed to synthetic or hybrid transactions where the "pool" consists of at least partially of a list of specified reference obligations), the collateral comprising the pool would only be partially assembled as of the closing date. The asset manager is obliged in these deals with partially completed pools to complete the accumulation ("ramp-up") of the entire portfolio within a specified period after closing. The rating issued at closing remained subject to "confirmation" upon the completion of the prescribed "ramp-up" period. While investors were initially reluctant to close on less than 100% of the portfolio having been assembled, over time, and depending on the reputation of the asset manager, the structurer and market conditions, investors accepted both longer ramp-up periods (in some cases and for some structures up to 2 years) and ever lower percentages of completion as of closing (a general guideline of "at least 80%" could be modified to 50% or lower depending on facts and circumstances).

7 As noted, the ramp-up of the complete pool for cash based structures, depended on the ability of the asset manager to actually find and purchase – at a price consistent with the modeling assumptions used in the rating process - the bonds and loans going into the pool. If this process is extended across different market conditions, or if the ratings on the purchased assets changes, substitutions might have to be made. Too high an aggregate price for the entire pool and the desired rating may not be achieved, and without the desired rating, investors in different tranches of the capital structure may withdraw their interest. It is easy to understand why synthetic CDOs, which only "refer" to the underlying assets as if they had been purchased were so attractive, given their ability to reduce or eliminate the risk of a failed ramp-up.

issued by all the credit rating agencies: (1) the shift in bargaining power away from investors (and simultaneously away from the rating agencies), (2) an overcrowding into structured finance issuance and the corresponding increase in market competition for all participants, and (3) the arrival of "synthetic" structuring technology, whereby "virtual" pools of one or more assets are assembled, and where the "buyer of credit" assumes the benefits and suffers the losses corresponding to the pool of assets identified as the "reference" obligations.[8] As I describe later in this Statement, I believe that for the Derivatives Group, there was a fourth, and in my opinion, dominant force to contend with: a change in culture.

I.C. Quality of the Models and Modeling Performed by the Group, and a Comment on the Sources of Rating Errors

It is critical to appreciate a defining limitation to the work done by the Derivatives Group: We took the ratings already assigned to the underlying assets as our inputs. We did not "re-underwrite" any of the assets proposed for inclusion in the issuer's portfolio. Errors in the ratings assigned to the underlying assets – whether representing under-estimations of the likelihood of non-performance and/or an underestimation of the losses realized due to such nonperformance – by definition compound into magnified errors in the derivative product.

Broadly considered, any such errors can be classified as "asystematic" errors – created by individual negligence, or the misrepresentation or fraud by some random number of borrowers or underwriters – the effects of which were expected to be diluted by the law of large numbers; and "systematic" errors – where whole cohorts or classes of assets would be found to represent more risk than was identified by the original underwriting and the rating. The latter type of error understandably created very significant problems for the rating of derivative products.

The potential for errors and limitations in the accuracy of the assumptions underlying the methodologies employed by the Group were not ignored; variance "cushions" were included in the determination of tolerable thresholds of "expected losses" corresponding to each rating level assigned. Inevitably, however, maintaining those cushions was vulnerable to market pressures.

The hypothetically "perfect" model was sometimes discussed: in theory, an investor only needs 2 ratings – Aaa, and NR, which would correspond to "get everything you are promised" and "won't get everything promised". With infinite time and resources, all obligations might be assigned these "perfect" assessments of risk. The users (and purchasers) of ratings constrain both time and available resources, and within the competitive business model, the constraint is doubly felt.

8 In fact, the synthetic investor assumes the benefits and losses accruing to either (a) the holder owning all of the individual assets, if the investor is financing the entire capital structure for the "virtual" issuer that "holds" the pool, or (b) a particular section of the virtual issuer's capital structure, in which case that investor's losses are only triggered when and if the virtual classes beneath that particular section experience losses, and whose investment is repaid only after sufficient funds are paid out of the reference obligations such that more senior sections of the virtual issuer's capital structure receive their full entitlement. This ability to offer an investor an opportunity to invest in a single class of a derivatively created structured finance issuer's capital structure without having to actually sell the entire capital structure, and without having to physically assemble an entire pool of assets represented a game-changing jump to "hyper-drive" for structurers, and for investors seeking exposure -on either the long or short side - to particular assets and classes of debt.

Admittedly, there was something of an inconsistency in the logic of "adding cushions". Assets included in an issuer's portfolio would, if rated only by a competitor, be given a rating "haircut". For example, an asset rated BBB by S&P - but not by Moody's - was assigned, for the purpose of Moody's evaluation of the risk presented by a pool of assets, a rating lower than equivalent Moody's Baa rating. In general, this was said to address a statistically observed variance in the performance of assets with single ratings from S&P.

Further, the long-standing policy of the Group was that even with these "haircut" ratings, our own methodology and corresponding modeling would lose its robustness and reliability if more than a certain percentage of the assets lacked a Moody's rating.[9]

This practice inevitably acted to increase the use of Moody's ratings on the underlying assets. Structurers would assemble pools of assets that already had Moody's ratings, thereby placing a premium on their marketability, and consequently, placing a discount on the marketability of assets lacking a Moody's rating.

Incidentally, this practice may in some part contribute to an alleged "race to the bottom" for any rating agency seeking to obtain or increase market share. If structurers (and investors) discounted the value of the asset that wasn't rated by Moody's or S&P (historically, the two main sources of ratings for most of the assets eligible for inclusion in CDOs), the "other agency" might have to offer something else to gain market share. Given the high fixed costs of the intellectual capital necessary to offer ratings on sophisticated complex derivatives, there are those that claim that the "something else" was a rating that did not fully represent the risk of the rated asset.[10]

While we did not unquestionably accept assets with ratings solely from other agencies, we did unquestionably accept the Moody's ratings on the assets. We continued to accept these ratings even after it was known (or should have been known) that due to increased deal flow and a lack of resources, some of the outstanding Moody's ratings on RMBS assets were extremely stale, and therefore less reliable.

During the initial research in [2000 and 2001] surrounding the preparation of the methodology for rating "Multi-sector CDOs" (in which multiple types of assets were to be included in the pool of assets backing the obligations of the derivative CDO), I learned from the then-managing director of the RMBS group that many tranches were not being monitored or reviewed as often as they would like.

Due to limited resources at the time (the RMBS transactions used only one analyst for both document review and model analysis, and each analyst was responsible for monitoring the performance of their own transactions and any "inherited" transactions), it was possible that some of the tranches carried ratings that had not be reviewed for more than a year and in some cases for more than two

9 To be clear, it is my understanding that Moody's competitors employed equivalent haircuts and limitations.

10 Note that any such "hidden" risk works to the benefit of the risk-seller i.e., the structuring bank. To the extent that the published rating(s) do not accurately represent the risk presented to the buyer of the asset, the seller of such assets can obtain economic rents. As the "riskiest" part of the capital structure of structured finance obligations in general, and of CDO products in particular, is often retained by the structurer until it can be sold or repackaged into another derivative product, it would be logically beneficial to the seller of any such asset if the rating assigned did not fully represent the "hidden" risk.

years. It was possible – I was told - that the last time a particular RMBS deal's performance was carefully reviewed – might have been when the initial rating was issued.[11]

It is my understanding that it wasn't until 2007 and the "mass downgrades" to RMBS backed primarily by sub-prime mortgages that Moody's CDO group publicly acknowledged that, given the sensitivity to the underlying assets and their ratings, ratings on the derivative products rated by our group would be "adjusted" in anticipation of - and prior to - wholesale changes in the Moody's ratings that were assigned to the assets in these CDOs. In effect, Moody's admitted that our own RMBS ratings were "temporarily" untrustworthy.[12]

To be clear, the RMBS transactions in question "belonged to particular cohorts" known to include a disproportionate amount of sub-prime and/or second lien obligations, and in many cases, had already been placed on "negative credit watch" (signaling to the market that a downward rating action was likely in the foreseeable future). But the CDO deal documentation's prescription for "adjusting" the ratings of assets on negative credit watch was admitted to under-represent the actual risk from those assets. While the deal documentation may have required the asset manager to "adjust" rating on the negative credit-watched asset by 1, 2 or 3 rating levels or "notches", the anticipatory adjustment in the summer of 2007 indicated that such deals would immediately require – until such time as the mass downgrades were published – significantly more notches in adjustment.[13]

II. Culture, and Why It Matters

II.A An Early History of the Group

In 1999, when I was hired into the Derivatives Group at Moody's, there were only seven (7) lawyers. There was also a managing director who was a lawyer, but her duties limited her direct involvement in analyzing transactions. Of those seven, I was the fourth attorney with Skadden Arps on their resume. There was a strong emphasis on the quality of the work, and I found this reassuring and consistent with the priority given to quality both at Skadden and at my New Zealand employer.

I chose Moody's as a career opportunity both because the subject matter of the work fit well with my own experience and interest, but also because of the importance the Group reported giving to "quality of life" and the "work-life" balance. Each of the "battle tested" former Skadden attorneys assured me that, while the compensation package was inferior to that being offered by first tier law

11 Keep in mind that for a single RMBS transaction, the capital structure financing such a transaction could be sold by issuing any number of classes of notes with potentially different entitlements and representing exposure to different "tranches" of the issuer's capital structure. Some individual RMBS transactions were issued with a dozen or more different rated classes each representing a potentially different position in the capital structure and each representing a potentially different entitlement (i.e., interest only, inverse interest, principal only, etc.)

12 This occurred after, if I recall correctly, a similar action by S&P.

13 By Moody's own admission, the variance in the deals and structures with exposure to the sub-prime and home equity (second lien) obligations made it an administrative impossibility – given economically available resources – to timely review each deal with exposure and determine the most appropriate anticipatory rating adjustment. Instead, a conservative, and hopefully sufficient temporary adjustment would, while possibly over-stressing many of the structures relative to the actual consequence of the downgrades when realized, create the least avoidable harm. See generally, The Impact of Subprime Residential Mortgage-Backed Securities on Moody'-Rated Structured Finance CDOs" a Preliminary Review; John Park, March 23, 2007.

firms, the work experience did not include the extreme stress and deadline pressures faced by mid-level and senior associates at any of those firms.[14]

In those early years, the relatively conservative firm culture – perhaps a by-product of Moody's being a subsidiary of Dun and Bradstreet until spun off in late 2000 – and the intellectual bias to Group's culture largely reinforced my own personal experiences and expectations.

During the time I was advising investment banks and issuers as an employee at the law firms, I had numerous opportunities to interact directly with Moody's rating analysts. In my experience, the typical Moody's analyst was very thorough, specific and prepared, ready with comments at the scheduled time, with insightful and probing questions belying a full understanding of the deal's structure and documentation.

I recall a particular transaction from 1996 while I was still at Skadden: a mortgage securitization sponsored by an Indiana bank. The Moody's analyst was comprehensive in his comments, and as the lead associate I felt the stress of satisfying his requests. I recall the supervising Skadden partner complaining to the analyst – at the top of his voice during an 11p.m. conference call on the night before closing – that the requested changes would be impossible to make without causing the closing to be delayed. The Moody's analyst's requests, based on my perspective as the associate responsible for drafting and modifying the documentation, were correct and even necessary (even if they were arriving at a difficult time) in order to accurately represent the structurer's recently modified cashflows being offered to the investors.[15]

It was not surprising that the culture I entered in 1999 was of a similar nature to the culture I indirectly experienced when opposite a Moody's rating analyst on deals being structured by my law firm clients. When I joined Moody's in 1999, I interviewed with each lawyer in the Group with whom I did not already have a former professional relationship. I learned after I was hired that it was the Group's practice to give every lawyer a chance to review every candidate seeking a position as a lawyer in the Group. It was also the practice to only consider candidates who had a minimum of 4 years post-law school work experience, and preferably that experience would include transactional experience in structured finance.[16] Continuity in the Group's rigorous and independent culture was implicit, and the hiring practices reflected the importance management gave to that continuity.

The Derivatives Group that I joined in 1999 operated much less formally than the Group in existence in 2007. Policies and practices were still in the process of being invented as nearly every

14 As events unfolded, that enticing work-life balance largely disappeared. While I did not re-experience the consecutive "all-nighters" which had been something of a common practice in Skadden's structured finance department in the mid-1990s, I recall only too clearly participating in deal conference calls and faxing comments to second and third drafts of deal documentation from quite a number of vacation locations and on any number of weekends.

15 Standard and Poor's rating analysts were no doubt equally competent, but would – in my experience as a transactional lawyer representing structurers and issuers – require less time for addressing their comments on the draft documentation. In part this was because (I later learned) the S&P analysts were often not responsible for the legal sufficiency of the documentation, as that responsibility was handled by their outside counsel. On that same Indiana bank transaction, S&P's analyst did not raise the issues identified by the Moody's analyst; but neither did they complain when the corresponding last minute changes went into the deal documentation.

16 Lawyers, unlike quantitative analysts, entered the Group at the level of vice-president. It is an indication of the extent of the change in culture and the pressures of business competition felt by management that by the time I left in 2007, lawyers were being hired at the level of "assistant vice president" and with significantly less work experience after being interviewed unilaterally by managers with only limited, if any, input from other lawyers in the Group.

product being assigned a rating by the Group was new. Much of the knowledge required for effectively working within the Group came from an informal "mentoring" that took place during the process of rating transactions. A more experienced quantitative analyst would be assigned to a transaction with an inexperienced lawyer in order to distribute the knowledge and expertise, even while producing ratings revenue.[17] In addition, it was expected and encouraged that newer analysts would refer to and rely on the guidance and advice of the more senior analysts with respect to any questions they might have during the rating of any transaction. And of course, further questions would come up (accelerating the climb up the learning curve) during every rating committee.

The commonly agreed upon "mentors" available to everyone in the Group included:

Arturo Cifuentes, a PhD credentialed quantitative analyst who was as outspoken and demanding as he was intelligent, and who – it was apocryphally told to me – once called up a client's counsel who (probably in the interest of time) had sent Arturo a revised draft of a key transaction document without "blacklining" it to show the changes. Arturo politely told the counsel "Thank you for the updated draft. I notice that it is not blacklined. Are you listening? The next sound you will hear is that draft hitting my trash can. I look forward to receiving a blacklined draft on Monday." Nevertheless, he was incredibly generous with his time and instruction to any new analyst who asked questions. I believe it was Arturo who co-authored the first methodology pieces explaining the Moody's use of the "binomial expansion theorem" and the importance of diversity when modeling CBOs.

Isaac Efrat, a math PhD, who was incredibly fast at modeling the complex waterfalls embedded in the legal documentation. At one point it became necessary to come up with a "path dependent" simulation analysis of default risk for certain types of transactions in order to fully assess the risk; his model became the critical tool and remained in use long after he had left Moody's.

Danielle Nazarian, an MIT graduate whose eye for detail bordered on the maniacal. As a quantitative analyst, Danielle had no peers in terms of the thoroughness of her reviews and the extent to which she would require exacting fidelity between what she was modeling and what the documents described; she was an inspiration to every carefully-minded lawyer.[18]

Stephen Lioce and Mark Froeba, both Skadden alumni, offered the deepest resources for new lawyers coming up to speed with the methodology and practices employed by the Group. Mr Lioce in particular set an important standard in terms of detailed and thorough reviews of documentation and his record-keeping and precedent library on more than one occasion helped to break an occasional impasse presented by an aggressive banker insisting on (or resisting) a particular provision.

Of the aforementioned individuals, all but Ms. Nazarian and Mr Lioce have moved on. It is my understanding that Mr Lioce no longer actively assigns ratings to new transactions, but instead

17 The number of deals being rated by the Group in 1999 and 2000 (between 45 and 60 deals per year) permitted this somewhat unsystematic transfer of intellectual capital.

(i) 18 Ironically, the extent of her attention to detail may have indirectly encouraged some lawyers to "leave the detail to Danielle", and it was no accident that she was one of the first quantitative analysts allowed to rate a transaction without having a lawyer formally assigned to the deal.

manages the surveillance group responsible for monitoring transactions. As for these other mentors, with the change in culture, they were either "encouraged" to move on, or were expressly asked to leave. As the culture and the pressures of work increased with the increased deal flow between 2003 and 2007, it was clear that survival – in a culture that favored and was dominated by quantity over quality – required modifying one's approach, even if it meant lowering one's standards.

II.B Post- "Spinoff", 2002 and Beyond – The Inexorable Rise of Brian Clarkson From Group Managing Director to the President of Moody's Investors Services

Without question, after the spin-off of Moody's from its former parent (the Dun and Bradstreet organization), Brian Clarkson was a "rising star" in the ranks of senior management at Moody's. His reputation for aggressively re-organizing the group responsible for rating residential mortgage backed deals (and later the entire asset-backed group) had successfully garnered the attention and support of his managers, and the top tier of the senior management of the company. At my level, any "water cooler" discussion of his management style included the words "fear and intimidation." That description was periodically reinforced by the terminations of one or another of his managing director reports who had in some way failed to fulfill the express or implied expectations. The effect was only the more chilling when he was heard to say "its not personal, its only business."

After the spin-off from DNB, Brian Clarkson assumed control of the restructured Structured Finance division, and Daniel Curry was moved to London - ostensibly in recognition of his apparent success in managing the Derivatives Group - to manage the nascent growth in structured finance in Europe. Noel Kirnon was brought back to New York and assumed Dan's responsibilities as Group Managing Director of Derivatives. Amongst the analysts of the Derivatives Group, a permanent anxiety quickly took hold: that Brian was going to "fire all the lawyers". To my knowledge, all the other groups that may have originally used two analysts per deal had reduced or reorganized their staffing such that only one analyst was assigned per transaction. I was frequently reassured by my managing directors that they would resist moving to a 'one analyst per deal' policy, in part because the transactions were by definition complex and novel. Nevertheless, it was hardly reassuring that soon after the initiation of rating CDOs in the London and Paris offices, complex structured finance transactions (including cash and synthetic CDOs) were being rated by only one analyst, referring all legal questions to a single (thinly stretched) lawyer based in London.[19]

While it was quickly apparent that Mr. Clarkson subscribed to the school of "management by fear and intimidation", I think he also wanted to change the Derivatives Group into something he was more comfortable managing. During late summer in 1999 and 2000, the Derivatives Group – under the direction of then Group Managing Director Daniel Curry – took two of its last annual "retreats" at which a few analysts would be invited to present draft research papers to the rest of the group, which at that time consisted of between 20 and 30 employees. These annual retreats were – in my experience -

19 It is important to keep in mind that the task faced by a quantitative analyst is formidable, even without including a detailed review of the transaction documentation. Considering that without a lawyer assisting them on the transaction, a relatively inexperienced (albeit talented at modeling) Moody's quantitative analyst would, in the event they raised a question of potential importance to the client, be suddenly on the phone with either a partner at a major law firm, or an associate from that firm with deep experience on the provisions of the documentation, it is little wonder that the number of drafting comments independently raised by quantitative analysts was low, and in some cases, zero. It is my understanding that the lawyer servicing the many "single analyst" deals in the London and Paris offices was primarily focused on keeping the deals moving and chose very carefully what (if any) issues to raise.

the most formal steps taken by the Group at that time to record rating practices and policies, and they gave everyone a chance to exchange information about common issues arising in the current deals being rated. The retreats consisted of a Friday afternoon exodus to a hotel or conference center located outside New York, a Group dinner, a working Saturday where papers would be discussed, a break for lunch, and then recreational activities of your own choosing in the afternoon. As a new employee, these events created a strong impression of common mutual respect, and a very flat management style. They were also refreshingly devoid of "team building" exercises so often ridiculed by the popular media.

II.C Revising and Reversing the Culture

Whether as a function of cost-cutting, or style, after Brian Clarkson's appointment as the head of Structured Finance, the Derivatives Group discontinued "separate" retreats, and instead an annual "one day" retreat for the entire Structured Finance group was installed, with a venue local to the office.[20] With the entire Structured Finance group in attendance, the structure of the day was by necessity designed around space limitations. Outside speakers and senior management would be invited to present to the assembled throng, and after lunch there would be recreational activities – including those proverbial "team building exercises".[21]

The Customer Satisfaction Interviews

I believe that Brian Clarkson was determined to make his mark on the Derivatives Group when he assumed control. I think his primary goal was to reverse the impression that Moody's Structured Finance analysts and in particular the analysts in the Derivatives Group were "arrogant" or insufficiently accommodative to the needs of our "customers", i.e., the investment banks. After personally traveling with senior managers of the Derivative Group to all the New York offices of the Group's major clients (those that provided the most business), to introduce himself as the head of the newly organized Structured Finance division and to hear the concerns and "wish lists" of those customers, he summoned – one by one – the lawyers in the Derivatives Group to his office for a "discussion".

In my "discussion", I was told that he had met with the investment banks to learn how our Group was working with the various clients and whether there were any analysts who were either particularly difficult or particularly valuable. I was named along with Stephen Lioce as two of the more "difficult" analysts who had a reputation for making "too many" comments on the deal documentation.

The conversation was quite uncomfortable, and it didn't improve when he described how he had previously had to fire [MD X], a former leader of the Asset-Backed group who he otherwise considered

20 In part, I believe this was an effort by senior management to bring the Derivatives Group into the "fold"; the Group had developed a reputation for operating somewhat autonomously, and the extraordinary fees being generated by rating complex instruments may have represented something of a "prize" to the individuals most able to establish their authority over the Group.

21 In further contrast to our somewhat staid Derivative Group retreats, these day retreats would conclude with dinner for something close to 300 followed by some drinking and dancing. The night would include some predictably embarrassing performance or activity presumably meant to show the more human side of management. Whether a carnival style "MD-dunking" achieved by throwing baseballs at a bulls-eye, senior management performing (better than expected!) as ersatz Blues Brothers, or a somewhat tasteless "Sumo Wrestling tournament", where two MD's were conscripted to face off wearing rubber fat suits and Sumo wigs, the culture being shaped was new to the Derivatives Group, and distinctly anti-intellectual.

a "good guy." He described how, because of the numerous complaints he had received about MD X's extreme conservatism, rigidity and insensitivity to client perspective, he was left with no choice. He further emphasized that as difficult as it was, he quickly received "dozens" of calls from clients thanking him for finally addressing the problem. Ironically, MD X later headed the structured finance research at a large foreign bank. He then asked me to convince him why he shouldn't fire me.

In my case, the conversation did have apparent consequences as I received a reduced bonus in that year, and my eventual promotion to Senior Credit Officer was somewhat delayed.

More importantly, and as presumably intended, I thereafter attempted to carefully monitor, and when possible drastically reduce, the number of comments I made, and I took to heart the implicit and explicit message that "the customer comes first". Further, my change in behavior was an important signal to the other analysts in the Group, reinforcing – and in my opinion, helping to accelerate – the change in the Group's culture.

Brian closed our conversation by explaining that "we have an incredibly difficult job" because we have to find a way to provide the issuers and banks with a rating they can accept, while insuring that we do not compromise our standards. However, the primary message of the conversation was plain: further complaints from the "customers" would very likely abruptly end my career at Moody's.

The Importance of "Precedent"

As the deal flow began to slowly increase after the 2001 recession, the role and use of "precedent" - relying on a prior Moody's-rated transaction as a "template" for the instant transaction being reviewed – steadily became more important.

A typical structured finance transaction could include anywhere from 40-60 documents. The critical documents for a Derivatives Group transaction (CBOs, CLOs, and CDOs) having the greatest impact on the ongoing operation of the deal were the "Indenture" (which would typically run from 120-280 pages, and which included the critical "cash flow waterfall" and the obligations of the indenture trustee), the Collateral Management Agreement (sometimes called the "Asset Management Agreement" and which prescribed the duties and obligations of the agent responsible for asset selection, acquisition and disposition), and the "swap" documents, which (prior to synthetic transactions) pertained to the interest rate hedging critical to the transactions.

Each law firm used it's own "precedent forms". (The use of standard initial draft forms by the law firms ensured efficient allocation of their resources, enabling a second or third year associate to effectively prepare draft documentation without immediate partner involvement.)

Even if two Derivative Group transactions were substantively identical, the use of different "forms" would drastically increase the amount of time necessary for reviewing the transaction. As available time became scarce, it became essential to ask the counsel drafting the documentation to "mark it against a recent Moody's rated transaction". However, this request proved to be the starting gun in what was an accelerating race to the bottom.

The "Customer Satisfaction" interviews had more than accomplished their principal goal: the lawyers of the Group all retreated drastically from the "fine tooth comb" approach to document review, and customer preferences were given the highest priority.

I took what I considered to be a middle approach: I would review the first presentation of a form of document or novel structure as carefully as I could given my heightened awareness for a client being able to call up my boss and having me upbraided (or worse) for slowing down the transaction over "commas". Then, for every subsequent similar deal from that law firm, I would ask that counsel to "please mark it against precedent deal X".

In this manner, I could reduce the review of the documents to simply reviewing the pages that included changes to the form that I was confident was within acceptable parameters (from the legal perspective).

Unfortunately, there were some lawyers in the Group, and one in particular, who read a different message from the handwriting on the wall: if less is more, then even "less than less" must be worth more still. It wasn't long before the investment banks learned, from direct experience or from their deal counsel, that Moody's lawyer X gave a very "cursory" review to the CDO transaction documentation, and accordingly features more favorable to the risk seller (the investment bank and their clients) could be included without jeopardizing either the timing of the deal, or the rating assigned to the deal. Lawyer X soon was named as a preferred analyst by an ever-increasing number of clients seeking a rating.

Lawyer X quickly developed a reputation among the quantitative analysts and the other lawyers in the Group (particularly those who suffered having to deliver comments on a form of document that had been recently "signed off" by Lawyer X) for skipping the review of large sections of the documentation, if not the entire document. How contagious this behavior was is hard to say.

For awhile, the lawyers in the Group were divided into two camps – those that would (quietly) "fight the good fight" and attempt to restrain the more aggressive drafting changes being installed in the forms of documentation, and those who, like Lawyer X, recognized that without management support, it was rational to keep the client happy, and – if any issue was to be raised, simply focus on those issues that would attract the attention and support of the non-legally trained managing directors.[22]

The consequence that proved to be the final push down a very slippery slope was this: deals would be marked against Moody's-rated precedents chosen not by Moody's, but by the law firm and the investment bank. I found myself caught in a politically untenable situation: trying to explain why a Moody's precedent, very recently rated by Moody's (and increasingly with documents last reviewed by Lawyer X), might not be the best choice of precedent for the instant transaction.

22 It is difficult to appreciate just how low the bar was being set. One example comes from a standard "termination for cause" provision found in all Asset Management Agreements. The agreement provided for removal of the Asset Manager by the investors if some level of poor behavior can be shown. After extended internal discussion, the general consensus among the lawyers of the Group was that the strong form of the provision – where "cause" could be found in case of simple negligence by the manager – was appropriate, particularly because manager performance was so critical to maintaining the fidelity between the highly specific modeled parameters of the document and the estimated risk represented by the rating. Convincing the client to accept that standard often required extensive negotiation, and many investment banks and managers refused to accept the standard "unless everyone accepts it". Inevitably, a banker would find a recent precedent containing the weaker standard ("gross negligence"), and that precedent would more often than not turn out to have been rated by Lawyer X. Convincing your manager (a non-lawyer) of the importance of the single word "gross" often required a second, more delicate, negotiation. It did not help that the single MD in the Group who was a lawyer had already conceded the battle, recognizing before the rest of us that with Mr. Clarkson's ascension, "the customer is always right" effectively meant having first to prove that the requested rating couldn't be assigned if you wanted to say "no".

Goldman Sachs was well known by the lawyers in the Group for consistently producing as their "preferred form of document" the most "risk seller friendly" precedent, even if it had been drafted by a law firm other than the firm working for Goldman at the time.[23]

Rotating the Analysts

This growing importance of precedent was roughly consistent in time with a decision by management to avoid or limit the risk of "captive" analysts. Described as a way to always ensure that "fresh eyes" were reviewing transaction documents, the managers assigned the individual lawyers to certain banks – and removed us from working on transactions with certain other banks. The plan was that after some time, there would be a further rotation.[24]

It is my belief that the initial "assignments" in the "rotation" scheme were primarily an attempt by the managers to address Clarkson's mission to improve the perception of Moody's as a more accommodative agency. The rotations were likely a cover in order to re-assign the "difficult" lawyers onto the deals for clients that had not previously complained about that particular lawyer.

During my tenure at Moody's, I was explicitly told that I was "not welcome" on deals structured by certain banks, however, I never saw a 'list'. I was told by my then-current managing director in 2001 that I was "asked to be replaced" on future deals by Chris Ricciardi, who headed the structured group at CSFB, and then at Merrill Lynch. Years later, I was told by a different managing director that a CDO team leader at Goldman Sachs also asked, while praising the thoroughness of my work, that after four transactions he would prefer another lawyer be given an opportunity to work on his deals. I also understand that Lehman Brothers requested my "rotation", as did UBS. When Mr Ricciardi left CSFB to head the structured group at Merrill Lynch, I was co-incidentally "re-assigned" off of a Merrill Lynch deal on which work had not yet begun, even though I had never worked on a Merrill CDO before. In each case, I never was assigned to that bank's CDO deals again.

As painful as these "removals" were to experience, the bigger picture may offer useful information.[25] For example, using basic statistical techniques, in either late 2002 or early 2003, in an attempt to determine for myself whether working as I did was actually adding any value to the ratings, I compared the rating migration of the deals I worked on relative to the deals on which Lawyer X was originally assigned, and found that Lawyer X's deals performed markedly worse. Whether this was due to my initial review of the documentation, luck, or to the adverse selection of Analyst X by those banks who were most aggressive in their structures and their negotiation of documentation, I cannot say. I

23 While Goldman Sachs was not the only investment bank that used the practice of rotating law firms, in part to gain access to the broadest selection of precedent documentation and thereby the greatest potential for finding a precedent that supported Goldman's preferred language, they were the only bank I knew of that employed someone whose primary job was – to put it politely – arbitrage the rating agencies. It was not difficult to know where Moody's stood in terms of the relative conservatism of our modeling assumptions and drafting requests; Goldman was very prompt when informing us that "S&P doesn't require that".

24 Whether due to "higher priorities in light of new developments" or because it was never intended to be fulfilled, the second step in this plan was never fully implemented, and no further organized rotation was effected. Lawyers were once again assigned as and when available to deals as they came in. With one important caveat: if a client requested a particular lawyer, or refused to accept a particular lawyer, those requests would be honored if at all possible.

25 The request for removal very rarely included the (true) allegation that I was requiring standards that other lawyers did not, but would instead allege that my manner or style as "abrasive" or "aggressive". Interestingly, those same manner and style complaints never seemed to be forthcoming from those banks who were less aggressive in their structures and whose documents already contained standards equivalent to what I was requesting.

also do not know if any formal analysis has ever been done by the company on the relative importance to rating stability due to the different rating analysts on the ratings assigned.

In fact, this internal conflict dominated my – and presumably other lawyers - annual performance reviews: praising "the attention to detail" but admonishing for not "thinking of the big picture" and "losing sight of the [importance of Moody's] relationship with the banker and collateral manager". The not so subtle instruction received in a performance review from 2001 that I should "think of a particular deal as one piece of a larger relationship (the issuer relationship)" is representative of the explicit priority management assigned to the relationship between Moody's and its customers (the investment banks), notwithstanding the possible impact to the investors in "a particular deal".

By 2004 and 2005, the culture of the Group from 1999 and 2000 and been largely replaced, and the new hires added to address the demands of an ever increasing deal flow were joining the Group at a time when one eye was constantly on the (ever-rising) Moody's share price, and the other was calculating the number of deals necessary to reach "maximum bonus". Suggested improvements for the robustness of our processes and ratings integrity were subjected to a first order question: will they help make the workload any easier?

III. Business Competition & Market Pressures

The pressure from competition and the predominance of the importance of quarterly earnings increased in proportion to the growth in the derivative market. As more and more banks identified the extraordinary opportunity for profits in securitizing and re-selling structured products, the effects of competition were felt by all.

Structured finance was, in my first year at Skadden in 1993 and until the time I left in 1996, understaffed but extremely busy. Partners would bill 2500 hours and up, and associates who wanted to make partner could expect to bill more hours than that. Skadden held a strong market position. It was difficult to attract junior associates into the group, however, because of the impression that the lifestyle was too grueling, and the appeal of the transactions limited. From 2003, structured finance activity, and Moody's rating activity kept on growing right until the cliff effect seen in 2007.

With every increase in issuance there was a concordant increase to the number and size of the structuring departments at the banks. And with every such increase, there was automatic need for increasing deal flow to service that new investment in staff.

Margins for the banks remained healthy for the dominant issuers, but the increased competition and the refinement of executing transactions "synthetically" pushed complex derivatives down the same path as RMBS and ABS issuance: towards "commoditization".[26]

26 There were several natural constraints on the growth rate of cash-based CDOs. The most obvious being the finite number of assets available to use as collateral. Once the last of Bond X has been put into CBO #1, a manager can't find any more Bond X to put in CBO #2. Also, acquiring the actual assets for a portfolio that will back the obligations of CDO "A" requires time and exposes the manager and investors to "ramp-up risk" (as previously discussed). With the refinement of the legal documents necessary for synthetic transactions, both these risks were avoided. (No more Bond X on the market? Doesn't matter; can simply "refer to Bond X". And the "ramp-up" for a synthetic CDO consists only of writing down the reference obligations that will serve as the "reference pool".)

Commoditization – where deals are produced on "standard" documentation, and turnaround time becomes shorter and shorter, was an effort to preserve profit margins in an environment of extreme competition.

Our customers who were looking to increase market share and/or preserve profit margins in a competitive commoditized environment had few choices. They could trim expenses (placing pressure on the vendors in the deal – giving rise to "capped" legal fees, and "shopped" ratings) or pursue "yield-driven" investors. Alternatively, some customers recognized that finding a way to service the increasingly commoditized product could be a high value-added endeavor, and those customers chose to pursue new and novel structures and instruments.

All choices worked to the disadvantage of the rating agencies and served to "chill" the effort of careful legal analysis.

For example, if the deal counsel was operating under a "capped" fee, they would complain to their client if the work and time on the deal was extended due to "unnecessarily detailed" rating agency reviews being performed on what was increasingly a standardized product. These same "capped fee" firms would also push the work down to the 'least cost provider' resulting in some very junior associates being tasked with managing and producing the documentation for the "nth" deal in a series of deals from the same investment bank.

Unfortunately, as a deal was repeated, it would sometimes need to be revised or amended to remain competitive in an increasingly competitive environment. What was good enough for the investors in deal #1 was no longer enough in deal #5. Exactly when <u>more</u> attention needed to be paid to the marginal changes inserted by the structuring bank, <u>less</u> resource (or capable resource) was being allocated to the series. In practice, this often led to longer than usual conference calls as even harmless drafting comments had to be explained to an anxious and defensive junior legal associate whose mandate very nearly was "resist all changes". If the client – who was likely deaf to the reasoning for the change, but highly sensitive to the legal time (cost) consumed by discussing such change – complained to Moody's management, it reflected badly on the analyst's record. Practical consequence: reduce or simply stop making the comments.

Second source of the "chilling effect" from commoditization: If the rating was being shopped, pressure was indirectly applied on the rating methodologies employed.

Ironically, any concession achieved by favorably modifying an assumption in the methodology implicitly increased the pressure to be careful on the legal drafting side. If the source of any rating inaccuracy – given the same quality of underlying assets – can be traced to either (1) the accuracy of risk estimated by the model or (2) the fidelity between the documentation and what was in fact modeled, any deterioration in one places more of the onus for a correct rating on the other. Unfortunately, the business environment, and Moody's changed culture, were not particularly receptive or supportive to any legal analyst who was trying to carry that burden of compensating for the overly generous adjustments to the methodology.

And finally, the novel structures and instruments that arrived in the midst of an accelerating deal flow offered their own source of competitive pressure. It was always important that Moody's be on the "first impression" deals – at least to the extent there was sufficient confidence that our existing methodology could be adapted to the new structure or that any gap in such methodology not present an intolerable risk to our "standards". After that first deal of its kind is rated, subsequent structurers will – when attempting to replicate the structure and create their own product – often use the rating agency that was on the first impression deal. Since these novel structures and deals were by definition high value added, they attracted a generous ratings fee. Thus, the new structure and new instrument represented a future cashflow to the rating agency that successfully rates that structure/instrument. The managers in the Group were understandably eager to land that future cashflow (particularly in light of deferred compensation expressly tied to the improved share price). To the extent a proposed novel structure was identified as containing significant legal risks, the acceptance of those risks became a "business decision" that would require senior management review and analysis, and could potentially delay the rating and cost Moody's and the Group the chance to be "on the first deal".[27]

For previously presented structures that offered legal or documentation "challenges", the approach preferred by management was first seek out sufficient "mitigating factors" that could subjectively be thought to "balance out" the identified risk or challenge, and failing that, to "temporarily" address the potential potential problem by conditioning the rating on the issuer's or structurer's agreement not to consider this deal as a precedent.[28]

Market Share Pressures

The rating agencies had consistently lost bargaining power during the growth of the structured finance issuance, and given the incredible rise in the share price of Moody's stock (largely due to the enormous increases in deal flow), it is hardly surprising that a focus on "maintaining market share" and preserving customer relations and loyalty coincided with the increased risk of losing deferred compensation for senior management, should the share price reverse course.

Initially, Moody's and S&P completely dominated the derivatives market. I was told by Brian Clarkson during our "discussion" that the Derivatives group's "market share" was between 92 and 96% of the rated derivative transactions, and that he would like to see it stay at or above 95%.

One source of this extraordinary participation was the underwriting requirement – imposed in some cases I believe by capital requirements and in other circumstances by the credit committees of the structuring banks, monoline guarantors, issuers and portfolio investment credit managers – that restricted investment to assets having at least two ratings from a "NSRSO" (Nationally Recognized Statistical Rating Organization).

Combine that requirement for a rating from two NSRSOs, with the onerous consequences of assembling a pool of assets that would suffer "rating adjustments" for lacking a Moody's rating (discussed above), and you can see a strong contribution to the market dominance.

27 This created something of a dilemma for the lawyer who might point out potential legal risks; by remaining silent or at least waiting until another lawyer confirmed that the issue required addressing, the assigned lawyer could avoid risking a "false positive" and stay clear of being considered an obstacle to the rating. However, if the perceived risk turned out to be real, failing to bring it to committee and the attention of the MDs was potentially equally damaging to one's career.

28 This technique of extracting an oral promise from the banker that the concession would be a "one-off" and that Moody's was free to establish a contrary or adverse policy that could possibly result in an adverse consequence to the instant transaction. As the deal flow raced faster and farther ahead of our ability to update and revise and adapt methodology, these "one-offs" became anything but. And despite strong assertions that such deals would never be used as precedent, in a surprisingly short period of time the issuer would return, seeking to do deal #2 "exactly like deal #1" and frequently the "concession" would be grandfathered into all the progeny from that precedent deal.

While that initial domination allowed for a certain amount of control and "market power" to reside with the rating agencies, once the "market model" (controlling market share, competing on both features and price, even if to the detriment of reputation) was fully embraced as the key element of the business plan, the fear of losing market share, and suffering an earnings disappointment in the following quarter (which of course would seriously impact the compensation packages of senior management), would necessarily become the defining principle.

It was not long before the structuring investment banks and underwriters recognized that just as Fitch was forced by the threat of limited or reduced business to find ways to make their ratings sufficiently more attractive to justify not going with Moody's and S&P as the "two required ratings", the same threat (of freezing out one agency and going with the "other two") could be – and was - applied to each of the agencies.

I believe that the extraordinary 95% market share was created by the initial dealer presumption that (a) on very nearly 100% of the deals the rating will be by Moody's or S&P, and (b) on some significant percentage of the deals the rating will be by Moody's and S&P – especially if the product is new and investors are going to need assurance, and (c) on that some small percentage of deals that are more commonly understood and on which the investor discount for a Fitch rating alone was justified by the reduced costs of not having to use Moody's, the rating would be by S&P and Fitch, or Fitch alone.

As derivative products evolved, and as market acceptance of a Fitch rating increased (in part the result of public complaints from Fitch regarding unfair competitive practices and the allegations of a "duopoly" by Moody's and S&P), the full effects of a "competitive landscape" were felt at both major rating agencies, and dealers more and more often challenged the presumption that every deal needed at least Moody's or S&P, or that investors would not accept a Fitch rating alone.

This thesis – that competition and the inevitable commoditization will lead to an erosion of market share dominance - underscores the motivation and urgency behind the accommodative adjustments to ratings policies and methodologies, and, as discussed above, the internal pressure to revise the culture and become more "customer oriented." With the emerging dominance of synthetic transactions (which, incidentally, attracted a rating fee that was heavily negotiated by the structuring banks and which nevertheless entailed an equivalent or near equivalent demand on analytic and legal resources), and with an over-riding culture of cost-containment, the consequence of steadily deteriorating quality is hardly unexpected.[29]

IV. Prescribing a "Better" Credit Rating Agency

In my opinion, any legislative effort that attempts to improve the reliability and utility of the products of the credit rating agencies must begin by recognizing the limitations of a market based business model. Competition for fees, and the "efficient" allocation of scarce resources present formidable challenges if not outright obstacles to achieving something akin to the "safety and

29 When I joined the Group in 1999 there were seven lawyers and the Group rated something on the order of 40 – 60 transactions annually. In 2006, the Group rated over 600 transactions, using the resources of approximately 12 lawyers. The hyper-growth years from the second half of 2004 through 2006 represented a steady and constant adjustment to the amount of time that could be allotted to any particular deal's analysis, and with that adjustment, a constant re-ordering of the priority assigned to the issues to be raised at rating Committees.

soundness" that should be associated with the practice of using an independent agency for estimating the risk presented by capital investment.

To be effective, the motivation and implementation of any such legislation will do well to recognize that meaningful[30] ratings represent a public good, and as such some part of the function of a publicly "approved" Credit Rating Agency should acknowledge and accept the responsibility – and liability - for providing that public good. To the extent that any such "approval" is conditioned on providing ratings within legal safe harbors – hypothetically, by employing methodologies that have achieved an objectively agreed consensus as to their adequacy for measuring and describing the risk that the rating purports to measure and describe – such legislation could represent an important advance in contributing to the utility of the credit rating agencies.[31]

Remaining within an "issuer pays" business framework without addressing the significant and ever increasing time and resource demands imposed on rating agencies dependent on market share and marginal profits derived from processes that, in my experience in the Derivatives Group, were by definition incapable of seriously capturing any value from "commoditization," will very possibly result in repeating the mistakes of the recent past and re-experiencing the costs of such mistakes.

It is my opinion that successful legislation will include an incentive, and proper opportunity, for a publicly approved rating agency to "just say no" to market participants seeking an independent assignment of something as valuable as a marketable published rating. [32]

Thank you.

30 The rating agencies are careful to narrowly limit the legal definition of the ratings that are issued, even if those legal definitions are at some odds from the commonly expected or generally anticipated meaning. For example, the measure of expected loss is a measure valid as at the time of measurement. The fact that a rating of Aaa is subsequently or rapidly downgraded to C does not per se justify a claim that the initial rating was "incorrect". The defense to any such claim would either be "something changed since we issued our rating" or "the rating was based on the information available at the time the rating was issued, and as new information was available, we revised our rating opinion." Despite having the ability to employ methodologies that included a measure of the stability of the rating, that very stability commonly presumed by the users of the ratings, and in particular, the users of Aaa ratings, was not – as of the time I left the Group – an explicit element of the rating analysis. On the contrary, ratings could be and were issued notwithstanding a strong probability that the rating would be downgraded – and in some cases drastically - upon any number of foreseeable and anticipated events.

31 It is my opinion that an important distinction can and should be made by the market as between structures and products appropriate for rating by the "publicly approved" agencies using tested and acceptable methodologies, and those structures and products for which no public rating can or should be issued (given the liability that would and should otherwise attach to a negligently or otherwise inadequately justified opinion).

32 Note that nothing I am suggesting precludes investors, issuers and structurers from using a private rating issued by an entity prepared to accept full responsibility and liability for errors in design, analysis and execution.

Statement Of
ERIC KOLCHINSKY
Before The
Senate Permanent Subcommittee on Investigations
Hearing On
Wall Street and the Financial Crisis: The Role of Credit Rating Agencies
April 23, 2010

I would like to thank Chairman Levin, Ranking Member Coburn and the members of the sub-committee for holding this hearing on the role the rating agencies played in the financial crisis.

My name is Eric Kolchinsky, and during the majority of 2007, I was the Managing Director in charge of the business line which rated sub-prime backed CDOs at Moody's Investors Service. More recently, I was suspended by Moody's after warning the compliance group regarding what I believed to be a violation of securities laws within the rating agency.

In my opinion the cause of the financial crisis lies primarily with the mis-aligned incentives in the financial system. Individuals across the financial food chain, from the mortgage broker to the CDO banker were compensated based on quantity rather than quality. The situation was no different at the rating agencies

It is my firm belief that the vast majority of the analysts at Moody's are honest individuals who try hard to do their jobs. However, the incentives in the market for rating agency services favored, and still favor, short term profits over credit quality and quantity vs. quality.

At Moody's, the source of this conflict was the quest for market share. Managers of rating groups were expected by their supervisors and ultimately the Board of Directors of Moody's to build, or at least maintain, market share. It was an unspoken understanding that loss of market share would cause a manager to lose his or her job.

Prior to the crisis, it may have been reasonable to believe that the pursuit of market share could be unrelated to credit quality. People would say, "we are credit specialists – it is our job to be able to analyze anything we are asked to." After the crisis, it became clear that the drive for market share was the main cause of the deterioration in credit standards in the ratings of structured finance.

As a former head of compliance testified, Moody's had an unofficial policy of never committing controversial items to paper or email. Instead, people were encouraged to walk over and have a conversation or to have a conference call. However, because of its importance, market share information was an exception.

Senior management would periodically distribute emails detailing their departments' market share. These emails were limited to Managing Directors only. Even if the market share dropped by a few percentage points, managers would be expected to justify "missing" the deals which were not rated. Colleagues have described enormous pressure from their superiors when their market share dipped.

While, to my knowledge, senior management never explicitly forced the lowering of credit standards, it was one easy way for a managing director to regain market share. I do not believe that this was done in a deliberate manner. Instead, during the bubble years, it was quite easy to rationalize changes in methodology since the nominal performance of the collateral was often quite exceptional. Easier still was avoiding the questioning whether the collateral provided by the bankers was really of the same quality assumed by the model, whether the collateral standards declined or whether some of the parties had ulterior motives in closing the transaction.

I began to receive these emails when I was promoted to Managing Director. They would list all the deals in the market for the relevant period and the amounts rated by Moody's, S&P and Fitch. At the bottom of the spreadsheet, the market share for each agency was calculated.

I believe that my 2007 dismissal from the rating agency was a consequence of placing credit quality above market share. I was a Managing Director in the Derivatives group, which was responsible for rating CDOs. CDOs were an extremely lucrative area for Moody's – in the first two quarters of 2007, the group generated over $200 million of revenue. This amount accounted for approximately one-fifth of the total revenue of the entire rating agency for that period.

However, trouble for the securitization was already brewing. In early 2007, New Century, a major sub-prime lender, imploded. During the course of the year, the prices of synthetic subprime bonds precipitously declined. The end of this initial phase of the crisis was heralded by the fall of two Bear Stearns hedge funds which heavily invested in CDOs in July of 2007. The resulting price dislocation sent bankers hurrying to finish CDOs already in progress and to clean up their balance sheets.

As Managing Director, I ignored the market share priority as much as I could. I refused to rate a complex CDO that I believed we did not have the tools to model appropriately. I continued to upset bankers, and my own management, by insisting on following long established rules and procedures which became inconvenient as the market began to fall apart.

However, the incident which I believe caused me to lose my role at the rating agency occurred in September of 2007. During the course of the year, the group which rated and monitored subprime bonds did not react to the deterioration in their performance statistics. That changed by the late summer of 2007. In early September, I was told that the ratings on the 2006 vintage of subprime bonds were about to be downgraded severely. While the understaffed group needed time to determine the new ratings, I left the meeting with the knowledge that the then current ratings were wrong and no longer reflected the best opinion of the rating agency.

This information was critical for the few CDOs in my pipeline, which were being hyper-aggressively pushed by the bankers. Our rating methodology for these transactions used the ratings which were about to be downgraded as a basis for our ratings. If the underlying ratings were wrong, the ratings on these CDOs would be wrong too. I believed that to assign new ratings based on assumptions which I knew to be wrong would constitute securities fraud. I immediately notified my manager and proposed a solution to this problem.

My manager declined to do anything about the potential fraud, so I raised the issue to a more senior manager. As a result of my intervention, a procedure for lowering subprime bond ratings going into CDOs was announced on September 21, 2007. I believe that this action saved Moody's from committing securities fraud. Because of the culture, I knew what I did would possibly jeopardize my role at Moody's.

Just about a month later, in mid-October, another periodic market share email was sent to the Managing Directors in my group. Along with the email, our business manager noted that our market share dropped from 98% plus to 94% in the third quarter. My manager immediately replied to the email and demanded an accounting of the missing deals.

This was the most disturbing email I had ever received in my professional career. A few days before, Moody's had downgraded over $33 billion in subprime bonds. At the time, this was the largest ever single downgrade at Moody's. However, as a direct result of the October 07 and additional downgrades, over $570 billion of ABS CDOs would be downgraded through the end of 2008.

Despite the massive manifest errors in the ratings assigned to structured finance securities and the market implosion we were witnessing, it appeared to me that my manager was more concerned about losing a few points of market share than about violating the law.

In late October, less than a month after that email and less than two months after I intervened, my manager asked me to leave the group. I was given a smaller position with less responsibility and less pay in another group. I believe that this demotion was in retaliation for my earlier actions in September.

While Moody's has acknowledged that the rating situation in September 2007 constituted a "problem", they failed to act to prevent a nearly identical situation in January of 2009 in connection with a transaction called Nine Grade Funding II. Instead of following some common-sense steps to prevent a violation of the law, Moody's management chose to suspend me after pointing out the breach.

Recent rating activity indicates that market participants still prefer the most aggressive ratings. Rating firms which have taken conservative positions have seen their market share tumble. We will no doubt see the results of this lesson when the regulatory

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spotlight is turned off. Credit standards will once again plunge as rating agencies race to build their market share.

The only way to prevent this from occurring is to recognize that the function which the rating agencies perform is a quasi-regulatory one, much like accountants. A single set of public standards needs to be implemented, to be used for regulatory purposes only. This will allow rating agencies to compete for clients without being forced to lower credit standards.

Testimony of

Arturo Cifuentes, Ph. D.

Department of Industrial Engineering

University of Chile

Santiago, CHILE

U.S. Senate

Washington, D. C.

April 23, 2010

NOTE: The opinions and views expressed in this document are those of Dr. Cifuentes, who is appearing before the committee as a private citizen, and are not intended to represent the views or opinions of any organization.

Chairman Levin, Ranking Member Coburn, and Members of the Committee: thank you for the invitation to participate in this hearing.

My name is Arturo Cifuentes and I am a professor of finance at the University of Chile. My professional background is described more fully in Appendix A. I recently moved back to Chile after working thirty years in the U.S., of which, the last fifteen, were in a segment of the fixed income market known as structured products. Some of my views regarding the role of the rating agencies in the *subprime* crisis were expressed in a previous appearance before Congress, so I will not repeat them here. See Reference (1).

BACKGROUND

Broadly speaking, the recent financial crisis was triggered by one single factor: many Americans bought real estate with loans that eventually they were unable to repay. Unfortunately, the ratings agencies exacerbated the magnitude of this crisis by making three significant negative contributions:

[1] They misjudged the quality of these loans; that is, they made very optimistic assessments of the credit risk associated with these loans (*subprime* mortgages). Specifically, the default probabilities attributed to these loans (very low) were completely at odds with the performance that was observed later.

[2] They misjudged the risk associated with the securitization (re-packaging) of such loans (RMBS) as well as the risk associated with other securitizations (for example, CDOs, that is, securitizations supported by corporate debt); and

[3] They misjudged the risk associated with the re-securitizations, that is, re-packaging of debt issued by previous securitizations. These instruments are known as CDO-squared or CDOs of CDOs. These pools of assets were not as diversified as the agencies assumed them to be.

All in all, the combined effect of these three unfortunate actions was that a colossal number of securities previously known as "investment grade," which, until recently, was a synonym of "low probability of defaulting," have either defaulted or been downgraded. More troubling is the number of so-called triple-A securities that have been impaired. That is, securities that until the onset of the crisis were thought to be "foolproof."

IMPORTANCE OF RATINGS

This massive ratings failure has inflicted an important damage on the U.S. capital markets. On one hand, the credibility of the ratings system has been shattered, for nobody believes in the ratings anymore, and also, the reputation of some well-know rating agencies appears to be broken beyond repair. This is serious since many investors, especially retail and less-sophisticated investors, used to consider a credit rating an important and trustworthy piece of information; but not anymore, especially after the dismal performance of many triple-A securities.

On the other hand, an important part of the U.S.-regulatory framework is ratings-dependent. In short, market participants are constrained in their actions by the opinions of institutions that do not inspire confidence.

What has been the result of this unhealthy situation? A securitization market that is more or less paralyzed.

It is important to realize that the idea behind the securitization concept is sound. In fact, in the past many well-structured securitizations have brought benefits to both, investors and originators. Not only that, an important part of the financing that was required by the U.S. economy was obtained not from the conventional banking system, but from the securitization market. Therefore, the importance of reviving this market is critical if the U.S. economy is to return to a healthy level of growth.

However, for as long as the securitization market (and to some extent the fixed income market) remains hostage of the opinions of the ratings agencies, it is unlikely to recover. The effect of this situation on the U.S. economy could be severe and lasting.

HOW ARE RATINGS DETERMINED

Generally speaking, a rating is an opinion that reflects the credit risk associated with a given security and is based on the interplay of two factors: (1) some input data; and (2) a computational model.

More precisely, in the context of a securitization, we have the following situation:

Input data. Three pieces of information are required to estimate a rating:

(a) The default probability of the assets in the pool to be securitized, in essence, an estimate of the credit risk associated with these assets;

(b) The recovery rate of the assets, that is, how much are they worth in the event that they default; and

(c) The correlation level in the pool, that is, the likelihood that the assets in the pool might (or might not) default together. If the correlation is high, the assets might exhibit several defaults at "almost the same time." Alternatively, if the defaults are not "clustered together" (happen "independently") the pool is said to exhibit "low correlation."

Computational model. The input data described before is normally fed into a computer model that, ideally, will capture two things, the structural characteristics of the transaction (securitization) in question and the probabilistic dimension of the environment. In a way, the model is nothing but a simplified representation of reality (in this context, reality refers to the way the credit markets operate and behave).

However, things can go wrong with the "rating process." One possibility is that the input data could be "inaccurate" (a bad estimate of the true value). Additionally, the structure of the model could be deficient, failing to capture the relevant features of reality. In either of these cases, the outcome could be an unreliable or inaccurate rating. Worse yet, if both data and model are too imperfect, disaster might ensue. This situation is demonstrated in Figure 1.

It is worth mentioning that the rating agencies have hinted that the sorry performance of the ratings associated with *subprime* securitizations (such as RMBS transactions) has been the result of inaccurate information provided by the bankers, and, therefore, not their fault. This argument does not hold any water: first, any analyst or modeler should know that, if the data are unreliable, the results will be useless (garbage in/ garbage out); and second, if that had been the case, namely, that the ratings were based on information that was not verified for accuracy, the ratings should have included a clear disclaimer to that effect.

A BIT OF HISTORY

In the early 2000s even a casual observer of the structured products market (CDOs, ABS, RMBS, etc.) would have noticed something unusual. The rating agencies were making too many modifications to their methodologies in what seemed an unusually short period of time. These changes affected both, the input data, as well as the structure of their computational models. One possible interpretation is that they did not know what they were doing and they were following a trial-and-error approach to get things right.

Alternatively, one might be tempted to suspect that they were "improving" their methodologies (making them more flexible or forgiving) to maintain or increase their market share. A presentation that I gave in September 2006 at a CDO conference (see Reference (2)) addressed this issue.

In any event, any back-of-the envelope analysis of some of the transactions rated in that time-frame (2001-2006) leaves one with the impression that more "forgiving" assumptions were being introduced in terms of the key input data used in the rating process (namely, default probabilities and correlation assumptions).

Moreover, a modeling technique called Gaussian copula, which around that time was more or less adopted by the majority of market participants, probably magnified the potential inaccuracy of ratings. This technique has serious theoretical flaws. This topic is beyond the scope of this testimony but the curious reader can examine References (3) and (4).

Finally, it is fair to conclude that the result of all these changes in the methodologies that were implemented in the 2001-2006 period were behind the dismal performance of the ratings. In fact, all the corrections to their assumptions that the rating agencies have incorporated lately validate this perception.

THINGS TO WORRY ABOUT

In light of the previous considerations, a number of very legitimate concerns arise:

(1) Moody´s and S&P claim to give ratings based on different benchmarks (Expected Loss versus Probability of Default) and using different methods (computational models). How can we explain then that when it comes to CDOs (or CDO-related products) both agencies give suspiciously similar ratings? Are their ratings truly "independent"?

A rigorous statistical analysis should be done to test the hypothesis that the rating agencies actually give independent ratings. There are well-established statistical methods to do this. It is just a matter of getting all the relevant data from the rating agencies.

(2) Moody´s used to employ a method called The Binomial Expansion Technique (BET) in combination with the so-called Diversity Score (DS) to analyze CDOs. In the early 2000s a new method (a variation of a Monte Carlo) was introduced to deal mostly with synthetic CDOs. Later, close to the

end of 2004, a new set of correlation assumptions were incorporated. I strongly suspect that many of the synthetic CDOs would have appeared much riskier (received lower ratings) had they been analyzed with the old BET approach. The reason is that the new approach "relaxed" some of the assumptions employed in conjunction with the old BET method.[1]

Again, it would be interesting to examine this hypothesis in a rigorous fashion (analyzing in detail a few synthetic deals rated in the 2002-2005 time frame).

(3) It might be argued that the rating agencies lacked enough historic data to make accurate estimates of the credit risk (namely, default probability) of the so-called *subprime* loans. After all, *subprime* loans were "different" (given with more relaxed standards than previous loans, and therefore, presumably, whatever data the agencies had did not apply.) However, reason and prudence dictate, that under those circumstances, more conservative assumptions should have been employed. In fact, there was a precedent for that. For instance, in the late 90s, CDOs including emerging market assets were done for the first time. To address the "lack of data" issue, conservative assumptions were made to mitigate the lack of reliable information. The result was that those CDOs did fairly well (from a ratings point of view) during all the crises that affected these markets later.

(4) At some point, the disastrous performance of so many *subprime* securitizations forced the rating agencies to modify their methods of analyses (use stricter standards). However, for the most part, the old transactions were not re-rated after introducing the new standards. One can speculate that the reason was that they lacked sufficient staff to undertake this effort. Or perhaps, it was "better" to allocate more analysts to the more lucrative business of rating new deals (higher fees) than to monitoring old deals, an activity that does not generate new revenue. Had the old transactions been re-rated (and most certainly downgraded) when the methods were modified, that

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[1] At the risk of sounding too technical: in 2004 Moody's switched from "default correlation" to "asset correlation" to assess the degree of diversification of a pool of assets. Although the two concepts (asset correlation and default correlation) are related, they are, conceptually and numerically, different. In all likelihood, most market participants, except for some highly sophisticated players, probably missed the significance of this new approach. But the bottom line was clear: the new correlation assumptions were quite forgiving compared to the old ones: in some cases, the new correlations could be as low as one-half or one-third the old values. This discrepancy was more acute when it came to investment grade assets, which, ironically, were the bulk of the assets behind the synthetic CDOs. One could argue that these unfortunate correlation assumptions were one of the culprits behind the sorry performance of synthetic CDOs.

would have probably removed some of the energy that fueled the *subprime* securitization impetus. Granted, perhaps that would have not been sufficient to prevent the crisis, but it certainly would have contributed to reduce its magnitude.

(5) A careful examination of the Exhibits[2] allows one to identify some common themes that affected both, S&P and Moody's: (i) they did not have enough staff to monitor adequately "old" (previously rated) transactions; (ii) their analysts were overworked and overstressed at the peak of the *subprime* securitization wave (roughly, the 2004-2006 period); (iii) they failed to acknowledge the impact of the deteriorating standards in *subprime* lending, in spite of the fact that, as early as 2004, and clearly in 2005, there was enough evidence of fraud reported even in the mainstream media; and (iiii) there is evidence that "market share targets" and market share concerns played an important role in setting rating standards.

Two final observations: first, a few analysts, at both, Moody's and S&P, expressed concern regarding some rating practices at different points. However, these dissenting voices were, for the most part, ignored. In short, not everybody at the rating agencies contributed to what Douglas Lucas, a fairly well-respected CDO research analyst once described as the biggest ratings disaster.

And second, there is a very disturbing, but illuminating, Moody's e-mail written by a managing director in 2007: she wanted to know the reason Moody's had "failed" to rate certain transactions (in other words, not called to rate these transactions) presumably, because of the implications that this could have on their market share targets. One can only guess what could have happened if the rating agencies had monitored the *subprime* market with the same level of care that they seemed to have employed to monitor their market share.

[2] Exhibits, in the context of this testimony, refers to the documents provided by the Permanent Subcommittee on Investigations (PSI) in relation to the role played by the Rating Agencies in the subprime crisis.

CONCLUSION

The situation described before is serious. First, it has implications for the U.S. economy: an impaired securitization market will delay the recovery and slow down the growth of the economy. And second, this situation is calling into question the legitimacy of the U.S. capital markets: the fact that the rating agencies keep on issuing ratings and collecting fees, as if nothing had happened, is shameful.

Finally, it might be tempting to put all the blame associated with this crisis on the rating agencies. But one has to be realistic --the rating agencies are only taking advantage of a unique business environment that would be the dream of every for-profit corporation: a flawed regulatory framework that, at the same time, makes them necessary, fails to sanction them, and prevents competition by erecting almost insurmountable barriers to newcomers.

I believe that token initiatives, such as limiting the gifts that rating agency analysts can receive to US$ 25 per annum, or focusing on who pays for the ratings, are distracting non-issues. The same can be said about the numerous and bogus calls for "transparency" that are frequently made, since CDOs are extremely transparent instruments.

Therefore, I would like to suggest two initiatives:

(1) A serious debate should take place to examine the benefits of having versus not-having rating agencies. In short, should they exist or not?

(2) Assuming one concludes that it is better to have rating agencies it is not obvious that the existing rating agencies should continue to exist. In other words, what can be done to replace the existing rating agencies by a more capable group of new agencies? In this context, two suggestions come to mind: (i) the implementation of a fast-track approach to approve new entrants to the ratings market (and the elimination of the three-years-in-operation requirement to gain NRSRO status), and (ii) the creation of a free and easy-to-access universal database with all the information regarding ratings and ratings performance.

These two suggestions might appear bold. In fact, they are, but in my opinion, anything less drastic is unlikely to make an improvement. The current situation is critical; a radical solution is the only way out.

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APPENDIX A

Arturo Cifuentes, Ph. D.

Professor

Department of Industrial Engineering

University of Chile

Santiago, CHILE

Professional background

Dr. Cifuentes joined the faculty of the University of Chile in March 2010 to spearhead the formation of a soon-to-be-established financial studies center.

He has extensive experience in several sectors of the fixed income market (investment banking, asset management, research, re-insurance and rating agency). Additionally, he has contributed to the development of many analytical techniques that are widely used in the financial industry.

He has also written numerous articles on financial topics for academic journals, trade publications and the international press. Furthermore, he has lectured internationally to a fairly diverse set of audiences (university students, senior professionals, regulators, and government officials) and done consulting for private institutions as well as government entities. In April 2008, at the request of the U.S. Senate Banking, Housing and Urban Affairs Committee, he testified before congress as an expert witness in relation to the *subprime* crisis.

He holds a Ph.D. in applied mechanics and a M. S. in civil engineering from the California Institute of Technology (Caltech); an MBA in finance from New York University (Stern scholar award); and a civil engineering degree from the University of Chile.

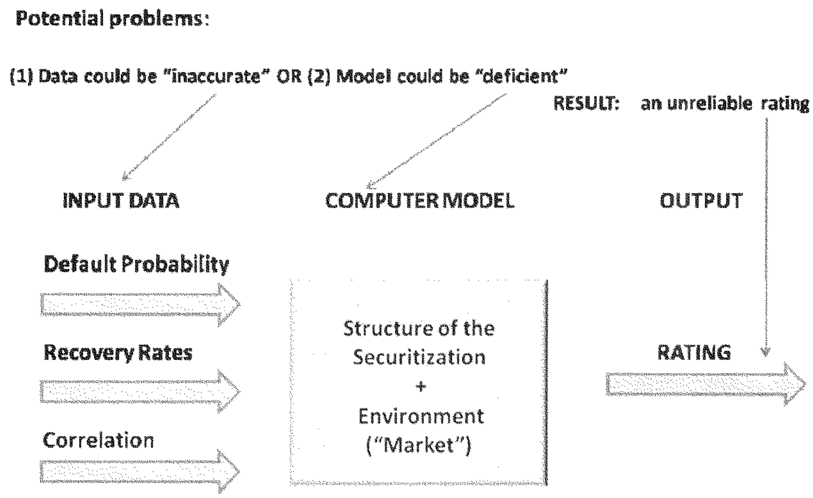

Figure 1. Modeling a Securitization, Overview of the Rating Process

TESTIMONY OF SUSAN BARNES
BEFORE THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
APRIL 23, 2010

Mr. Chairman, Members of the Subcommittee, good morning. I am Susan Barnes, a Managing Director of Standard & Poor's Ratings Services ("S&P"). From 2005 to 2008, I was the North American Practice Leader for Residential Mortgage Backed Securities ("RMBS") at S&P. I have been asked to appear today to discuss the following topics:

- The process used at S&P to issue new ratings for RMBS products;
- The resources available to the RMBS ratings group;
- The models used by S&P to rate RMBS, the data used in the rating process, and S&P's practice with respect to changes in criteria and their application to rated transactions;
- Awareness of the housing bubble, reports of mortgage fraud and the deterioration of subprime mortgage-backed securities from 2004 – 2007 and how those concerns were taken into account in the ratings process at S&P; and
- Rating actions on U.S. RMBS taken by S&P from 2006 through 2008.

I want to begin by saying that at S&P we have learned hard lessons from the recent difficulties in the subprime residential mortgage area. Although the subprime mortgage market improved access to credit and homeownership for millions of Americans, apparent abuses in that market have had a reverberating impact on the economy and the country. S&P supports efforts to investigate reported abuses and to prevent their recurrence. For its part, S&P has taken, and continues to take, steps to ensure that its ratings — and the assumptions that underlie them — are analytically sound in light of shifting circumstances. As my testimony will set forth in some detail, S&P began downgrading some of its ratings in this area towards the end of 2006 and had warned of deterioration in the subprime sector long before that. Nonetheless, we are fully aware that, for all our reliance on our analysis of historically-rooted data that sometimes went as far back as the Great Depression, some of that data proved no longer to be as useful or reliable as it had historically been. Additionally, the collapse of the housing market itself has been both more severe and more precipitous than we, along with so many others, had anticipated.

S&P's reputation and its track record are the keys to its business and we take very seriously the criticisms of each that have been raised.

Ratings and Their Role in the Capital Markets

Although my focus today is on S&P's process for rating RMBS securities, it is helpful at the outset to discuss the nature of our credit ratings, which in the past has sometimes been misunderstood. At their core, S&P's credit ratings represent our opinion of the likelihood that a particular obligor or financial obligation will timely repay owed principal and interest. When we issue a rating on a particular security we are expressing our view that the security shares similar credit characteristics to those securities that have, in the past, represented a particular range of credit risk.

As we have made clear in public statements, including statements to the SEC, testimony before Congress, and innumerable press releases, ratings do *not* speak to all of the factors that an investor should consider when making investment decisions. For example, ratings do not address:

- Whether investors should "buy", "sell" or "hold" rated securities;

- Whether any particular rated securities are suitable investments for a particular investor or group of investors;
- Whether the expected return of a particular investment is adequate compensation for the risk;
- Whether a rated security is in line with the investor's risk appetite;
- Whether the price of the security is appropriate or even commensurate with its credit risk; or
- Whether factors other than credit risk should influence that market price, and to what extent.

Though they may move more slowly than market prices, ratings are not designed to be static. Our view of an RMBS transaction evolves as facts and circumstances develop, often in ways that are difficult to foresee. We issue ratings and, as new information becomes available with the passage of time, we either affirm those ratings — *i.e.*, leave them unchanged — upgrade them, downgrade them, or put them on CreditWatch, which is a warning to the market that the rating is likely to change in the future.

S&P's U.S. RMBS Rating Group

During my time in S&P's RMBS rating group, the number of new RMBS transactions under review increased, as did our group's overall headcount. For example, the number of RMBS being rated per year increased by 47% from 2004 to the peak in 2006. Over the same time, S&P's RMBS analyst headcount for new ratings increased by 63%.

S&P's Rating of Securities Backed by Mortgage Loans, Including Subprime Loans

S&P has been rating RMBS for over thirty years and has developed industry-leading processes and models for evaluating the creditworthiness of these transactions.

While evaluating the credit characteristics of the underlying mortgage pool is part of our RMBS rating process, S&P does not rate the underlying mortgage loans made to homeowners or evaluate or regulate whether making those loans was a good idea in the first place. Originators make loans and are responsible for verifying information provided by borrowers. They also appraise homes and make underwriting decisions. In turn, issuers and arrangers of mortgage-backed securities bundle those loans and perform due diligence on the loans before they are put into securitizations. They structure transactions, identify potential buyers for the securities, and underwrite those securities. For the system to function properly, the market must be able to rely on these participants to fulfill their roles and obligations to verify and validate information before they pass it on to others, including S&P. Our role in the process is to reach an opinion as to the ability of the underlying loans to generate sufficient proceeds to pay the purchasers of the securities issued under stressed scenarios that correspond to our rating levels.

As a practical matter, S&P's analysis of an RMBS transaction is comprised of the following stages:

Collateral Analysis The first step in our analysis is evaluating the overall creditworthiness of a pool of mortgage loans by conducting loan level analysis using our Loan Evaluation and Estimate of Loss System (LEVELS®) Model. This model embodies and reflects our analytical assumptions and criteria. S&P's criteria do not dictate the terms of the mortgage loans; those terms are set by the originator in the underwriting process. S&P collects from the arranger of a securitization up to 70 different data points related to each underlying mortgage loan, including, but not limited to: the amount of equity a borrower has in the home; the loan type; the extent of income verification; whether the borrower occupies the home; and the purpose of the loan. Our analysis of this data allows us to quantify multiple risk factors, or the layered risk, and allows us to assess the increased default probability that is associated with each factor. Based on the individual loan characteristics, the LEVELS® model calculates probabilities of default and loss realized upon default. The assumptions and analysis embodied in the LEVELS® model are under regular review and are updated as appropriate to reflect our current thinking about rating residential mortgages.

As part of our commitment to transparency, S&P makes its LEVELS® model available to investors who wish to license it. We also publicly announce any changes to our LEVELS® model in a timely manner. In other words, our basic criteria is out there every day, subject to criticism and comment.

Cashflow Analysis Another important aspect of our rating process is assessing the availability of cash flow in transactions that rely on excess spread as a form of credit enhancement. To do this, we use our Standard & Poor's Interest Rate Evaluator (SPIRE®) Model. The model uses our mortgage default and loss assumptions (generated by the LEVELS® model) and other cashflow stress assumptions. Like the LEVELS® model, our SPIRE® model reflects our analysis and assumptions and is regularly reviewed and updated as warranted.

Also like our LEVELS® model, our SPIRE® model is publicly available and subject to market comment and review every day.

Review of Legal Documents S&P also reviews the legal documents of the securities to be issued, and, where appropriate, the opinions of third-party counsel that address transfer of the assets and insolvency of the transferor. S&P reviews the deal documentation in order to understand, among other things, the payment and servicing structure and other legal or structuring issues of the transaction.

Credit Enhancement Any description of our ratings of RMBS would be incomplete without discussing the critical concept of credit enhancement. Credit enhancement is the protection (*i.e.*, additional assets or funds) needed to cover losses in deteriorating economic conditions, sometimes referred to as "stress". Sufficient credit enhancement allows a pool of collateral to support a highly-rated security. Our opinion of the amount of credit enhancement necessary depends on many factors, including the type of collateral. For example, S&P required significantly more credit enhancement in order for a pool of subprime mortgages to support a high rating than it did for a pool of prime mortgages to support the same rating.

One form of credit enhancement, although there are several, would occur if the pool has more in collateral than it issues in securities, thereby creating a cushion in the pool. We refer to this form of credit enhancement as "overcollateralization," and it is a key component in our ratings analysis. It provides protection against defaults in the underlying securities. That is, if the pool ends up experiencing losses, it should still generate enough cash from which to pay the holders of the securities. I will discuss credit enhancement in more detail later in my testimony.

The Rating Committee After reviewing the relevant information about a transaction, including information related to credit enhancement, the lead analyst then presents the transaction to a rating committee. As with all S&P ratings, structured finance ratings are assigned by committee. Committees are comprised of S&P personnel who bring to bear particular credit experience and/or structured finance expertise relevant to the rating. The qualitative judgments of committee members at all stages of the process are an integral part of the rating process as they provide for consideration of asset and transaction specific factors, as well as changes in the market and environment.

Notification and Dissemination Once a rating is determined by the rating committee, S&P notifies the issuer and disseminates the rating to the public for free by, among other ways, posting it on our Web site, www.standardandpoors.com. Along with the rating, we frequently publish a short narrative rationale authored by the lead analyst. The purpose of this rationale is to inform the public of the basis for S&P's analysis and enhance transparency to the marketplace.

Credit Enhancement — How Securities Backed By Subprime Mortgages Can Receive, and Merit, Investment Grade Ratings

As I mentioned earlier, credit enhancement — additional assets or funds — affords protection against losses in deteriorating conditions. When an issuer comes to us with a pool of subprime loans to be used as collateral for an RMBS transaction, S&P is well aware, of course, that all of this collateral is not likely to perform from a default perspective like 'AAA' securities. Nonetheless, the pool of collateral loans *will* yield *some* amount of cash, even under the most stressful of economic circumstances.

A key component of our analysis is looking at the pool of collateral to determine how much credit enhancement — extra collateral, for example — would be needed to support a particular rating on the securities to be backed by that collateral. To do this, we analyze the expected performance of the collateral in stressful economic conditions. To determine the amount of credit enhancement that could support an 'AAA' rating, we use our most stressful economic scenario, including economic conditions from the Great Depression. The stress scenarios are then adjusted for each rating category. Thus, if our analysis of a particular collateral pool's expected performance indicates that the pool would need 40% credit enhancement to support an 'AAA' rating, the issuer would have to have 40% additional collateral above and beyond the amount of the securities issued in order for the securities supported by the pool to have enough credit enhancement for an 'AAA' rating. To put it in more concrete terms, if the pool was comprised of, for example, $2 million in collateral, it could only issue $1.2 million in 'AAA' rated securities in this scenario. This way, if the collateral performs poorly — and forty percent in losses is very poor performance — there will still be sufficient collateral to cover losses incurred upon loan defaults. The amount of credit enhancement required depends on the type of collateral. For example, subprime loans are expected to perform worse than prime loans, so subprime collateral can support less 'AAA' rated securities than the same amount of prime collateral. This credit enhancement figure would, of course, be lower for ratings other than 'AAA', as those ratings address the likelihood of repayment in less stressful economic environments. Thus, it is not the case that through securitization, poor credit assets magically become solid investments. Rather, it is because, in our example, a pool has $2 million in collateral to support $1.2 million in securities that it may receive an entirely appropriate 'AAA' rating on those securities.

The Data Used by S&P and Others in the Securitization Process

The securitization process relies on the quality of the data generated about the loans going into securitizations. S&P relies on the data produced by others and reported to both S&P and investors about those loans. At the time that it begins its analysis of a securitization, S&P receives detailed data concerning the loan characteristics of each of the loans in the pool — up to 70 separate characteristics for each loan in a pool of, potentially, thousands of loans. S&P does not receive the original loan files for the loans in the pool. Those files are reviewed by the arranger or sponsor of the transaction, who is also responsible for reporting accurate information about the loans in the deal documents and offering documents to potential investors.

S&P historically has included a review of the originators who originate the underlying mortgage loans as part of its rating process, and looks to see that the deal documents include representations and warranties by the appropriate entities regarding the quality of the loans and the data supplied about them. These agreements among the parties to the transactions are intended to protect investors from, among other things, losses on underlying loans caused by fraud in the origination process.

In 2008, S&P implemented procedures to collect more information about the processes used by issuers and originators to assess the accuracy and integrity of their data and their fraud detection measures in order to better understand their data quality capabilities.

S&P's new criteria also call for a statement of due diligence from issuers, prepared in conformity with specific S&P due diligence standards. Furthermore, S&P's data quality initiatives include standardized representations and warranties to be made by issuers concerning the underlying loans in an RMBS transaction.

After a securitization has issued, the deal documents and industry practice resulted in monthly pool-level information being reported by the trustees for securitizations. This information, which is available to the market as a whole, is used by S&P to conduct surveillance and also, in conjunction with its internal databases, to conduct research and develop criteria going forward. In addition to the pool-level information reported by the trustees, there has been an ongoing effort by S&P and others to acquire as broad as possible a collection of loan-level data about securitized pools that could be used both in the surveillance process and for research. To this end, S&P contracted with a number of third parties to obtain the full extent of such data that was available for use in its analysis. S&P has been an industry leader in the progression to more detailed RMBS information. For example, S&P was selected by the American Securitization Forum to partner in its "Project RESTART," an initiative to rebuild investor confidence in asset-backed securities through the use of unique IDs that will allow investors to track individual loans in securitizations. Following a request for commentary to the market in 2007, S&P also now requires a commitment from parties to a securitization at the time of new issuance that loan-level data will be reported by the trustee monthly over the life of the transaction.

S&P's Response and Publications Regarding Deteriorating Conditions in the Subprime Mortgage Market

The Subcommittee has asked me to speak to S&P's awareness of deteriorating conditions and reports of fraud in the subprime mortgage market, and how those concerns were taken into account in our rating analysis.

From 2005 to 2007, through its publications, S&P repeatedly and consistently informed the market of its concerns about the deteriorating credit quality of RMBS transactions. For example:

- In an April 20, 2005 article entitled *Subprime Lenders: Basking In The Glow Of A Still-Benign Economy, But Clouds Forming On The Horizon,* S&P observed that increased competition among subprime lenders threatened a relaxation in underwriting standards and warned that the growing popularity of "affordability" mortgage products "suggests that Standard & Poor's concerns are justified." We singled out interest-only mortgages as "[e]specially worrisome," noting that "these loans are more likely to feature adjustable rates . . . setting borrowers up for potential problems should mortgage rates rise dramatically."

- Following an internal Housing Market Simulation that it conducted in 2005, S&P published a study concerning the potential impact of a housing downturn on RMBS, using the following assumptions:

  - 20% national decline in home prices over a two year period, including a 30% decline on the East and West coasts and 10% in the middle of the country.
  - Unemployment rate peaking at 6.5% in 2007,
  - Gradual slowing of GDP to 1.2%.

  The results of the study showed that S&P's existing models captured the risk of a downturn of this magnitude and concluded that most investment-grade RMBS would weather a housing downturn without suffering a credit-rating downgrade.

The 2005 Housing Simulation was also presented to investors at a Hot Topix conference in November 2005, by RMBS Surveillance personnel.

- In a January 19, 2006 article entitled *U.S. RMBS Market Still Robust, But Risks Are Increasing And Growth Drivers Are Softening*, we said: "Standard & Poor's expects that some of the factors that drove growth in 2005 will begin to soften in 2006 . . . . Furthermore, Standard & Poor's believes that there are increasing risks that may contribute to deteriorating credit quality in U.S. RMBS transactions; it is probable that these risks will be triggered in 2006."

- On May 15, 2006, in an article entitled *A More Stressful Test Of A Housing Market Decline On U.S. RMBS*, we reported on the results of our follow-up analysis to our September 2005 housing-bubble simulation. We stated: "[t]he earlier simulation had concluded that most investment-grade RMBS would weather a housing downturn without suffering a credit-rating downgrade, while speculative-grade RMBS might not fare so well . . . . In the updated simulation . . . [S&P used] more stressful macroeconomic assumptions [which] lead to some downgrades in lower-rated investment-grade bonds." The study still indicated, however, that higher-rated bonds were unlikely to be downgraded in such a scenario.

- On July 10, 2006, in an article entitled *Sector Report Card: The Heat Is On For Subprime Mortgages*, we noted that downgrades of subprime RMBS ratings were increasing due to "collateral and transaction performance." The article also identifies "mortgage delinquencies" as a "potential hot button," and notes that such delinquencies "may become a greater concern for lenders and servicers."

- On July 17, 2006, we noted a 38% increase in downgrades in U.S. RMBS, a significant number of which came from the subprime market. *Structured Finance Global Ratings Roundup Quarterly: Second-Quarter 2006 Performance Trends*.

- On Oct. 16, 2006, in our *Ratings Roundup: Third-Quarter 2006 Global Structured Finance Performance Trends*, we reported that the number of downgrades more than tripled compared to the same period in 2005. We also noted that the quarter's ratings actions among RMBS transactions had set a record for the most performance-related downgrades.

- Then, on December 8, 2006, in an article entitled *Credit Trends: 2007 Global Credit Strategy: Asset Class Outlook*, we informed the market of our view that "[c]redit quality in the RMBS sub-prime market has been under scrutiny this year. Standard & Poor's RMBS surveillance group sees the environment ahead as portending greater downgrade potential along with lower upgrade potential." We also stated that "the jump in third-quarter downgrade activity for the sub-prime market raises some risk flags for this segment; with 87 third-quarter downgrades adding to the 46 downgrades of the second quarter and 34 in the first."

- On January 16, 2007, in an article entitled *Ratings Roundup: Fourth-Quarter 2006 Global Structured Finance Performance Trends*, we stated: "Rating activity among subprime transactions has started to shift to being predominantly negative from being predominantly positive. . . . We expect this trend in subprime rating performance to continue during 2007."

- Ten days later on January 26, 2007, in our *Transition Study: U.S. RMBS Upgrades Are Down And Downgrades Are Up In 2006*, we reported that for 2006 "[d]owngrades overwhelmed upgrades for subprime mortgage collateral" and that we expected "losses and, therefore, negative rating actions to continue increasing during the next few months relative to previous years."

- Our statements to the market continued throughout the first half of 2007. On March 22, 2007, in an article entitled *A Comparison Of 2000 and 2006 Subprime RMBS Vintages Sheds Light On Expected Performance*, we stated: "[w]hile subprime mortgages issued in 2000 have the distinction of being the worst-performing residential loans in recent memory, a good deal of speculation in the marketplace suggests that the 2006 vintage will soon take over this unenviable position."

- In an April 27, 2007 article entitled *Special Report: Subprime Lending: Measuring the Impact*, we stated: "The consequences of the U.S. housing market's excesses, a topic of speculation for the past couple of years, finally have begun to surface. . . . Recent-vintage loans continue to pay the price for loosened underwriting standards and risk-layering in a declining home price appreciation market, as shown by early payment defaults and rising delinquencies."

- Then, on June 26, 2007, in an article entitled *Performance of U.S. RMBS Alt-A Loans Continues To Deteriorate*, we reported: "The most disconcerting trend is how quickly the performance of these delinquent borrowers has deteriorated. We continue to see migration from 60-plus-day to 90-plus-day delinquencies within the 2006 vintage, suggesting that homeowners who experience early delinquencies are finding it increasingly difficult to refinance or work out problems, as opposed to being able to 'cure' falling behind on payments."

S&P's observation and reporting of these developments in the subprime mortgage market led to changes in its criteria and assumptions as well, as reflected by a series of criteria updates. I have included with my testimony a detailed history of our criteria upgrades, and note here a few significant examples for illustration.

- Effective July 1, 2006, we tightened our criteria through changes in our LEVELS® model targeted to increase the credit enhancement requirements for pools with subprime loans. In announcing these changes to the market, we specifically identified subprime loans, such as "[l]oans with simultaneous second liens (especially those with very low FICO scores)", as loans "much more likely to default than non-second-lien loans with similar FICO scores."

- Then in July 2007, we again took action in response to increasingly bad performance data, including loss levels that continued to exceed historical precedents and our initial expectations. Specifically:

    - We increased the severity of the stresses we used to evaluate the ongoing creditworthiness for RMBS transactions issued during the fourth quarter of 2005 through the fourth quarter of 2006 and downgraded those classes that did not pass our heightened stress test scenario within given time frames.

    - In addition, we modified our approach for ratings on senior classes in transactions in which subordinate classes have been downgraded.

    - We also announced that, with respect to transactions closing after July 10, 2007, we would implement changes that would result in greater levels of credit protection for rated transactions.

- In 2008, S&P made specific changes to the way in which it prepares, and is compensated for, its ratings on residential mortgage-backed securities ("RMBS"). These changes include:

  - *Protections Against "Ratings Shopping"*: To protect against "ratings shopping" — *i.e.*, when an issuer may approach several rating agencies for preliminary feedback before making a selection in an effort to "shop" for the best rating — issuers now are required to pay fees at the time S&P first undertakes to review loan level RMBS data, as well as additional fees for RMBS ratings are incurred at several stages of the rating process, regardless of whether S&P ultimately is selected to rate the transaction.

  - *Originator Evaluations*: S&P formalized and enhanced its review of the origination practices leading up to loan securitizations, including minimum standards for mortgage origination processes and active reviews of major mortgage originators.

  - *Data Quality Initiatives*: S&P implemented procedures to collect more information about the processes used by issuers and originators to assess the accuracy and integrity of their data and their fraud detection measures in order to better understand their data quality capabilities. S&P's new criteria also call for a statement of due diligence from issuers, prepared in conformity with specific S&P due diligence standards. Furthermore, S&P's data quality initiatives include standardized representations and warranties to be made by issuers concerning the underlying loans in an RMBS transaction.

- S&P has taken other actions to strengthen its analytical processes with respect to ratings on structured finance securities. These actions include:

  - Creation of a separate Model Validation Group to analyze and validate all models used in the ratings process.

- Partnering with the New York University Stern School of Business and American College Testing (ACT) to develop a two-level Credit Analyst Certification Program, and increased annual training requirements for structured finance and other ratings analysts by 25%.
- Seeking comment from market participants and adopting new criteria that address ratings stability, or the potential ratings volatility of a security rated by S&P. S&P also is now publishing analysis on the recovery potential of structured instruments.
- Publishing "what if" scenario analyses which are intended to allow investors to better understand the risk profile of a particular structured finance transaction.

No one can see the future. The point of these articles and actions, however, is to highlight our reaction to increasing subprime deterioration — looking, as we always do, to historical or paradigm-shifting behaviors to help analyze long-term performance. Consistent with our commitment to transparency we repeatedly informed the market of our view that the credit quality of subprime loans was deteriorating and putting negative pressure on RMBS backed by those loans. And, consistent with our commitment to analytical rigor, we revised our models, took action when we believed action was appropriate, and continue to look for ways to make our analytics as strong as they can be.

S&P's Downgrade of U.S. RMBS in 2007 and 2008

As I've discussed earlier, the years of 2005 and 2006 were characterized by an increasing flow of publications and information from S&P and others in the market regarding the deterioration of the subprime mortgage market and the ahistorical performance of rated securities. Beginning in late 2006, these observations resulted in the earliest and most severe rating actions that S&P has taken in this area. Although the Subcommittee refers to certain actions in July 2007 and January 2008 as "mass downgrades" — and those actions were no doubt very significant and large in comparison to historical downgrade activity — in fact there were downgrades taking place in significant numbers throughout 2007 and even earlier. These actions were taken even though the U.S. subprime RMBS with investment grade ratings had credit enhancement that exceeded the losses on what was then the worst-performing prior vintage (the 2000 vintage) and, indeed, U.S. subprime RMBS rated AAA had credit enhancement of many times this amount.

More particularly, S&P downgraded more RMBS securities in 2006 than in any year prior in the history of the RMBS market. The segment with the most downgrades that year was the subprime segment. Over the first half of the year of 2007, S&P downgraded 680 U.S. RMBS securities, in part as a result of revised surveillance criteria under which S&P downgraded securities even before actual losses appeared in the underlying loan pools. These criteria developments and ongoing downgrades culminated in July 2007 in the announcement of an additional 612 classes of U.S. RMBS being placed on Credit Watch Negative, followed by downgrades of most of those securities a short time later. The vast majority of the July downgrades were on securities backed by subprime loans and second liens, primarily those originated from late 2005 up until early 2007.

- "U.S. RMBS Upgrades Are Down And Downgrades Are Up In 2006" reports that "There were 46 performance-related defaults in 2006, a record number for one calendar year. . . Unfortunately, this trend of shortened seasoning could be indicative of more defaults happening sooner." The article highlights the poor performance of the 2006 subprime vintage.
- Over the course of the month of February, S&P downgraded 50 classes of U.S. RMBS securities, and placed 68 classes on CreditWatch Negative.
- Over the course of the month of March, S&P downgraded 129 classes of U.S. RMBS securities, and placed 129 classes on CreditWatch Negative.

- Over the course of the month of April, S&P downgraded 97 classes of U.S. RMBS securities, and placed 187 classes on CreditWatch Negative.
- Over the course of the month of May, S&P downgraded 185 classes of U.S. RMBS securities, and placed 254 classes on CreditWatch Negative.
- Over the course of the month of June, S&P downgraded 219 classes of U.S. RMBS securities, and placed 288 classes on CreditWatch Negative.
- On July 10, 2007, S&P placed 612 U.S. RMBS classes on CreditWatch Negative. The July 10 actions represented a forward looking expectation about those borrowers who have been current, in addition to those who have been delinquent. Downgrades of most CreditWatched securities followed on July 12. Over the course of the month of July, S&P downgraded 1082 classes of U.S. RMBS securities, and placed 653 classes on CreditWatch Negative.

Conclusion

I thank you for the opportunity to participate in this hearing. I would be happy to answer any questions you may have.

TESTIMONY OF PETER D'ERCHIA
BEFORE THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
APRIL 23, 2010

Mr. Chairman, Members of the Subcommittee, good morning. I am Peter D'Erchia, a Managing Director of Standard & Poor's Ratings Services ("S&P"). From 1997 through 2008, I was the Global Practice Leader for Global Structured Finance Surveillance at S&P. I appear today to discuss the following topics:

- The organization of the Structured Finance Surveillance group at S&P and the people and resources of the group, particularly with respect to the surveillance of U.S. residential mortgage backed securities ("RMBS");
- The process for conducting surveillance of U.S. RMBS, including the process of surveilling existing ratings after the criteria used to rate new transactions are modified;
- Rating actions on U.S. RMBS taken by S&P from 2006 through 2008.

The Surveillance Group at S&P

I joined S&P's Structured Finance Surveillance group in 1997. Prior to joining Structured Finance, I worked at S&P for approximately fifteen years in its Public Finance Group. As the Head of Structured Finance Surveillance, I supervised Surveillance for 5 major Structured Finance rating and ranking categories: RMBS, Commercial Mortgage Backed Securities (CMBS), Collateralized Debt Obligations (CDOs), Asset Backed Securities (ABS), and Servicer Evaluations (SE). Each of those groups was headed by a separate manager, who reported to me as a member of my management team.

The portfolio of S&P's Surveillance group grew substantially during my time in Surveillance. From the beginning of 2003 through 2006, the number of RMBS transactions under surveillance increased by 65%. S&P's RMBS Surveillance resources grew to meet this increasing workload, and our growth out-paced the increase in transactions, with headcount increasing by 75% during the same period. In 2007, the number of deals under surveillance increased by another 10%. Responding to the unprecedented deterioration in performance that was just starting to develop, the group's headcount increased an additional 57% in 2007.

In addition to the designated RMBS Surveillance staff, the group was also supported by additional personnel from information technology, data, and criteria. In 2007, eight additional employees of an affiliate provided data support, all working on the performance of subprime and other RMBS, particularly the 2005 through 2007 vintages.

The Tools and Data Used in U.S. RMBS Surveillance

After a rating is issued on an RMBS transaction (a "New Issue" rating), it is transferred to the Surveillance group for monitoring. Prior to the transfer to Surveillance, S&P uses its Loan Evaluation and Estimate of Loss System (LEVELS®) model, which projects default likelihoods for individual mortgages based on up to 70 data points such as the FICO score of the borrower and the applicable loan-to-value ratio. These data points may bear on the likelihood of repayment and loss severity in the event of a default. Historically, certain of these data points have corresponded more closely with repayment behavior than others. S&P's LEVELS® model is a tool used to reflect and implement S&P's analytical assumptions and conclusions about these data points and their relationship to the likelihood of a mortgage default and the severity of losses upon default.

In contrast, the focus in S&P's surveillance analysis is to take information relating to the actual performance of the rated pool over time and use that performance data in assessing whether the rating is appropriate in light of our view of the credit support. S&P's RMBS surveillance approach focuses on a review of actual loan performance in the particular collateral pool backing each RMBS, in order to project expected losses and measure the sufficiency of existing credit support based on that transaction's actual performance. Historically, S&P has looked for approximately one year's worth of performance data in connection with this analysis. The data is delivered monthly, by trustees and various third-party vendors, to S&P and other market participants.

Distinctions Between New Issue and Surveillance Methods Are Beneficial

The different approaches used by S&P's Surveillance and New Issue groups serve an important function in providing a form of analytical check and balance. Each issuance is subjected to two analytical processes, providing for more robust analysis than would a simple re-application of the same initial method over time. Moreover, the group's distinct operations permit additional personnel to review the same transactions, bolstering the analytical rigor of the overall rating process.

The strength of each of these two approaches for its purpose also renders it in many ways inappropriate for the purpose of the other. A major strength of S&P's RMBS surveillance approach is that it focuses on the actual performance of the loans for the transaction being analyzed. Such a "track-record", of course, generally does not yet exist when the transaction is first issued. Similarly, a number of the key data points used in the

New Issue analysis are not useful for surveillance because they are generated as part of each loan origination, and quickly become stale or unavailable. For example, the New Issue analysis relies on borrowers' credit scores, and on loan-level data such as the home's value, among other loan characteristics. All of this data is collected for each loan during the mortgage loan origination process. After the borrower has received his mortgage, however, there has been no industry-standard means of acquiring updated credit scores and appraisals. Moreover, because borrowers refinance and/or sell their homes, the make-up of any given loan pool is constantly changing, reducing the value of the transaction's original data. S&P would need all of this information for entire pools of loans in order to support continuing use of the LEVELS® model. Because this information has not been reliably available, the utility of the New Issue model for any surveillance analysis deteriorates rapidly with time as the original data becomes stale.

S&P's Monitoring of U.S. RMBS

As I have noted, the volume of RMBS rated transactions under surveillance at S&P increased throughout the years 2003 to 2007. S&P's primary method of monitoring the performance of U.S. RMBS has historically been annual "shelf reviews" in which the securitizations of particular issuers are reviewed based on the date of issuance and the type of underlying collateral. Historically, S&P looked for at least 12 months of performance data – or "seasoning" – in its surveillance analysis.

Surveillance's goal was to review deals within 12 months for most issuers, with a focus on the industry's largest issuers. In addition, Surveillance devoted increased attention to deals that had been flagged for closer scrutiny via placement on a watch list. In order to meet this objective, Surveillance's primary tools were Age Reports, CreditWatch and Internal Watch. Age Reports identify active deals and isolate those deals aged 6 months or more in order to identify issuances for upcoming review according to the annual review cycle. CreditWatch and Internal Watch lists identify particular deals that, because of their performance, had been targeted for monthly, quarterly, or other review. RMBS Surveillance had personnel specifically devoted to monitoring the CreditWatch and Internal Watch lists on a monthly basis. RMBS Surveillance also employed a number of tools to identify particular transactions for review in addition to its standard periodic reviews and watch lists. Those tools included, at various times, Credit Exception Reports, Default Reports, and other event-driven surveillance.

In late 2006, as the performance of the 2006 (and to a lesser extent 2005) vintage of U.S. RMBS experienced broad deterioration out of line both with our own expectations and historical experience, the Surveillance group began a process of "vintage reviews" to prioritize its review of RMBS transactions issued in 2005 and 2006 and to monitor those entire annual vintages of rated RMBS on a monthly basis as each month's data came in. As a result, S&P's review of the 2005 and 2006 vintages was accelerated to track performance as it happened, enabling us to take action on those vintages much earlier than we had historically looked to do.

S&P Monitored and Reacted to Deteriorating U.S. RMBS Performance

From 2005 to 2007, through its publications, S&P repeatedly and consistently informed the market of its concerns about the deteriorating credit quality of RMBS transactions. For example:

- In an April 20, 2005 article entitled *Subprime Lenders: Basking In The Glow Of A Still-Benign Economy, But Clouds Forming On The Horizon,* S&P observed that increased competition among subprime lenders threatened a relaxation in underwriting standards and warned that the growing popularity of "affordability" mortgage products "suggests that Standard & Poor's concerns are justified." We singled out interest-only mortgages as "[e]specially worrisome," noting that "these loans are more likely to feature adjustable rates . . . setting borrowers up for potential problems should mortgage rates rise dramatically."

- Following an internal Housing Market Simulation that it conducted in 2005, S&P published a study concerning the potential impact of a housing downturn on RMBS, using the following assumptions:

    - 20% national decline in home prices over a two year period, including a 30% decline on the East and West coasts and 10% in the middle of the country.
    - Unemployment rate peaking at 6.5% in 2007,
    - Gradual slowing of GDP to 1.2%.

  The results of the study showed that S&P's existing models captured the risk of a downturn of this magnitude and concluded that most investment-grade RMBS would weather a housing downturn without suffering a credit-rating downgrade.

  The 2005 Housing Simulation was also presented to investors at a Hot Topix conference in November 2005, by RMBS Surveillance personnel.

- In a January 19, 2006 article entitled *U.S. RMBS Market Still Robust, But Risks Are Increasing And Growth Drivers Are Softening*, we said: "Standard & Poor's expects that some of the factors that drove growth in 2005 will begin to soften in 2006 . . . . Furthermore, Standard & Poor's believes that there are increasing risks that may contribute to deteriorating

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credit quality in U.S. RMBS transactions; it is probable that these risks will be triggered in 2006."

- On May 15, 2006, in an article entitled *A More Stressful Test Of A Housing Market Decline On U.S. RMBS*, we reported on the results of our follow-up analysis to our September 2005 housing-bubble simulation. We stated: "[t]he earlier simulation had concluded that most investment-grade RMBS would weather a housing downturn without suffering a credit-rating downgrade, while speculative-grade RMBS might not fare so well . . . . In the updated simulation . . . [S&P used] more stressful macroeconomic assumptions [which] lead to some downgrades in lower-rated investment-grade bonds." The study still indicated, however, that higher-rated bonds were unlikely to be downgraded in such a scenario.

- On July 10, 2006, in an article entitled *Sector Report Card: The Heat Is On For Subprime Mortgages*, we noted that downgrades of subprime RMBS ratings were increasing due to "collateral and transaction performance." The article also identifies "mortgage delinquencies" as a "potential hot button," and notes that such delinquencies "may become a greater concern for lenders and servicers."

- On July 17, 2006, we noted a 38% increase in downgrades in U.S. RMBS, a significant number of which came from the subprime market. *Structured Finance Global Ratings Roundup Quarterly: Second-Quarter 2006 Performance Trends.*

- On Oct. 16, 2006, in our *Ratings Roundup: Third-Quarter 2006 Global Structured Finance Performance Trends*, we reported that the number of downgrades more than tripled compared to the same period in 2005. We also noted that the quarter's ratings actions among RMBS transactions had set a record for the most performance-related downgrades.

- Then, on December 8, 2006, in an article entitled *Credit Trends: 2007 Global Credit Strategy: Asset Class Outlook*, we informed the market of our view that "[c]redit quality in the RMBS sub-prime market has been under scrutiny this year. Standard & Poor's RMBS surveillance group sees the environment ahead as portending greater downgrade potential along with lower upgrade potential." We also stated that "the jump in third-quarter downgrade activity for the sub-prime market raises some risk flags for this segment; with 87 third-quarter downgrades adding to the 46 downgrades of the second quarter and 34 in the first."

- On January 16, 2007, in an article entitled *Ratings Roundup: Fourth-Quarter 2006 Global Structured Finance Performance Trends*, we stated: "Rating activity among subprime transactions has started to shift to being predominantly negative from being predominantly positive. . . . We expect this trend in subprime rating performance to continue during 2007."

- Ten days later on January 26, 2007, in our *Transition Study: U.S. RMBS Upgrades Are Down And Downgrades Are Up In 2006*, we reported that for 2006 "[d]owngrades overwhelmed upgrades for subprime mortgage collateral" and that we expected "losses and, therefore, negative rating actions to continue increasing during the next few months relative to previous years."

- Our statements to the market continued throughout the first half of 2007. On March 22, 2007, in an article entitled *A Comparison Of 2000 and 2006 Subprime RMBS Vintages Sheds Light On Expected Performance*, we stated: "[w]hile subprime mortgages issued in 2000 have the distinction of being the worst-performing residential loans in recent memory, a good deal of speculation in the marketplace suggests that the 2006 vintage will soon take over this unenviable position."

- In an April 27, 2007 article entitled *Special Report: Subprime Lending: Measuring the Impact*, we stated: "The consequences of the U.S. housing market's excesses, a topic of speculation for the past couple of years, finally have begun to surface. . . . Recent-vintage loans continue to pay the price for loosened underwriting standards and risk-layering in a declining home price appreciation market, as shown by early payment defaults and rising delinquencies."

- Then, on June 26, 2007, in an article entitled *Performance of U.S. RMBS Alt-A Loans Continues To Deteriorate*, we reported: "The most disconcerting trend is how quickly the performance of these delinquent borrowers has deteriorated. We continue to see migration from 60-plus-day to 90-plus-day delinquencies within the 2006 vintage, suggesting that homeowners who experience early delinquencies are finding it increasingly difficult to refinance or work out problems, as opposed to being able to 'cure' falling behind on payments."

S&P's efforts to prioritize surveillance of the 2005 and 2006 RMBS, and the particular attention paid to subprime RMBS, ensured that S&P was monitoring the leading edge of the trend where deteriorating performance first became evident. The performance of the 2005, and especially 2006, vintages that S&P was focused on bear no resemblance to historical precedent. The first signs of this trend in the actual performance data began in late-2006, when S&P saw the rising delinquencies and focused its surveillance accordingly.

Starting in late-2006 and through the first half of 2007, delinquency data coming in each month did not resemble anything seen before. At that point, however, there were not yet any significant realized losses. Moreover, historically delinquencies did not always lead to losses. Accordingly, there was a lot of analysis and debate at S&P trying to determine what the data meant. It was unclear, for example, whether this was a timing issue and the number of delinquencies that were expected to occur over the course of the deal were instead all occurring at the beginning, or whether the delinquencies were going to follow the historical pattern except on a much larger scale. Understanding this trend and trying to estimate where it would end required analysis and data collection for a meaningful assessment. Early 2007 was a period of much analysis and discussion among S&P's New Issue, Surveillance, and Criteria personnel, working together to understand what was happening and how to respond.

During our ongoing analysis in early 2007, S&P took numerous significant steps to react to the deteriorating RMBS performance and to inform the market of our analysis:

- In February 2007, we took the unprecedented step of placing on CreditWatch negative (and ultimately downgrading) transactions that had closed as recently as 2006. As we informed the market in the accompanying release: "Many of the 2006 transactions may be showing weakness because of origination issues, such as aggressive residential mortgage loan underwriting, first-time home-buyer programs, piggyback second-lien mortgages, speculative borrowing for investor properties, and the concentration of affordability loans." The market recognized this as an important step. In a February 16, 2007 Los Angeles Times article, S&P's announcement was described as "'a watershed event' because it means S&P is now actively considering downgrading bonds within their first year." *See S&P to Speed Mortgage Warnings*, Los Angeles Times, Feb. 16, 2007.

- We continued taking downward action through the Spring. In May 2007 we announced that "Standard & Poor's Ratings Services took 103 rating actions affecting 103 classes of residential mortgage-backed securities (RMBS) transactions backed by subprime, closed-end second-lien, and Alt-A loan collateral originated in 2005 and 2006; we lowered 92 ratings . . . and placed 103 ratings on CreditWatch negative . . . . These rating actions were due to collateral performance." We also noted that "[m]ost of the transactions affected by CreditWatch placements (and no downgrades) have not experienced significant losses. The placement of our ratings on CreditWatch when a transaction has not experienced significant losses represents a new methodology derived from our normal surveillance practice."

- On June 22, 2007, we announced further ratings actions in an article entitled *133 Subordinate Second-Lien, Subprime Ratings From 2006, 2005-Vintage RMBS On Watch Neg, Cut.* We explained in our announcement of these actions that "[t]he downgrades and CreditWatch placements reflect early signs of poor performance of the collateral backing these transactions."

- Then, in July of 2007, we took further action in response to increasingly bad performance data. Specifically:

  - We increased the severity of the Surveillance assumptions we used to evaluate ongoing creditworthiness for RMBS transactions issued between the fourth quarter of 2005 and the fourth quarter of 2006. We downgraded those classes that did not pass our heightened stress test scenario within given time frames.

  - We modified our approach for ratings on senior classes in transactions in which subordinate classes had been downgraded.

- We also announced that, with respect to transactions closing after July 10, 2007, we would implement changes that would result in greater levels of credit protection for rated transactions.

- We applied our changed criteria for rating and surveilling RMBS, leading to significant Credit Watch and downgrade actions on July 10th and July 12th, with subsequent significant actions following as we continued to revise our criteria based on the developing performance data.

While S&P's Historical Surveillance Approach Was Well-Founded, S&P Changed That Approach as Developments Warranted

S&P recognized the unprecedented nature of the early delinquencies occurring in the 2006 vintage, and it fundamentally changed its practice in February 2007 to place issuances on CreditWatch without waiting for losses to develop. S&P continued to evaluate the evolving data over the following months while downgrading scores of issuances as it determined the appropriateness of such downgrades on an ongoing basis. By July 2007, S&P had adapted its practices sufficiently to issue substantial numbers of downgrades without waiting for losses to develop according to previous practice. That evolution continued after July 2007, resulting in further downgrades as the subsequent performance data and criteria adjustments warranted.

Conclusion

In conclusion, I would like to thank the Members and Staff of this Subcommittee for giving me the opportunity to participate in this hearing. In my experience at S&P, we have always been committed to doing the best we can to develop and maintain appropriate ratings, and I am proud of the hard work that my team put in trying to understand and respond to a historic market disruption to the best of our abilities. I would be happy to answer any questions you may have.

MOODY'S
INVESTORS SERVICE

Testimony of Raymond W. McDaniel
Chairman and Chief Executive Officer of
Moody's Corporation

And

Yuri Yoshizawa
Senior Managing Director
Moody's Investors Service

before the
United States Senate
Permanent Subcommittee on Investigation

April 23, 2010

INTRODUCTION

Good morning Mr. Chairman, Senator Coburn and members of the Subcommittee. My name is Ray McDaniel, and I am Chairman and Chief Executive Officer of Moody's Corporation ("**MCO**"), the parent of the credit rating agency, Moody's Investors Service ("**Moody's**"). I am joined by my colleague Yuri Yoshizawa, Senior Managing Director of Moody's Derivatives Group. On behalf of Moody's, we welcome the opportunity to contribute our views regarding the role of credit rating agencies ("**CRAs**").

The U.S. subprime mortgage crisis and subsequent global credit market liquidity problems have invited frequent comment about the role, function and performance of numerous market participants. With respect to CRAs, some market observers have expressed concerns that credit ratings did not better predict the deteriorating conditions in the U.S. subprime mortgage market and the impact on the credit quality of residential mortgage-backed securities ("**RMBS**") and related structured finance securities that relied on such RMBS as collateral, such as collateralized debt obligations ("**CDOs**").

Moody's is certainly not satisfied with the performance of our ratings during the unprecedented market downturn of the past two years. We, like many others, did not anticipate the unprecedented confluence of forces that drove the unusually poor performance of subprime mortgages in the past several years, including:

- the steep nationwide decline in home prices,
- the sharp contraction in credit available for refinancing, and
- the now apparent extent of fraud in the mortgage application process.

As I will describe in more detail, Moody's did observe a trend of loosening mortgage underwriting processes and escalating housing prices, and we repeatedly highlighted that trend in our reports and incorporated it into our analysis of the securities. As conditions in the U.S. housing market began to deteriorate beyond our expectations, we took the rating actions that at the time we believed were appropriate. However, neither we – nor most other market participants, observers, or regulators – fully anticipated the severity or speed of deterioration that occurred in the U.S. housing market or the rapidity of credit tightening that followed and exacerbated the situation. The following is a summary of the trend Moody's did see and the actions we took in response.

1) **We identified and began commenting about the loosening of underwriting standards starting in 2003.** We commented on a trend of loosening origination standards and escalating housing prices. We began publishing on these issues in 2003 and continued in 2004, 2005 and 2006.[1] In January 2007, we published a special report, Early Defaults Rise in Mortgage Securitization,[2] highlighting the rising

[1] See e.g., "2003 Review and 2004 Outlook, Home Equity ABS," January 20, 2004; "The Importance of Representations and Warranties in RMBS Transactions," January 14, 2005; "An Update to Moody's Analysis of Payment Shock Risk in Sub-Prime Hybrid ARM Products," May 16, 2005; "The Blurring Lines Between Traditional Alternative-A and Traditional Subprime US Residential Mortgage Markets," October 31, 2006.

[2] "Moody's Special Report: Early Defaults Rise in Mortgage Securitization," January 18, 2007.

defaults on the 2006 vintage subprime mortgages. We continued to publish on a regular basis throughout 2007 on the increasingly poor performance of the 2006 vintage.

2) **We tightened our ratings criteria in response.** Between 2003 and 2006, we steadily increased our loss expectations on pools of subprime loans and the levels of credit protection required for a given rating level. As a result, RMBS issued in 2006 backed by subprime mortgages and rated by Moody's had more credit protection than bonds issued in earlier years. In practical terms, this meant that for the 2006 vintage RMBS rated by Moody's, more than half of the mortgages in a pool would have to default and recover only half the appraised value of the home before a Moody's Aaa rated bond would suffer its first dollar of loss.

3) **We continued to aggressively monitor the market, for example by conducting surveys of servicer loan modification practices.** Moody's aggressively monitored market conditions as the crisis continued to unfold to assess the impact of how the various market participants (including the borrowers, the mortgage servicers, the mortgage originators and the Federal government) might respond to the extremely fast-changing conditions. For example, at the time one of the concerns was the effect of the interest rate resets and expected resulting defaults. It was unknown how the borrowers, the servicers and the banks would respond to this challenge and how their behavior would impact the performance of individual loans and in turn the performance of specific RMBS. In an effort to gauge the potential impact that loan modifications might have on reducing losses on defaulted loans, especially in light of interest rate resets when monthly payments increased, Moody's began conducting surveys of the modification practices of subprime mortgage servicers.

4) **We took rating actions as soon as loan performance data warranted it.** Moody's monitors the actual performance of the mortgages in the RMBS that we rate throughout the life of the security. And this was the case for the 2006 vintage. Subprime loans are expected to perform materially worse than prime loans, so higher delinquencies were already anticipated and reflected in our ratings. Indeed, for the first several months, the loans in these securities performed in line with our expectations. Importantly, the early performance of these mortgage loans was similar to the performance of similar subprime loans during the 2000 and 2001 U.S. recessions. As noted above, the 2006 Moody's Aaa-rated RMBS had sufficient credit protection to easily withstand such performance had macro-economic conditions not deteriorated in such an unprecedented and unanticipated way. Not until performance data from the second quarter of 2007 became available was it clear that performance of the 2006 vintage was likely to worsen and that it might deteriorate below that observed in the 2000-2001 recession.

   Moody's first took rating actions (downgrades and reviews for downgrades) on the 2006 subprime RMBS vintage in November of that same year. Further rating actions occurred in December 2006 and a comprehensive set of rating actions (on second lien mortgage transactions) took place in April 2007, with a second set of actions (on first lien mortgage transactions) in July 2007. The timing of rating actions on CDOs backed by subprime RMBS necessarily followed actions on RMBS.

In short, Moody's did see the escalating housing prices and the loosening of standards in subprime lending practices, we published on these observations, and we incorporated our more unfavorable views into the way we assigned ratings. However, as I said earlier, neither we – nor most other market participants, observers, or regulators – fully anticipated the severity or speed of deterioration that occurred in the U.S. housing market or the rapidity of credit tightening that followed and exacerbated the situation.

The unprecedented events of the last few years demonstrate how rapidly and dramatically markets can change and offer important lessons to all market participants. We believe that the opportunity to improve market practices, including credit analysis and credit-ratings processes, must be pursued vigorously and transparently if confidence in, and the healthy operation of, credit markets are to be restored.

For our part, Moody's has reached out to market participants and policymakers globally for feedback regarding the utility of our ratings and ratings system. Based on the feedback we have received and our own deliberations, Moody's has adopted a wide range of measures to further enhance our ratings processes and performance. We believe that all market participants should similarly be taking stock to determine how to improve their existing practices. We are eager to work with the Congress, regulators and other market participants to this end.

In my statement I will provide a brief overview of the following topics:

- The role of credit rating agencies in the market.
- The securitization process.
- Moody's rating and monitoring process for structured finance securities, including residential mortgage backed securities ("RMBS") and collateralized debt obligations ("CDOs").
- The various measures Moody's took in response to the deteriorating U.S. housing market.
- Changes we have made at Moody's.

I note at the outset that the observations and information contained herein are largely based on data and experience related to the subprime mortgage securitizations that Moody's rated, and not on the broader subprime mortgage market, some of which was securitized and rated by other rating agencies, some of which was securitized but not rated, and some of which was not securitized.

I. THE ROLE OF CREDIT RATING AGENCIES IN FINANCIAL MARKETS

The credit rating business has its roots in the American tradition of the marketplace of ideas. In 1909, American entrepreneur John Moody published a manual, Analyses of Railroad Instruments, which introduced a system of opinions about the creditworthiness of railroad bonds. Since then, the industry has grown considerably. Today, ten firms are registered with the SEC as NRSROs, and the SEC estimated that approximately another 20 credit rating agencies will become registered as NRSROs in the future.[3]

Rating agencies occupy an important but narrow niche in the information industry. Our role is to disseminate opinions about the relative creditworthiness of, among other things, bonds issued by corporations, banks and governmental entities, as well as pools of assets collected in securitized or "structured finance" obligations. By making these opinions broadly and publicly available, rating agencies help to reduce information asymmetry between borrowers (debt issuers) and lenders (debt investors). We sift through the vast amount of available information, analyze the relative credit risks associated with debt securities and/or debt issuers and offer our opinion.

A. Credit Ratings Are Opinions About Future Outcomes

Moody's ratings provide predictive opinions on one characteristic of an entity – its likelihood to repay debt in a timely manner. Our ratings of corporate issuers (including financial institutions) are based primarily on analysis of financial statements, as well as assessments of management strategies, industry positions and other relevant information. Our ratings of structured finance bonds[4] are based primarily on analysis of the transaction's legal structure, the cash flows associated with the assets on which the deal is based and other risks that may affect the bonds' cash flows. In both corporate and structured analysis, we also take into consideration publicly available factors that may be relevant to the credit, such as: market dynamics, pricing information on the securities and other prevailing or contradictory views. Our analysis necessarily depends on the quality, completeness and veracity of information available to us, whether such information is disclosed publicly or provided confidentially to Moody's analysts.

The heart of our service is expressing opinions on the relative credit risk of long-term, fixed-income debt instruments, expressed on a 21-category rating scale, ranging from Aaa to C.[5] In the most basic sense, all bonds perform in a binary manner: they either pay on time, or they default. If the future could be known with certainty, we would need only two ratings for bonds: "***Default***" or "***Won't Default***". However, because the future cannot be known, credit analysis necessarily resides in the realm of opinion. Therefore, rather than being simple "default/won't default" statements, our ratings are opinions about the risk of outcomes in the future with degrees of uncertainty. Moreover, our opinions are about the relative credit risk of one Moody's-rated bond versus other Moody's-rated bonds. In other words, Moody's ratings provide a perspective on the relative rank ordering of credit risk, with the likelihood of loss increasing with each downward step on the rating scale. The lowest expected loss is at the Aaa level, with higher expected losses at the Aa level, yet higher expected losses at the single-A level, and so on.

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3 SEC, "Final Rules: Oversight of Credit Rating Agencies Registered as Nationally Recognized Statistical Rating Organizations," Release No. 34-55857 at 33607.

4 In using the term "bonds", I am referring to bonds and other types of debt instruments that are rated by Moody's.

5 Moody's also assigns short-term ratings – primarily to issuers of commercial paper – on a different rating scale that ranks obligations Prime-1, Prime-2, Prime-3 or Not Prime.

We believe it is essential for investors and others to understand the role of rating agencies and what credit ratings can and cannot measure. Moody's has always been clear that our ratings should be used primarily as a gauge of relative default probabilities and expected credit loss. We discourage people from using our ratings as indicators of price, as measures of liquidity, or as recommendations to buy or sell securities – all of which are regularly influenced by factors unrelated to credit. Moody's ratings are not designed to address any risk other than credit risk and should not be assigned any other purpose.

B. Ratings Performance

The predictive value of Moody's ratings is demonstrated in our annual default studies and periodic ratings performance reports, which we post on our website, www.moodys.com. These default studies, which we have been publishing since the 1980s, show that both our corporate and our structured finance ratings have been reliable predictors of default over many years and across many economic cycles. Prior to the recent crisis, investment-grade structured finance securities had somewhat lower credit losses on average than investment-grade corporate securities. This strong overall performance of structured securities led many market participants to increasingly perceive the sector to be "safer" than the corporate sector.

Nonetheless, there will always be unanticipated developments in the markets that affect the credit risk of securities – and we have seen this starkly over the past several years. Indeed, because of events that occur at different times in different sectors, which will never be perfectly predictable, default rates by rating category vary widely from year to year across regions and industries within the corporate sector, as well as within various structured finance sectors. Moody's success depends on our reputation for issuing objective and accurate ratings – and the strong performance of our ratings is demonstrated over many credit cycles on the hundreds of thousands of securities we have rated.

C. Issuer-Pays v. Investor-Pays Business Model

For more than three decades, Moody's has been paid primarily by issuers of the securities we rate. Moody's also provides a subscription-based service of research and data products through an operationally and legally separate company, and we continue to invest significant resources in developing and maintaining these products and analytical tools.

Some observers argue that an investor-pays business model would have fewer potential conflicts than an issuer-pays model. We believe this approach ignores the sources and drivers of potential conflicts of interest in the ratings business as well as the significant public policy benefit associated with the issuer-pays model.

1. The term "investor" can describe a variety of parties with different financial incentives to influence ratings. Investors can include entities holding either long or short positions (or both), including institutional bond investors, equity investors and hedge funds. Each of these entities will be motivated to influence ratings: just as an issuer has an interest in the rating to improve the marketability of its bonds, investors seeking to improve their existing portfolio values or to establish

new portfolio positions on more favorable terms have an interest in the rating of a bond. They may benefit financially from a rating on a given bond being higher or lower, depending on the positions they hold or seek to build in their portfolio. Put simply, investors of all varieties are interested parties to rating actions just as issuers are.

2. Entities (either investors or issuers) seeking to influence rating actions can and have attempted to do so by challenging rating agencies through commercial mechanisms unrelated to fees, for example, through litigation.
3. In addition, many investors are also issuers, such as banks, insurance companies and governments. In such instances, investor-pays versus issuer-pays is not a meaningful distinction.

If Moody's rates a given company and is paid by that company, then we must protect against the company's influence on and interference in rating actions, just as we would do if paid by investors. If investors rather than issuers paid for ratings, the conflict would not be eliminated – it would only be shifted. In short, potential conflicts exist regardless of who pays. The key is how well the rating agencies manage the potential conflicts. We believe that Moody's manages the potential conflicts in our business model to a global best practice standard, and we have implemented a series of changes over the past year to further strengthen these standards.

Given that potential conflicts are embedded in all feasible business models, we believe that offsetting public policy benefits need to be considered. The principal benefit in the issuer-pays model is that it allows all rating actions to be released to the entire public simultaneously and at no cost. Larger, wealthier parties have no advantage over their smaller rivals. The investor-pays model, by contrast, does not allow for public and broad disclosure of ratings; rather the model involves selective disclosure of information via subscription. The basis of the model is to charge fees in return for selective access to information for those who can afford the subscription fees.

D. Approach to Managing Potential Conflicts of Interest[6]

The issuer-pays model of the rating business serves the public policy objective of broad, contemporaneous dissemination of credit rating opinions to the public without charge. However, we recognize that this business model entails potential conflicts of interest that could impact the independence and objectivity of our rating process, such as those that exist with financial news publications that receive advertising revenues from companies about which they report. We also recognize that potential conflicts of interest arising from other sources, such as securities ownership and business and personal relationships, could similarly impact our rating process. To maintain our objectivity and independence, and to protect the integrity of our credit ratings and rating process, we

[6] For a detailed discussion of the various policies and mechanisms we have in place that manage and mitigate the potential conflicts in our business model please see the 2006, 2007 and 2008 updates to the "Moody's Investors Service Report on the Code of Professional Conduct," ("Moody's Report"), available at moodys.com.

have adopted wide-ranging policies and procedures. Some of our policies and procedures to manage conflicts include:

- Determining rating opinions through a "rating committee" process; they are not the decision of any individual analyst. (Please see Section III for a more detailed discussion of the rating process.)
- Prohibiting all analysts from holding fee discussions with or owning securities in the institutions in whose rating process they participate.[7] In fact, Moody's has established a new commercial unit that is solely responsible for commercial interactions with issuers, and analysts continue to be completely excluded from such conversations.
- Not evaluating or compensating analysts on the basis of the revenue associated with the entities in whose rating process they participate.
- Providing that credit ratings will not be affected by the existence of, or potential for, a business relationship between Moody's (or any of its affiliates) and the issuer (or its affiliates) or any other party, or the non-existence of such a relationship. Rather, credit ratings are to be determined solely on the basis of factors relevant to the credit assessment. Ratings committees are not to refrain from taking rating actions based on the potential effect of the action on Moody's, an issuer, an investor or any other market participant.
- Not creating investment products or providing buy / sell / hold recommendations.

The SEC is also continuing its rule-making activities with regard to NRSROs. Some of the new rules address potential conflicts of interests, and we are adopting whatever additional policies and procedures may be necessary to implement these rules as they are finalized.

II. THE PROCESS OF SECURITIZING SUBPRIME MORTGAGES

The use of securitization as a financing tool has grown rapidly both in the U.S. and abroad since its inception approximately 30 years ago. It has been an important source of funding for financial institutions and corporations. Securitization is essentially the packaging of a collection of assets into a fixed income "security" that can then be sold to investors. The underlying group of assets is also called the "pool" or "collateral." A securitization does not simply transform a loan pool into a single security: it typically leads to the creation of a capital structure with two or more bonds (or classes of securities or "tranches"). The bond or bonds at the top end of the structure have less credit risk than those at the lower end of the structure. This is because the payments generated by the underlying pool are allocated to make required payments to the investors in the top tranche before making funds available to the holders of the lower tranches. Residential mortgage-backed securities are bonds whose principal and interest payments are made from the mortgage payments received on thousands of mortgage loans.

[7] Except through holdings in diversified mutual funds.

Before discussing in greater detail the process of securitizing subprime mortgages, it is important to understand the role played by the various market participants:

- Subprime borrowers – borrowers who have weaker credit histories (typically including some delinquencies, but can also include more serious derogatory events, such as defaults, foreclosures and bankruptcies).
- Mortgage originators, or lenders – entities that make the loans, such as banks or mortgage finance companies.
- Underwriters / investment banks – generally banks or investment banks that structure the securitizations and sell the bonds that are issued to the investors.
- Trustees – entities that are responsible for administering the securitizations.
- Servicers – entities that collect payments on the subprime mortgage loans from the borrowers and pursue delinquencies and defaults.
- Investors – entities that purchase the bonds which are backed by the assets and their related cash flows. In the securitization market, the investors are typically sophisticated institutional investors who generally make their investment decisions based on their own analysis, with credit ratings being one of many factors that they may consider.

In securitizing subprime mortgages, the following steps are generally taken. First, a large number of subprime residential mortgage loans (typically thousands) are identified for securitization by the mortgage originator. With the help of the underwriter / investment banker (who designs the structure of a securitization) the originator creates a new corporation, limited liability company or trust,[8] which is the securitization issuer. The originator then sells all of its legal rights, including that of receiving monthly payments on the subprime mortgages, to the trust. The structure of the transaction is designed by the investment banker / underwriter. The trust is now the "owner" or "holder" of the loans. Finally, the trust issues bonds that the underwriter sells to investors. The bonds obligate the trust to pay monthly distributions to the investors of money the trust receives on the loans. The trust makes payments to the bond investors from and to the extent of the monthly loan payments it receives.

Securitizations, including those of subprime mortgage loans, use various features to protect each bondholder from losses. The more loss protection (also referred to as "credit enhancement") a bond has, the higher the likelihood that the investors holding that bond will receive the interest and principal promised to them. Some common types of loss protection are:

- a guarantee from a creditworthy entity that all or a certain portion of the losses above a certain level will be covered;
- "overcollateralization," which is the amount by which the aggregate mortgage balance exceeds the aggregate bond balance;

[8] For ease of reference, we will refer to these types of new entities as the "trust".

- "subordination," which means that instead of all bonds in the securitization sharing losses equally, losses are borne by bonds sequentially in reverse order of seniority; and
- "excess spread," which refers to the application of any excess amount of interest collected on the loans over the amount of interest payable on (and fees and expenses payable with respect to) the bonds to cover loan losses.

Registered securities have named underwriters who are expected to perform the due diligence function on the security to be issued. Moreover, every structured product that securitizes underlying loans has a primary lender or seller who performs a loan underwriting function. A common practice is for a securitization's underwriter to hire a due diligence firm (or to have an internal team) to investigate whether the underlying loans are in compliance with the originator's stated underwriting criteria;[9] the originator is generally required to buy back loans that are subsequently revealed to be in violation of its stated criteria. Accounting firms are charged with verifying that the summary information of the loan pools in the prospectus matches the underlying characteristics of the pool. In addition, in RMBS the issuer (generally referred to as the "sponsor," who may also be the original lender or "originator" of the loans) provides representations and warranties to the securitization trust that each underlying mortgage loan meets the requirements of applicable laws.

III. Moody's Rating and Monitoring Process

In considering the role of rating agencies in this market, it is important to recognize that we are one of many players with historically well-defined roles in the market.[10] Moody's comes into the residential mortgage securitization process well after a mortgage loan has been made to a homeowner by a lender and has been identified to be sold and pooled into a residential mortgage-backed security by an originator and / or an investment bank. We do not participate in the origination of the loan; we do not receive or review individual loan files; we do not conduct due diligence; we do not structure the security; and we do not sell or in any way participate in the sales of a security. Rather, we provide a public opinion (based on both qualitative and quantitative information) that speaks to one aspect of the securitization, specifically the credit risk associated with the securities that are issued by securitization structures.

Consequently, our role in the structured finance market is fundamentally the same role that Moody's has played over the last hundred years in the corporate bond market. As discussed in greater detail below, the rating processes are, in fact, very similar in the two sectors. Ratings are assigned by committees when securities are first issued and then monitored over the life of those securities. Upward or downward rating adjustments result from deviations in performance from the expectations held at the time of the initial rating – expectations regarding the performance of the underlying asset pool in the case

9 Due diligence also typically checks for proper valuations (appraisals) and for compliance with legal documentation and lending law requirements.

10 See earlier discussion on various participants in the market.

of securitizations and expectations regarding the realized business or financial plan in the case of corporations. Moody's ratings performance reports – posted on our website, www.moodys.com – indicate a high degree of consistency between the performance of structured finance ratings and that of corporate ratings.[11]

A. Moody's Rating Process

One common misperception is that Moody's credit ratings are derived solely from application of a mathematical process, or a "model." This is not the case. Models are tools sometimes used in the process of assigning ratings. But the credit rating process always involves much more, including the exercise of independent judgment by the rating committee. The process for all ratings begins with rigorous analysis by an assigned analyst of the issuer or obligation to be rated, followed by the convening of a rating committee meeting where the committee members discuss, debate and finally vote on the rating. The majority vote decides the outcome, and once the rating committee reaches its conclusion the rating is published and subsequently monitored on an ongoing basis. Importantly, the rating reflects the opinion of a rating committee, and not the opinion of an individual analyst, as to the relative creditworthiness of the issuer or obligation. Although rating criteria may differ from one sector (e.g., corporate) to another (e.g., structured finance), we use essentially the same rating process in all sectors. Now I would like to summarize the key steps in that process and explain how these steps promote the quality and integrity of our ratings.

- **Gathering Information**: The analyst or analysts assigned to a particular issuer or obligation ("**Assigned Analyst**") begin the credit analysis by assembling the relevant information. This information may be obtained from the issuer in meetings or through other communications with the Assigned Analyst, as well as from public sources. It may be supplemented with information generated by Moody's, including macro-economic and sector-specific data. Under the laws of the United States, and most foreign countries, issuers are able, but not obligated, to provide non-public information to credit rating agencies, such as projections, legal documents, and data about priority of claims and collateral characteristics.

- **Credit Analysis**: Once information has been gathered, the Assigned Analyst analyzes the issuer or obligation and formulates his or her view for the rating committee to consider. In doing so, the Assigned Analyst will apply relevant Moody's methodologies, which likely will include consideration of both quantitative and qualitative factors. For example, in our Corporate Finance group, quantitative factors might include profitability, capitalization and liquidity ratios while qualitative factors might include business strategy, competitive position and management quality. In our Structured Finance group, quantitative factors may

[11] These publications include a wide variety of metrics, including a measure of the accuracy of ratings as predictors of the relative risk of credit losses. See, for example, the follow Moody's *Special Comments*, "Default and Recovery Rates of Corporate Bond Issuers, 1920-2005" (January 2007), "The Performance of Moody's Corporate Bond Ratings: March 2007 Quarterly Update" (April 2007), "Default & Loss Rates of Structured Finance Securities: 1993-2006" (April 2007), and "The Performance of Structured Finance Ratings: Full-Year 2006 Report" (May 2007).

include the degree of credit enhancement provided by the transaction's structure, the historical performance of similar assets created by the originator and macro-economic trends. Qualitative factors could include an assessment of the bankruptcy remoteness of the entity holding the assets, the integrity of the legal structure, and management and servicing quality.

- **Role of Models**: Some in the market mistakenly view model outputs as ratings. This view is entirely inaccurate. Model results are but one factor that may be considered by a rating committee. To presume, however, that model outputs are the "right" ratings and that any other opinion is "wrong" ignores the judgment provided by our analysts. Indeed, Moody's analysts are encouraged to layer qualitative factors[12] in their assessment of credit risk.

  While we sometimes use quantitative models to assist our analysis and enhance consistency in our decision-making, our ratings take into account qualitative as well as quantitative factors and are intended to reflect the exercise of judgment about the expected creditworthiness of an obligation or entity. Moreover, each rating committee member is expected to apply his or her own independent judgment in the decision-making process. Ultimately, ratings are subjective opinions that reflect the majority view of the rating committee's members.

- **The Rating Committee**: Moody's credit rating opinions are determined by a majority vote of the members of a rating committee, and not by an individual analyst. Once the Assigned Analyst has arrived at a view, he or she presents it to a rating committee. The rating committee is a critical mechanism in promoting the quality, consistency and integrity of our rating process. Rating committee composition varies based on the structure and the industries or sectors that are relevant to the credit rating being assigned. Members are also selected based on expertise and diversity of opinion, and are encouraged to express dissenting or controversial views and discuss differences openly. The committee includes: the Chair, who acts as the moderator of the committee; the Assigned Analyst, who presents his or her views and the analysis supporting them; and other participants, who may include support analysts, other specialists (such as accounting or risk management specialists) and/or senior-level personnel with analytical responsibilities. Once a full discussion has taken place, the members then vote, with the most senior members voting last so as not to influence the votes of the junior members. Each member's vote carries equal weight, and decisions are based on a simple majority of votes.

- **Dissemination of Credit Rating Announcements**: Once a rating committee has formed its opinion, we typically contact the issuer or its agent to inform them of the rating. The rating opinion is not communicated to any other external party before it is published. Where feasible and appropriate, Moody's may also give

12 There are many other factors, such as macro-economic considerations, the regulatory environment and management quality that cannot be reduced to inputs for a quantitative model but that can have a significant impact on the relative creditworthiness of an issuer or obligation.

the issuer or its agent an opportunity to review a draft of the rating announcement to verify that it does not contain any inaccurate or non-public information. The issuer may agree or disagree with the rating outcome. If the rating opinion relates to an existing published credit rating, we will publish our new opinion promptly unless the issuer or its agent provides us with new credit information that reasonably may change the assumptions underlying our analysis and therefore our conclusion. In such circumstances, a Moody's rating committee would consider the new information, determine the appropriate rating in light of that information and publish our opinion.

- **Monitoring**: Once a credit rating is published, we monitor the rating on an ongoing basis and will modify it as appropriate to respond to changes in our view of the relative creditworthiness of the issuer or obligation. As part of this monitoring process, analysts may review public information as well as non-public information provided by the issuer or its agent. Analysts also use a range of tools to monitor and track rated issuers and obligations. These include comparisons of Moody's ratings with other measures of credit risk, including measures derived from the market prices of bonds and credit default swaps, accounting ratio-implied ratings based on default prediction and rating prediction models (for corporate and sovereign issuers). We also use institutional monitoring processes overseen by Moody's Credit Officers. For example, in our Financial Institutions group, we conduct periodic portfolio reviews to compare the quality and consistency of ratings within a peer group. In these portfolio reviews, senior analysts from inside and outside the group assess the quality of all Moody's-rated issuers in an industry or industry sub-sector. A rating committee is convened if it appears that the rating of one issuer may be inconsistent with the ratings of its peers.

1. Discussions with issuers and investment bankers

In rating any structured security (or, for that matter, any corporate security[13]) we may hold analytical discussions with issuers or their advisors. These discussions serve the dual purpose of: (a) helping us better understand the particular facts of the transaction as proposed by the issuer; and (b) clarifying for the issuer the rating implications of our methodologies for that transaction. (It should be emphasized that Moody's analysts also meet with investors to ensure that they understand our analytical methodologies and ratings rationale.)

In circumstances where there is considerable performance history for the particular asset being securitized and where the structure has been used previously, our published methodologies may provide sufficient transparency on our analytical approach to obviate the need for detailed discussions. In contrast, we have more general conversations about the application of methodology with issuers who are securitizing

13 Similar discussions frequently take place with corporations contemplating changes in financial structures and business strategies (e.g., the potential rating implication of a share buy-back program on a corporate issuer's senior unsecured debt obligations), or with new corporate issuers to whom Moody's has not previously assigned a rating.

new asset classes or utilizing novel structures that are different from those we have discussed in our published methodologies. As part of this dialogue, an investment bank underwriting a mortgage-backed security, for example, provides the composition of a pool of mortgages and the details of a particular structure and asks for the rating implications in light of our existing, published methodologies. What the investment bank does in response to our feedback – whether they decide to seek a rating of the structure presented, modify the structure as they see fit, or not seek a Moody's rating at all – is determined entirely by the investment bank and the originator. We believe that these discussions help enhance overall market transparency and stability in that both issuers and investors have a better understanding of our analytical thinking and our resulting ratings.

Moody's does not structure, create, design or market securitization products. We do not have the expertise to recommend one proposed structure over another, and we do not do so. Investment bankers structure specific securities and tranches to fit the needs of particular issuers and investors. We are not privy to many of the discussions that consider the features of a securitization (many of which are non-credit related), we do not know who the ultimate investors in the transaction will be, and we are not involved in the process of selling securities.

B. Moody's Approach in RMBS

Our analytical methodologies, which are published and freely available on our website, consider both quantitative and qualitative factors. Specifically, in rating a mortgage-backed securitization, Moody's estimates the amount of cumulative losses that the underlying pool of mortgage loans is expected to incur over the lifetime of the loans (that is, until all the loans in the pool are either are paid off, including via refinancing, or default). Because each pool of loans is different, Moody's cumulative loss estimate, or "expected loss," will differ from pool to pool.

In arriving at the cumulative loss estimate, Moody's considers both quantitative and qualitative factors. For example, the quantitative data we analyze includes, among other characteristics on a loan-by-loan basis:

- credit bureau scores, which provide information about borrowers' loan repayment histories;
- the amount of equity that borrowers have (or do not have) in their homes;
- how fully borrowers' income and assets were documented;
- whether the borrower intends to occupy or rent out the property; and
- whether the loan is for the purchase of a home or for refinancing an existing mortgage loan.

We also consider the more qualitative factors of the asset pool, past performance of similar loans made by that lender and how effective the servicer has been at loan collection, billing, record-keeping and dealing with delinquent loans. We then analyze the structure of the transaction and the level of loss protection allocated to each "tranche" (or class of bonds) issued by the structure. Finally, based on all of this information, a

Moody's rating committee determines the credit rating of each tranche. However, the quality of our opinions is directly tied to the quality of the information we receive from the originators and the investment banks.

1. Representations and warranties

In the course of rating a transaction, we do not see individual loan files or information identifying borrowers or specific properties. Rather, we receive from the originator or investment bank credit characteristics for each loan on an anonymous basis. The originators of the loans also make representations and warranties to the trust for the benefit of investors in every transaction. While these representations and warranties can vary somewhat from transaction to transaction, they typically stipulate that, prior to the closing date, all requirements of federal, state or local laws regarding the origination of the loans have been satisfied, including those requirements relating to: usury, truth in lending, real estate settlement procedures, predatory and abusive lending, consumer credit protection, equal credit opportunity, and fair housing or disclosure. The accuracy of information disclosed by originators and underwriters in connection with each transaction is subject to the federal securities laws and regulations requiring accurate disclosure. Underwriters, as well as legal advisers and accountants who participate in that disclosure, may be subject to civil and criminal penalties in the event of misrepresentations. As a result, Moody's historically has relied on these representations and warranties.

2. The surveillance process

In most of Moody's U.S. Structured Finance groups, monitoring is performed by dedicated surveillance analysts.[14] In general terms, the surveillance analyst receives and processes data from regular servicer and/or trustee reports. The surveillance analyst then assesses the data and, if necessary (e.g., because the performance data is not in line with expected parameters), conducts a rating analysis. Finally, where necessary, the surveillance analyst (or his or her manager) convenes a rating committee to vote on and authorize the publication of a new rating action.

With respect to RMBS, Moody's monitors its ratings on all securitization tranches on a monthly basis, and, as appropriate, considers the need for a ratings change. Monitoring is generally performed by a separate team of surveillance analysts who are not involved in the original rating of the securities. We generally receive updated loan performance statistics on a monthly basis for every collateral pool for each transaction we have rated. We assess this information using quantitative models and flag potential rating "outliers" – securities whose underlying collateral performance indicates that the outstanding rating may require review to ensure that it is consistent with the current estimated risk of loss on the security. Once a specific rating is flagged, a Moody's surveillance analyst will further investigate and discuss the status of the transaction with senior members of the team who together determine whether a rating change should be considered.

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[14] Approximately two years ago, Moody's brought all structured finance surveillance analysts under the leadership and oversight of our Structured Finance Global Surveillance head.

Moody's does not take wholesale rating actions based on market speculation. Rather, our analysts carefully and deliberately consider the data that we receive on a transaction-by-transaction basis, and we conduct the monitoring process judiciously to make sure that such relevant information is appropriately considered.

C. Moody's Approach to Structured Finance Collateralized Debt Obligations

CDOs cover a wide range of instruments and can have in the collateral pool various types of assets, including securities issued by financial institutions, corporations and other structured finance issuers. Initially, most CDOs backed by structured finance assets invested in a range of asset-backed securities, though some were oriented toward commercial real-estate-backed securities or tranches of other CDOs. In more recent years, at least until mid-2007, structured finance CDOs tended to invest in RMBS.

There are three main types of CDO structures backed by structured finance assets: cash-flow, synthetic and hybrid.

- In *cash-flow transactions*, the CDO holds a portfolio of physical cash-flow structured finance assets or tranches (e.g., RMBS, CMBS bonds).
- In *purely synthetic transactions*, the CDO invests in structured finance assets via credit default swaps ("CDS"), which reference structured finance assets.
- *Hybrid CDOs* may incorporate both cash and synthetic assets and funded and unfunded liabilities.[15]

CDOs may be either static or managed transactions. In static transactions, the collateral pool typically remains constant and is not subject to change. In managed CDOs, the Collateral Manager can buy and sell assets governed and constrained by a set of covenants spelled out in the CDO indenture. For this reason, Moody's analysis of managed cash-flow CDOs is generally based on assumptions derived from the transaction covenants and constraints, rather than the CDO's current portfolio.

When analyzing a CDO, in addition to assessing the credit risk associated with the collateral backing the CDO and its structure, Moody's typically evaluates a number of qualitative factors, some of which include:

- **Governing Documents:** Moody's overall assessment of the legal structure of the CDO would typically include a review of various documents including, but not limited to: indenture, Collateral Management Agreement, Trust Deed, documents that govern the mechanics of the swap agreement and a number of legal opinions regarding the various aspect of the transactions (e.g., security interest opinion or tax opinion).
- **The Collateral Manager:** Moody's assesses the potential impact of the Collateral Manager on CDO performance by evaluating the performance of the Manger's previously rated CDOs and by considering the documents that

[15] Even cash-flow CDOs typically include a bucket for synthetic assets. Most generally uses the term "hybrid" to refer to transactions with a synthetic bucket that exceeds 50%.

define the Manger's role for the proposed CDO. The focus of our analysis generally is on the Manager's adherence to the management agreements that governed earlier transactions.

- **The Trustee/Collateral Administrator:** Moody's analysis looks to whether or not the Trustee/Collateral Administrator (the "Trustee") is capable of carrying out its responsibilities with respect to the CDO. The answer will depend, in part, on the experience of the Trustee in handling assets of the type to be held by the CDO and its experience in performing the same role in other CDOs. The Trustee should be able to independently make its own judgments in determining whether or not an action is materially prejudicial to noteholders. One of the most important responsibilities of the Trustee is to report on compliance of the CDO with the many requirements of the CDO indenture.

The relevance of these and other factors will vary depending on individual transactions.

IV. MOODY'S OBSERVATION OF AND RESPONSES TO THE WEAKENING U.S. SUBPRIME HOUSING MARKET

Subprime mortgages have been part of the broader residential mortgage market for many years and, as a group, have performed differently at various stages of the credit cycle. The poor performance of 2006 subprime loans initially followed a pattern that is not uncommon in a residential housing credit cycle. However, a number of extraordinary factors made the current turn in the cycle much more dramatic than in past slowdowns.

A. Weakening Housing Conditions

During periods of growth in the housing and mortgage markets, increased borrowing demand allows existing mortgage lenders to expand their business and new lenders to enter the market. Eventually, these trends create overcapacity in the mortgage lending market as borrowing demand slows or falls. As the lending market cools (e.g., when interest rates rise, home price increases abate, or the economy slows), competition among lenders for the reduced pool of borrowers heats up and lenders may lower credit standards (i.e., make riskier loans) in order to maintain origination volume. The riskier loans are more likely to become delinquent and potentially default.

Lending behavior in the subprime mortgage market over the past few years and until recently had followed this pattern. Through 2005 and 2006, in an effort to maintain or increase loan volume, some lenders introduced alternative mortgage products that made it easier for borrowers to obtain a loan. Such loans included:

- Loans made for the full (or close to the full) purchase price of the home, resulting in the borrower having little or no equity in the home;
- Loans with less rigorous documentation, such as those allowing borrowers to state their income and asset information without providing documented proof;
- Loans that exposed borrowers to sudden payment increases; and

- Longer-tenure loans, which have lower monthly payments that are spread out over a longer period of time (40 years and longer).

Often the loans made had a combination of these features. In situations commonly referred to as "risk layering," for example, a borrower could get a low initial payment, without documenting income or assets, and put no money down.[16] Moody's observed this trend and published repeatedly on it.

However, the trend toward riskier loan origination standards was exacerbated by an unprecedented confluence of circumstances that played into the unusually poor performance of subprime mortgages originated in 2006. With 20:20 hindsight, we now know the following three factors were especially relevant:

- **The rapid and drastic decline in home prices on a national basis** was the most important factor in the deterioration in subprime mortgage loan performance. Both the magnitude and the speed of the decline have been unprecedented, which in turn have reduced borrowers' equity in their homes and constrained their refinancing opportunities. The borrowers most affected by the housing downturn have been those who, because of the timing of their purchases, did not benefit from the price appreciation that had occurred in prior years.
- **A rapid reversal in mortgage lending standards**, in which those standards moved from very loose to very restrictive. This quickly stranded overstretched borrowers needing to refinance in the future.
- **Fraud:** Governmental investigations now reveal that fraud – such as misrepresentations made by mortgage brokers, appraisers and the borrowers themselves – also played a significant role in exacerbating the problem. Numerous sources have indicated that information such as home values and borrowers' incomes was overstated, and that the intended use of the home was often misrepresented (i.e., as a primary residence rather than an investment property).

B. Moody's Response to the Deteriorating Subprime Market

As mentioned earlier, during the period from 2002 – 2006, Moody's observed an increase in the risk profile of subprime mortgage portfolios that we were asked to review

[16] Although the $640 billion of subprime mortgages originated in 2006 still comprised a relatively small portion of the nearly $3 trillion of residential mortgages originated during that same year, the subprime sector was steadily becoming a larger proportion of the overall mortgage origination by dollar volume (see ***Figure 1***).

Figure 1

	Total Mortgage origination ($billions)	Total Subprime origination ($billions)	Percent of Subprime Orgination of Total Orignation
2002	3,038	421	14%
2003	4,370	539	12%
2004	3,046	560	18%
2005	3,201	625	20%
2006	2,886	640	22%

prior to assigning ratings. Although we tightened our ratings criteria accordingly, as previously noted, we did not fully anticipate the unprecedented confluence of factors that subsequently drove even poorer than expected performance by subprime mortgages. Our response to the increased risks we observed can be categorized into three broad sets of actions:

1) **<u>We identified and began commenting about the loosening of underwriting standards starting in 2003</u>**

We published reports on these issues starting in July 2003 and throughout 2004, 2005 and 2006. Examples include:

2003: *"The credit performance of second lien mortgage-backed securities has been strong over the past five years; however, as price appreciation slows down and interest rates rise Moody's believes that there could be more volatility in the credit performance of this product and will maintain credit enhancement levels accordingly."*[17]

2004: *"Moody's expects relatively high defaults and losses for these mortgage types and has set credit enhancement levels to offset the risks."*[18]

2005: *"Because these loans are generally underwritten based on lower initial monthly payments, many subprime borrowers may not be able to withstand the payment shock once their loans reset into their fully indexed/amortizing schedule. The resulting higher default probability, which may be exacerbated with slowing home price appreciation, could have a very negative effect on home equity performance in the future."*

"Moody's increases credit enhancement on such loans to account for the lower borrower equity and the higher borrower leverage."[19]

2006: *"Full documentation levels fell by almost 10 percent on average per transaction from the beginning of 2004 to the end of 2005. Therefore, in 2005 not only did we see a proliferation of riskier "affordability" products, but also a gradual weakening of underwriting standards."*

"Moody's loss expectations on the interest-only mortgages are about 15%-25% higher than that of fully amortizing mortgages."[20]

In January 2007, we published a special report highlighting the rising defaults on the 2006 vintage subprime mortgages.[21] That report was the first in a series of publications in 2007 that discussed the deteriorating condition of the U.S. subprime and housing market. Our publications expressed concerns about expected loan deterioration while we collected performance data on specific pools to validate our assessment of overall market conditions and differentiate performance among individual mortgage pools.

17 Second Lien Mortgages - Issuance Volume Set for Another Record-Breaking Year in 2003, July 3, 2003

18 2003 Review and 2004 Outlook: Home Equity ABS, January 20, 2004.

19 2004 Review & 2005 Outlook: Home Equity ABS, January 18, 2005

20 2005 Review & 2006 Outlook: Home Equity ABS, January 24, 2006

21 Early Defaults Rise in Mortgage Securitization, Moody's Special Report, January 18, 2007.

In our March 2007 report, "Challenging Times for the US Subprime Mortgage Market,"[22] Moody's said that: *"In response to the increase in the riskiness of loans made during the last few years and the changing economic environment, Moody's has steadily increased its loss expectations on pools of subprime loans."* However, Moody's also identified a number of factors that we believed would be critical in determining the ultimate performance of these loans. In relevant part, the report said:

> ***"It is generally too early to predict ultimate performance for the subprime mortgage loans originated in 2006 and the bonds secured by such loans. A number of factors will determine the ultimate losses. Home price appreciation and refinancing opportunities available in the next few years are expected to have the biggest impact. Economic factors, such as interest rates and unemployment, will also play a significant role as will loss mitigation techniques employed by loan services." (emphasis added)***

While we identified the factors that we believed would determine the ultimate losses on the 2006 subprime mortgages and the bonds secured by them, we did not anticipate the magnitude or severity of these factors.

2) <u>We tightened our ratings criteria</u>

Between 2003 and 2006, Moody's had steadily increased our loss expectations on pools of subprime loans and the levels of credit protection required for a given rating level. As a result, bonds issued in 2006 and rated by Moody's had more credit protection than bonds issued in earlier years. In practical terms, this meant that for the 2006 vintage RMBS rated by Moody's more than half of the mortgages in a pool would have to default and recover only half the appraised value of the home before a Moody's Aaa rated bond would suffer its first dollar of loss.

3) <u>We continued to monitor the market, for example by conducting surveys of servicer loan modification practices</u>

Moody's aggressively monitored market conditions as the crisis continued to unfold to assess the impact of how the various market participants (including the borrowers, the mortgage servicers, the mortgage originators and the Federal government) might respond to the extremely fast- changing conditions. For example, in an effort to gauge the potential impact that loan modifications might have in reducing losses on defaulted loans, Moody's conducted a survey of the modification practices of 16 subprime mortgage servicers (who together constitute roughly 80% of the total subprime servicing market). The survey results, which were published in September 2007,[23] suggested that, on average, subprime servicers were not focused on modifying loans and most servicers had only modified approximately 1% of their serviced loans that experienced a reset in the months of January, April and July 2007. Based on this data, it appeared that the number of modifications that would be performed by subprime servicers on loans facing reset would be much lower than anticipated by many, and

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22 March 7, 2007.

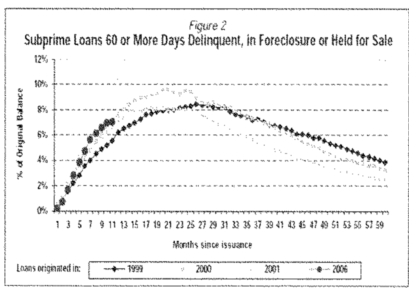
23 "Moody's Subprime Mortgage Servicer Survey on Loan Modifications," September 21, 2007, Moody's Special Report.

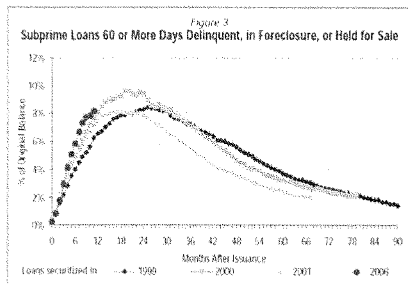
therefore unlikely to meaningfully mitigate the losses in subprime pools backing rated securitizations. We published follow-up surveys in December 2007 and July 2008.[24]

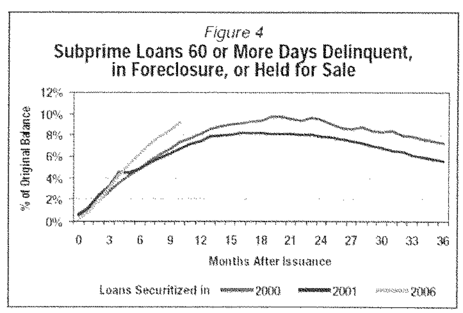
4) <u>We took rating actions as soon as warranted by actual performance data</u>

Moody's first rating actions (downgrades and reviews for downgrades) on securities backed by 2006 vintage subprime loans took place in November 2006 and further rating actions occurred in December. However, at that time, we did not believe that the then-available information warranted a more aggressive rating action for the entire vintage.

As Moody's monitored the actual performance of the 2006 subprime RMBS, it appeared that the earliest loan delinquency data for the 2006 mortgage loan vintage was largely in line with the performance observed during the recession of 2000 and 2001. This performance in turn was consistent with the higher loss expectations that we had already anticipated for the vintage. See **Figures 2** and **3** below, published respectively in our March 2007 and April 2007 publications, showing that the loan performance closely tracked that of the earlier 2000 and 2001 vintages. **Figure 4**, published in our July Update 2007, shows the significantly higher loan delinquencies in the 2006 vintage than that of the 2000 and 2001 vintages.







24 "Special Report: US Subprime Market Update: November 2007," December 17, 2007 and "Special Report: Moody's Subprime ARM Loan Modification Update," July 14, 2008.

Our first comprehensive set of rating actions (on second lien mortgage transactions) took place in April 2007, with a second set of actions (on first lien mortgage transactions) in July 2007. We did not take these rating actions sooner because there was insufficient actual performance information to judge the persistence of the early trends. Consistent with our approach to assigning and monitoring ratings, we based our actions on actual performance information rather than negative sentiment. In so doing, we opted to employ a more careful and deliberative approach that closely monitored market developments and took rating actions as and when sufficient information became available to warrant such action.

In sum, Moody's undertook efforts to watch, to publicly comment, and to react. We know that many think we should have done more or acted sooner. With the clarity of hindsight, we recognize that we, like others in the market, did not fully anticipate the magnitude of the housing downturn and the changes in the macro-economic environment.

V. MOODY'S EFFORTS TO ADVANCE THE QUALITY, TRANSPARENCY AND INDEPENDENCE OF CREDIT RATINGS

The current economic downturn has exposed vulnerabilities in the infrastructure of the global financial system, and important lessons for market participants have emerged from the rapid and dramatic market changes. For Moody's part, over the past two years we have responded to concerns expressed by both the private and public sectors by undertaking initiatives to improve the credibility of our ratings and strengthen their quality, transparency and independence. In line with our continuing effort to be as transparent as possible with the market, we have published a list of measures we have adopted.[25]

While we believe that we have made good progress in improving the analytical quality and transparency of our ratings, we also recognize that our practices must evolve along with changes in market dynamics. We expect to continue developing and modifying our approach in step with market needs, as well as with regulatory expectations.

In this regard, Moody's has adopted a wide range of measures, including the following:

1) **Strengthening the analytical quality of our ratings,** including creating permanent, internal methodology review and model verification and validation processes; continuing the separation of personnel involved in initial rating assignments and surveillance; reinforcing the independence of the Credit Policy function; implementing methodological modifications; enhancing our existing professional training program; and formalizing model error discovery and correction procedures.

25 "Strengthening Analytical Quality and Transparency," August 2008. See also, updates of the document published in December 2008 and, November 2009.

2) **Enhancing consistency across rating groups,** including incorporating common macro-economic scenarios in rating committees; broadening cross-disciplinary rating committee participation; and improving surveillance coordination across rating groups.

3) **Reinforcing measures to avoid conflicts of interest,** including codifying the existing prohibition against analysts providing recommendations or advice on structuring securities; prohibiting fee discussions by ratings managers as well as analysts (who were already subject to such a prohibition); reinforcing rating committee composition to enhance independence and objectivity; conducting "look-back" reviews when analysts leave to join organizations with potential conflicts; revising our Securities Trading Policy; reviewing and (when appropriate) responding to complaints about analysts made by third parties; reinforcing independence and objectivity through analyst compensation policies; and adopting a stricter prohibition on Moody's analysts receiving gifts (to supplement our existing Moody's Corporation policy on this matter).

4) **Improving the transparency of ratings and the ratings process,** including enhancing disclosures on incremental changes to methodologies; publishing detailed summaries of our methodologies for rating U.S. RMBS and CDOs; enhancing the review of loan originators in U.S. RMBS transactions and asking issuers for stronger representations and warranties relating to those transactions; providing additional information on structured finance ratings (V Scores, Parameter Sensitivity analysis, loss expectation and cash flow analysis, and key statistics and assumptions); enhancing disclosures regarding attributes and limitations of credit ratings in each rating announcement; pursuing efforts to discourage rating shopping; beginning to publish key statistics and default assumptions for all new structured finance ratings and for surveillance rating actions in major asset classes (including information relating to underlying pool losses); and creating a structured finance "Quick Check" Report which seeks to inform the market of our latest opinions, summaries of rating activities, methodology changes and ratings transition summaries and other key information.

5) **Increasing resources in key areas,** including strengthening the global leadership of the rating surveillance function; increasing the number of rating surveillance analysts; increasing the staff of the Credit Policy group; conducting a comprehensive review of our staffing model; and continuing to build out our Compliance function.

We believe that we have made good progress with respect to augmenting the analytical framework and credibility of our ratings; nevertheless, we are committed to enhancing our policies and procedures even further.

VI. CONCLUSION

Moody's has always believed that critical examination of the credit rating agency industry and its role in the broader market is a healthy process that can encourage best practices, support the integrity of our products and services, and allow our industry to adapt to the evolving expectations of market participants. Many necessary actions can and have been taken by Moody's and at the industry level, and policymakers at the domestic and international levels have proposed a host of reform measures for our industry and credit markets generally. Moody's wholeheartedly supports constructive reform measures and we are firmly committed to meeting the highest standards of integrity in our rating practices, quality in our rating methodologies and analysis, and transparency in our rating actions and rating performance metrics.

I am happy to respond to any questions.

TESTIMONY OF KATHLEEN A. CORBET
BEFORE
THE UNITED STATES SENATE
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
APRIL 23, 2010

Mr. Chairman, Members of the Committee, good morning. I am Kathleen A. Corbet and, from April 2004 until my voluntary departure in September 2007, I served as President of Standard & Poor's ("S&P"), a division of The McGraw-Hill Companies, Inc. ("McGraw-Hill" or "MHP").

I want to start by acknowledging the important work of the Subcommittee, and Congress as a whole, in looking into the recent financial crisis with the goal of understanding its causes and consequences and, importantly, working to avoid the recurrence of similar market disruptions and resultant economic downturns. I appreciate the opportunity to appear today to offer my perspective on, and answer the Committee's questions regarding, the role of credit rating agencies in the recent financial crisis.

It is difficult not to feel personally touched by the pain experienced by many as a result of the turmoil in the subprime market and the financial crisis that followed. It is similarly clear that the economy as a whole has been affected by these events. Many people feel anger, and that anger is understandable. It is my fervent belief, therefore, that we should collectively use this crisis -- and the lessons from it -- to focus on effective reforms, stronger investor protections and better industry practices and accountability.

S&P's Organizational Structure and My Responsibilities as President

As background, prior to joining S&P, I spent more than 20 years in executive leadership in investment management companies with a focus on fixed income portfolio management, trading and research for institutional and mutual fund investors located throughout the world. Starting in late 2003 I was recruited to lead the Financial Services division of MHP and assumed the position of President of S&P on April 12, 2004. Financial Services was one of three business divisions of McGraw-Hill along with Education and Information & Media. The Financial Services division, known more commonly as Standard & Poor's or S&P, is the world's foremost provider of financial market information including ratings on over $30 trillion in global debt securities, independent equity research on over 2,000 companies, market indices -- including the world's most referenced index, the S&P 500 -- risk evaluations and data and analytic tools.

During my three-year tenure as President of S&P, my primary role was to lead an organization of 8,000 employees located in 23 countries to ensure that the firm continue its mission to provide knowledge, insights and analysis about the financial markets and to expand upon that mission through global organic growth and strategic acquisitions. The company was organized along four primary business units, led by seasoned executives who, in at least three cases, had over three decades of experience at S&P and/or in the relevant field. Each of these executives had direct operating responsibility for his or her business line including 1) Rating Services; 2) Equity Research Services; 3) Data & Information Services; and 4) Index Services, reporting directly to me. In addition to the four business lines, the heads of Finance, Technology, Marketing & Communications, Regulatory Affairs, and Human Resources reported to me with dotted-line reporting to their counterparts at MHP, with the exception of Regulatory Affairs and Human Resources which reported on a solid-line basis to MHP.

There were three executive-level positions within S&P that are important to highlight in the context of the Subcommittee's focus. First, from 1999 until 2009, the Ratings Services business was led by Vickie A. Tillman, an Executive Vice President. Ms. Tillman joined S&P in 1977 as a municipal analyst and took on increasing levels of responsibility throughout her tenure including as Executive Managing Director of Standard & Poor's Structured Finance Ratings in

1994. In this role, she assumed worldwide operational and financial responsibilities, directing rating activity for all S&P Structured Finance Ratings Services until her promotion in 1999 to lead S&P's Ratings Services.

Second, concurrent with Ms. Tillman's promotion and tenure as head of Ratings Services, Ms. Joanne Rose was appointed in 1999 as Executive Managing Director of Global Structured Finance Ratings. In this role, Ms. Rose oversaw S&P's ratings business with respect to all structured finance securities including, asset-backed securities, residential mortgage-backed securities, commercial mortgage securities, collateralized debt obligations, and surveillance. Ms. Rose served in this capacity as a direct report to Ms. Tillman until January 2008 when she was named Executive Managing Director for Risk Quality & Policy at S&P.

Third, in October 2006, Mr. Deven Sharma, who had previously served as an Executive Vice President and Head of Global Strategy at MHP, joined S&P to head the three "Non-Ratings" businesses and Global Sales for all of S&P, reporting directly to me. In August 2007, Mr. Sharma was named as my replacement and today serves as President of Standard & Poor's.

It is important to note that, within the Ratings Services business, Ms. Tillman had her own direct reports including senior executives responsible for individual segments of the global debt markets. For instance, within the Global Structured Finance Services segment led by Joanne Rose, each structured debt category was overseen by a senior manager coupled with layers of organizational oversight. To illustrate, Ms. Susan Barnes who, from mid-2005 until 2008, headed the group responsible for rating U.S. RMBS securities, reported to a global practice leader for all ratings on asset backed securities who in turn reported to Ms. Rose.

The organizational structure in its entirety facilitated effective management of approximately 8,000 employees and allowed for specialization of expertise. Specifically, ratings were assigned by committees of analysts who specialized in a particular industry (in the case of corporate ratings) or a particular asset class (in the case of structured finance) and those groups in turn were headed by executives who themselves had expertise in that specific area. My role as President of S&P involved a number of responsibilities, including setting and implementing S&P's overall strategy, addressing regulatory issues, executing strategic acquisitions and global partnerships, working with the parent company MHP, and communicating with the market.

Consistent with S&P's long-standing -- and publicly disclosed -- practice, ratings decisions are solely the province of committees comprised of experienced analysts in the relevant area. It is a core S&P principle that the highest quality analysis comes from the exercise of independent analytical judgment free from both undue external and internal pressure, particularly since ratings analysts typically possess the most detailed knowledge and relevant experience on the issues. As a corollary, S&P's Index Services business also operates under a committee-based decision process to determine appropriate constituents and other factors which contribute to the design of a published index. Accordingly, during my tenure, I did not participate in any rating or criteria committee meetings regarding ratings, including ratings on securities backed by subprime mortgages, and would refer the Subcommittee to the testimony of Ms. Barnes and Mr. D'Erchia for detail on S&P's ratings process and criteria for mortgage-backed securities.

S&P's Ratings on Subprime RMBS

S&P has long been recognized as a leader in the ratings industry with a strong track-record in offering opinions about the creditworthiness of issuers and securities. That said, it is clear that a number of the ratings S&P issued on securities backed by subprime mortgages performed poorly and at odds with historical expectations, in some cases dramatically so. S&P has publicly stated its profound disappointment with that performance and I deeply share that sentiment.

While I have not been directly involved with these issues since my departure from the company, from my personal perspective, I believe the primary reason why these ratings have performed poorly is that -- despite rooting its analysis in historical data -- S&P's assumptions simply did not capture unprecedented phenomena that later occurred with respect to the housing market, borrower behavior, and credit correlations. While S&P's analysts did, for example, factor the possibility of a significant decline in home prices into their analysis, the depth and breadth of what subsequently occurred was indeed much greater.

S&P, along with others, has been criticized for its failure to predict what happened in the subprime market and, in many ways, that criticism is justifiable. Still, to me, these recent difficulties also highlight the challenges inherent in the nature of ratings. At their core, ratings are opinions about what may happen in the future, specifically the likelihood that a particular security may default. Predicting the future is always difficult and events can turn out very differently than even the most carefully derived predictions anticipate. The key is to learn from these experiences and take measures to improve. For example, I think it's constructive that S&P has revised its rating criteria to incorporate a measure of stability into investment grade ratings and believe that its published economic stress scenarios should serve as improved benchmarks of sector consistency and comparability over time.

In my view, it is imperative that the rating agency industry communicate clearly to the market regarding ratings analysis and the trends that could affect those ratings. This transparency and communications efforts were principles I sought to emphasize at S&P during my tenure. From my industry experience, I felt it particularly important that S&P be more sensitive to the market's needs and to communicate through timely published reports, teleconferences, meetings with the investor community, and through other outlets. This included communications regarding what S&P was observing in the subprime sector and the housing markets more generally. Some examples of these communications include:

- A September 13, 2005 article, entitled *Simulated Housing Market Decline Reveals Defaults Only in Lowest-Rated U.S. RMBS Transactions*, in which S&P published a study concerning the potential impact of a housing downturn on RMBS that assumed, among other things, a 20% national decline in home prices over a two-year period and an increase in unemployment to 6.5%. The results of the study indicated that S&P's existing models largely captured the risk of a downturn of this magnitude and that most investment-grade RMBS would likely not suffer a credit-rating downgrade.

- A January 19, 2006 article, entitled *U.S. RMBS Market Still Robust, But Risks Are Increasing And Growth Drivers Are Softening*, in which S&P informed the market of its belief "that there are increasing risks that may contribute to deteriorating credit quality in U.S. RMBS transactions; it is probable that these risks will be triggered in 2006."

- A May 15, 2006 article, entitled *A More Stressful Test Of A Housing Market Decline On U.S. RMBS*, in which S&P reported on the results of a follow-up analysis to the September 2005 housing price simulation referenced above assuming an even more stressful economic environment. The conclusion of this study was that, while some downgrades in lower-rated investment-grade bonds would likely result, higher rated bonds, including 'AAAs', would likely experience little deterioration due to their heightened credit enhancement levels.

- A January 26, 2007 *Transition Study: U.S. RMBS Upgrades Are Down And Downgrades Are Up In 2006*, in which S&P reported that for 2006 "[d]owngrades overwhelmed upgrades for subprime mortgage collateral" and that S&P expected "losses and, therefore, negative rating actions to continue increasing during the next few months relative to previous years."
- A March 22, 2007 article, entitled *A Comparison Of 2000 and 2006 Subprime RMBS Vintages Sheds Light On Expected Performance*, in which S&P compared RMBS deals issued in 2006 (the 2006 "vintage") to the worst performing vintage on record at that time, the 2000 vintage. S&P stated its expectation that the 2006 vintage was likely to experience more severe losses than the 2000 vintage.

As reflected in these public statements, S&P was monitoring subprime and housing market performance throughout this period and expressed increasing concern as performance data accumulated. S&P also took a series of actions, including tightening its criteria and taking unprecedented CreditWatch and downgrade actions throughout 2006 and the first half of 2007. In July 2007, growing concerns over subprime performance led S&P's analysts to modify their criteria further and take more significant downgrade actions. While I did not make the analytical decisions that led to the ratings actions during these periods, given the magnitude and importance of the issues and the public attention being paid to this sector, I did seek to understand the trends the analysts were seeing and their approach to them. I was also involved in S&P's communications efforts around these events given the previously noted importance of transparency.

Additional Topics Raised by the Subcommittee

The Subcommittee has asked me to comment on the role played by investment banks in the ratings process. While I do not recall meeting with any investment banks or their representatives regarding S&P's ratings during my tenure and therefore do not have direct perspective regarding this issue, I do know that investment banks can play a variety of roles in connection with the issuance of debt securities. Depending on that role and the nature of those securities, investment banks might interact with rating agencies in a variety of ways. An investment bank, for example, may be an advisor to a party issuing debt and seeking a rating. It may also be an underwriter of those securities. In other contexts, an investment bank may seek a rating for itself as in issuer of securities.

The Subcommittee has also asked me to address the potential conflicts of interest arising out the "issuer pays" model traditionally used by many rating agencies as well as the measures in place at S&P to guard against that potential conflict. As an initial matter, I should note that I believe there is room in the market for rating agencies that have both the "issuer pays" business model and the "subscriber pays" model and that competition in the industry has a beneficial effect on investor choice and analytical quality. For full disclosure purposes, since January 2009, I have been a private equity investor in Rapid Ratings International, Inc. -- an independent ratings, research and analytics firm that provides financial health ratings of companies for investment and risk management professionals. Rapid Ratings operates on a subscription or "user pay" business model. Underscoring my belief that both models can serve the financial market information industry, I also remain an investor in the publicly-listed stock of MHP.

During my tenure -- and indeed long before and since -- S&P employed an "issuer pays" model. As with any business model in which one party pays another, the "issuer model" has inherent potential conflicts of interest. In order to manage such conflicts, S&P had -- and I believe continues to have -- a number of policies and procedures in place. For example:

- Ratings were assigned by rating committees, not by individual analysts;

- Analysts were not compensated based upon the ratings assigned to, or fees received from, the issuers they covered;
- Negotiations with issuers about fees or other business matters were handled by commercial personnel, not ratings analysts; and
- Analysts were prohibited from engaging, directly or indirectly, in any S&P activities with respect to non-ratings businesses, including any cross marketing of non-ratings services.

It is my understanding that S&P has enacted additional measures in this area in recent years. Based on S&P's public announcements, some of the more noteworthy initiatives from my perspective include:

- Appointing an Ombudsman to address complaints or concerns raised either internally or from external sources;
- Increased investment in its compliance function;
- Implementation of "look-back" reviews of analysts' work whenever an analyst leaves to work for an issuer;
- The institution of a mandatory analyst rotation program.

Conclusion

Through many cycles in the financial markets, the credit ratings industry has played an important and, in my view, mainly beneficial role in the financial system for nearly a century. A key reason has been its ability to learn lessons from unexpected market events and to enact improvements. These improvements should come both from the industry itself and from sensible and appropriate regulatory reform. As painful as recent events in the financial markets have been for everyone involved, these difficulties also present an opportunity to enhance the functioning of our markets, including the role of rating agencies.

On a more personal level, despite the unflattering -- and in many cases inaccurate -- media reports, it has been a privilege to serve in my broad and various roles within the financial services industry over these last 25 years. I have always strived to lead and serve with integrity and purpose for the common good. Indeed, these core principles and life experiences continue to sustain my active engagement in corporate, civic and philanthropic organizations and, perhaps more importantly, through public speaking and teaching about the lessons learned in this significant moment in history to my children and future generations of leaders.

Again, I appreciate the goals of the Subcommittee's work and would be glad to answer any questions you may have.

MEMORANDUM

To: Members of the Permanent Subcommittee on Investigations

From: Senator Carl Levin, Subcommittee Chairman
Senator Tom Coburn, Ranking Member

Date: April 23, 2010

Re: **Wall Street and the Financial Crisis: The Role of the Credit Rating Agencies**

On Friday, April 23, 2010, beginning at 9:30 a.m., the Permanent Subcommittee on Investigations will hold the third in a series of hearings examining some of the causes and consequences of the recent financial crisis. This hearing will focus on the role played by credit rating agencies (CRAs), using as case histories Moody's and Standard & Poor's, the two largest U.S. credit rating agencies which, together, from 2004 to 2008, rated tens of thousands of residential mortgage backed securities (RMBS) and collateralized debt obligations (CDOs) referencing high risk home loans.

Subcommittee Investigation. The Permanent Subcommittee on Investigations initiated its investigation. In November 2008. Since then, the Subcommittee has engaged in a wide-ranging inquiry, conducting over 100 interviews and depositions, collecting and reviewing millions of pages of documents, and consulting with dozens of government, academic, and private sector experts on banking, securities, financial, and legal issues.

To provide the public with the results of its investigation, the Subcommittee is holding a series of hearings addressing the role of high risk lending, bank regulators, credit rating agencies, investment banks, and others in the financial crisis. After the hearings, a report on the investigation will be prepared.

Credit Ratings Generally. Credit ratings, which first gained prominence in the late 1800s, provide assessments of the creditworthiness of particular financial instruments, such as a corporate bond, mortgage backed security, or CDO. Essentially, credit ratings predict the likelihood that a debt will be repaid.[1]

Credit ratings use a scale of letter grades, from AAA to C, with AAA ratings designating the safest investments and the other grades designating investments at greater risk of default. Investments with AAA ratings have historically had an expected loss rate of less than .05 percent. The expected loss rate for BBB investments was about 1 percent. Financial instruments bearing AAA through BBB- ratings are generally called "investment grade," while those with ratings below BBB- (or Baa3) are referred to as "below investment grade" or sometimes as "junk" investments. Financial instruments that default receive a D rating from Standard & Poor's, but no rating at all by Moody's.

[1] Congressional Research Service, Credit Rating Agencies and Their Regulation, September 3, 2009.

Permanent Subcommittee on Investigations
EXHIBIT #1a

Investors often rely on credit ratings to gauge the safety of a particular investment. Some institutional investors design an investment strategy that calls for acquiring assets with specified credit ratings. Some state and federal laws restrict the amount of below investment grade bonds that certain investors can hold, such as pension funds and insurance companies. Banks are also limited by law in the amount of non-investment grade bonds they can hold, and are typically required to post additional capital against higher risk investments. Because so many federal and state statutes and regulations reference ratings, issuers of securities and other financial instruments work hard to obtain favorable credit ratings to ensure more investors can buy their product.

The Securities and Exchange Commission (SEC) regulates credit rating agencies. In September 2006, Congress enacted the Credit Rating Agency Reform Act, P.L. 109-291, to strengthen SEC oversight of the credit rating industry. The law took effect in June 2007, which is also when the SEC issued implementing regulations. Among other provisions, the law charges the SEC with designating Nationally Recognized Statistical Rating Organizations (NRSROs) and defines that term for the first time. At the same time, the law prohibits the SEC from regulating the substance, criteria, or methodologies used in credit rating models.

The United States has three major credit rating agencies: Moody's, Standard & Poor's (S&P), and Fitch. By some accounts, these three firms issue about 98% of total credit ratings and collect 90% of total credit rating revenue.[2]

Structured Finance. Over the last ten years, Wall Street firms have devised ever more complex financial instruments for sale to investors. These instruments are often referred to as structured finance. Because these products are so complicated and opaque, investors often place particular reliance on credit ratings to determine whether they can or should buy them.

Residential mortgage backed securities (RMBS) are one of the oldest types of structured finance. To create these securities, issuers bundle up large numbers of home loans into a loan pool, calculate the revenue stream coming into the loan pool from the individual mortgages, and then design a "waterfall" that assigns the pooled revenues to specific "tranches" set up in a specified order. The first tranche is at the top of the waterfall and is the first recipient of revenues received from the mortgage pool. Since that tranche is guaranteed to be paid first, it is the safest investment in the pool. The issuer creates a security, often called a bond, linked to that first tranche. That security is rated AAA since its revenue stream is the most secure. The next tranche in the waterfall is the second to receive revenues from the mortgage pool, and is linked to a security that might receive a AAA or lower rating.

The next tranche is used to create a security that might have an A or BBB rating, and so on until the waterfall reaches the equity tranche at the bottom. The equity tranche typically receives no rating, since it must cover the pool's initial losses, and virtually

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[2] Id.

every mortgage pool has at least some mortgages that default. Due to the risks associated with it, the equity tranche is often promised a high rate of return on investment and can be profitable. One mortgage pool might produce a dozen or more tranches, each of which is used to create a residential mortgage backed security that is rated and then sold to investors.

CDOs are even more complex. CDOs typically include RMBS securities from multiple mortgage pools. For example, a CDO might contain BBB rated securities from 100 different residential mortgage pools. CDOs often also contain other types of assets, such as commercial mortgage backed securities, corporate bonds, or credit default swaps. These CDOs are often called "cash CDOs," because they receive revenues from the underlying RMBS bonds and other assets. Issuers can also create "synthetic CDOs" which do not contain actual assets, but simply reference them. The investors in that type of CDO receive revenues from one or more counterparties who pay premiums in exchange for obtaining "insurance" that pays off in the event of a default or other credit event involving the referenced assets. Like RMBS mortgage pools, both cash CDOs and synthetic CDOs are sliced into tranches, the tranches are used to create securities, and the securities receive credit ratings. CDO securities are typically sold in private placements, usually to institutional investors. Issuers can also create financial instruments called CDO squared or cubed, which contain or reference tranches from other CDOs. The more resecuritizations, the more opaque and complex the instruments become, and the more reliant they are on high credit ratings to be marketable.

For a fee, Wall Street firms helped design RMBS and CDOs, worked with the credit rating agencies to obtain ratings, and sold the securities to investors like pension funds, insurance companies, university endowments, municipalities, and hedge funds. Without investment grade ratings, Wall Street firms would have had a more difficult time selling structured finance products to investors, because each investor would have had to perform its own due diligence review of the product. Credit ratings simplified the review and enhanced the sales. Here's how one federal bank handbook put it:

> "The rating agencies perform a critical role in structured finance — evaluating the credit quality of the transactions. Such agencies are considered credible because they possess the expertise to evaluate various underlying asset types, and because they do not have a financial interest in a security's cost or yield. Ratings are important because investors generally accept ratings by the major public rating agencies in lieu of conducting a due diligence investigation of the underlying assets and the servicer."[3]

In addition to making structured finance products easier to sell to investors, Wall Street firms used financial engineering to combine AAA ratings – normally reserved for ultra-safe investments with low rates of return – with high risk assets, such as the AAA tranche from a subprime RMBS paying a relatively high rate of return. Higher rates of

[3] Comptroller of the Currency Administrator of National Banks, Comptroller's Handbook, *Asset Securitization*, November 1997.

return, combined with AAA ratings, made subprime RMBS and related CDOs especially attractive investments.

The Rating Process. The rating process for RMBS and CDOs works generally as follows. An issuer, often called the arranger, begins the rating process by sending to the credit rating agency (CRA) information about a prospective RMBS or CDO, with data about the mortgage loans and other assets included or referenced in the pool. Sometimes the data identifies the characteristics of each loan in the pool; other times it provides statistical information about the pool as a whole. CDOs that are still assembling assets sometimes provide data about the assets they intend to acquire, and supply data about the actual assets a day or two before the CDO closing.

A CRA analyst is assigned to examine the proposed financial instrument. CRA analysts typically rely on their company's credit rating models to evaluate risk, and do very little additional credit risk analysis; instead they focus on reviewing the legal structure of the financial instrument to understand how it works. The RMBS credit rating model at Moody's is called M3; the S&P model is called LEVELS. Both models use actual data gathered from large numbers of actual mortgages to predict loan performance.

To obtain ratings for individual tranches in an RMBS or CDO, the analyst typically feeds the "loan tape" provided by the issuer into the credit rating model. The model then selects certain data points from the loan tape, such as borrower credit scores or loan-to-value ratios, and compares that information to past mortgage data using various assumptions, to determine the likely "frequency of foreclosure" for the particular mortgages under consideration. The model then produces an overall "expected loss" for the pool, and projects the cushion – or "credit enhancement" – needed to protect investment grade tranches from loss. The larger the cushion, the more loss protection is afforded to investment grade tranches. The model suggests how big the equity tranche should be to provide the needed cushion and may also specify lower payments to investors compared to the total mortgage payments coming into the pool to "overcollateralize" it against loss.

It is common for the ratings analyst to speak with the issuer to gather additional information and understand how the financial instrument works. Among other tasks, the analyst works with the issuer to evaluate the cash flows, the number and size of the tranches, and the rating each tranche will receive. The documents show that issuers and analysts often negotiate over how specific deal attributes will affect the credit ratings.

After completing the analysis, the analyst develops a rating recommendation and presents it to a rating committee composed of other analysts and managers within the CRA. The rating committee votes on the analyst's recommendation. If approved, the ratings for the tranches are provided to the issuer, and the CRA makes the ratings available publicly. The entire rating process typically takes two to six weeks.

After a product is rated, both Moody's and S&P conduct ongoing surveillance to evaluate the rating and determine whether it should be upgraded or downgraded over the life of the security.

Record Revenues. From 2004 to 2007, Moody's and S&P produced a record number of ratings and a record amount of revenues, primarily because of RMBS and CDO ratings. From 2004 to 2007, for example, S&P issued ratings for more than 5700 RMBS transactions and 835 CDO transactions, each of which had multiple securities.[4] It also increased the ratings it issued each year, going from ratings for about 700 RMBS and 80 CDO transactions in 2002, to more than 1,600 RMBS and 340 CDO transactions in 2006. Over the same time period, Moody's issued ratings for nearly 4,000 RMBS transactions and 870 CDO transactions, each of which, again, had multiple securities.[5] Moody's also increased its annual ratings, going from over 500 RMBS and 45 CDO transactions in 2002, to more than 1200 RMBS and 360 CDO transactions in 2006. The numbers are even more dramatic when considering ratings issued for individual securities. From 2006 to 2007, for example, Moody's and S&P each issued ratings for over 10,000 RMBS securities.[6]

The CRAs charged substantial fees to rate a product. To obtain an RMBS or CDO rating during the height of the market, for example, CRAs charged issuers from $50,000 to more than $1 million. Surveillance fees, which may be imposed at the initial rating or annually, ranged from $35,000 to $50,000 per RMBS or CDO.

Revenues increased dramatically over time as well. Moody's gross revenues from RMBS and CDOs increased from just over $61 million in 2002 to over $208 million in 2006.[7] S&P's net annual revenues from ratings nearly doubled from $517 million in 2002, to $1.16 billion in 2007.[8] During that same period, the structured finance group's revenues tripled from $184 million in 2002, to $561 million in 2007.[9] In 2002, structured finance contributed 36 percent to S&P's bottom line; in 2007, it contributed 48 percent – nearly half of all S&P revenues.[10] In addition, from 2000 to 2007, operating margins at the CRAs averaged 53 percent, far outpacing companies like Exxon and Microsoft, which had margins of 17 and 36 percent respectively in 2007.[11]

Top CRA executives were also compensated handsomely. Moody's chief executive, Raymond McDaniel, earned $8.8 million in 2007, and received a stock option award worth more than $2.3 million.[12] Brian Clarkson, the head of Moody's structured finance group received $3.2 million in total compensation in 2007.[13] In addition, upper and middle managers did well, with Moody's managing directors making approximately

[4] Compliance letter from S&P to SEC, Mar. 14, 2008.
[5] Compliance letter from Moody's to SEC, Mar. 11, 2008.
[6] SEC database of credit ratings assigned to RMBS securities issued in 2006 and 2007.
[7] Id.
[8] Compliance letter from S&P to SEC, Mar. 14, 2008.
[9] Id.
[10] Id.
[11] "Debt Watchdogs: Tamed or Caught Napping?" NewYork Times, Dec. 7, 2008.
[12] Moody's 2008 Proxy Statement.
[13] Id.

$400,000 to $500,000 with stock options on top of that. S & P managers received similar compensation.

The fact that CRAs receive revenues from the issuers who pay them for rating the products they sell creates an inherent conflict of interest. Not only are CRA personnel encouraged by clients to provide them with favorable ratings, but the situation encourages ratings shopping, in which an issuer can choose the CRA offering the highest rating. Ratings shopping can weaken standards as each CRA seeks to provide the most favorable rating to win business. Moody's Chief Credit Officer told the Subcommittee staff that ratings shopping was commonplace. In September 2007, Moody's CEO described the problem this way: "What happened in '04 and '05 with respect to subordinated traunches is that our competition, Fitch and S&P, went nuts. Everything was investment grade."[14] In 2003, the SEC reported that "the potential conflicts of interest faced by credit rating agencies have increased in recent years, particularly given the expansion of large credit rating agencies into ancillary advisory and other businesses, and the continued rise in importance of rating agencies in the U.S. securities markets."[15]

Downgrades. Investors who relied on the credit agencies' ratings of mortgage based securities suffered heavy losses when many RMBS securities and CDO securities that were initially rated investment grade were sharply downgraded. Moody's and S&P began downgrading RMBS and CDO products in 2006, when delinquency rates and losses increased. In July 2007, both S&P and Moody's initiated the first of several mass downgrades that shocked the financial markets. Within days of one another, S& P downgraded 612 subprime RMBS with an original value of $7.3 billion, and Moody's downgraded 399 subprime RMBS with an original value of $5.2 billion. After these rating downgrades, the subprime secondary market collapsed, and financial firms around the world were left holding suddenly unmarketable subprime RMBS securities.

In October 2007, Moody's began downgrading CDOs on a daily basis, downgrading more than 270 CDO securities with an original value of $10 billion. In December 2007, Moody's downgraded another $14 billion in CDOs, and placed another $105 billion on credit review. Moody's calculated that, overall in 2007, "8725 ratings from 2116 deals were downgraded and 1954 ratings from 732 deals were upgraded."[16]. On January 30, 2008, S&P downgraded over 6,300 subprime RMBS securities and over 1,900 CDO securities, an unprecedented mass downgrade. These downgrades created significant turmoil in the securitization markets, as investors like pension funds and insurance companies were required to sell off assets that had lost their investment grade status, holdings at financial firms plummeted in value, and new securitizations were unable to find investors. The financial crisis had begun.

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[14] Raymond McDaniel at Moody's MD Town Hall Meeting, 09/10/07, Moody's-COGR-0052143.

[15] SEC, Report on the Role and Function of Credit Rating Agencies in the Operation of the Securities Markets, January 2003, As Required by Section 702(b) of the Sarbanes-Oxley Act of 2002. The report continued: "[C]oncerns had been expressed that a rating agency might be tempted to give a more favorable rating to a large issue because of the large fee, and to encourage the issuer to submit future large issues to the rating agency."

[16] Moody's Credit Policy Special Comment, *Structured Finance Ratings Transitions,* 1983-2007, Feb. 2008.

Ratings Problems. The Subcommittee's investigation uncovered a host of problems with the credit ratings assigned to RMBS and CDO products.

--Inaccurate Models. The models used by Moody's and S&P provided thousands of ratings that turned out to be inaccurate. They did so, in part, because the models did not contain adequate performance data for subprime, interest-only, option ARM, and other high risk mortgages that had come to dominate the housing market, and did not contain adequate data for higher risk borrowers. According to the Congressional Research Service, the models failed to understand the likelihood of falling house prices, attached the wrong weights to the effect of falling house prices on loan default rates; and miscalculated the interdependence among loan defaults.[17] In 2007, S&P testified that: "[W]e are fully aware that, for all our reliance on our analysis of historically rooted data that sometimes went as far back as the Great Depression, some of that data has proved no longer to be as useful or reliable as it has historically been."[18] The former head of the RMBS group at S&P told the Subcommittee that he believed their model needed updating, but that the company chose not to commit the resources in order to do so.

Other emails indicated that ratings personnel acted at times with limited guidance, unclear criteria, or limited understanding of complex deals. For example, one S&P employee wrote: "[N]o body gives a straight answer about anything around here … how about we come out with new [criteria] or a new stress and ac[tu]ally have clear cut parameters on what the hell we are supposed to do."[19] Another S&P employee wrote in May 2006, about deals that "between the three of us were all rated by the same person … who neglected to catch other important criteria issues … or ignored them after being told to correct them by Team Leaders."[20] An analyst complaining about a rating decision in May 2005, wrote: "Chui told me that while the three of us voted "no", in writing, that there were 4 other 'yes' votes. … [T]his is a great example of how the criteria process is NOT supposed to work. Being out-voted is one thing (and a good thing, in my view), but being out-voted by mystery voters with no 'logic trail' to refer to is another. ... Again, this is exactly the kind of backroom decision-making that leads to inconsistent criteria, confused analysts, and pissed-off clients."[21]

--Improper Influence. Former Moody's and S&P employees told the Subcommittee that the culture at the ratings firms also changed over time, and that gaining market share and revenues and pleasing investment bankers bringing business to the firm, impacted the quality of ratings. In a 2007 email to Moody's

[17] Congressional Research Service, Credit Rating Agencies and Their Regulation, September 3, 2009.
[18] Testimony of Vicki Tillman, S&P Executive Vice President, before U.S. House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises, 9/27/07, at 1-2, S&P SEN PSI 001946.
[19] Instant Message from S & P employee, 5/8/07, PSI-SP-000016.
[20] Email from S&P employee, 5/2/06, PSI-SP-000339.
[21] Email from S&P employee, 5/12/05, PSI-SP-000005.

CEO Ray McDaniel, for example, Moody's Chief Credit Officer wrote that the company's analysts and managing directors were continually "pitched by bankers, issuers, investors -- all with reasonable arguments -- whose views can color our credit judgment, sometimes improving it, other times degrading it (we 'drink the kool-aid'). Coupled with strong internal emphasis on market share & margin focus, this does constitute a 'risk' to ratings quality."[22]

One concrete example of how revenues could affect ratings is suggested in an email exchange in June 2007. A Moody's analyst told a Merrill Lynch investment banker that she could not finalize a CDO rating until the "fee issue" was resolved. The investment banker responded: "We are okay with the revised fee schedule for this transaction. We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try to get to some middle ground with respect to the ratings."

Another example involves a CDO known as Vertical ABS CDO 2007-1, in which S&P analysts complained about lack of cooperation from the issuer, UBS, and the deal's credit risk. In an April 2007 email, one S&P analyst wrote:

> Vertical is politically closely tied to B of A – and is mostly a marketing shop – helping to take risk off books of B o[f] A. Don't see why we have to tolerate lack of cooperation. Deals likely not to perform."[23]

Despite the analyst's judgment that the CDO was unlikely to perform, S&P rated it. So did Moody's. Four months later, the CDO was put on credit watch. Two months later, it defaulted. One of the purchasers, a hedge fund called Pursuit Partners, sued both UBS and the CRAs over the quick default. The CRAs were dropped from the lawsuit, but the court ordered UBS to set aside $35 million for a possible award to the investor. The investor had found internal UBS emails calling the investment-grade Vertical securities "crap."

--Failure to Retest After Model Changes. The surveillance of existing rated products was also inadequate. First, the surveillance groups lacked the resources to properly monitor the thousands of rated products, with backlogs of RMBS products requiring analysis. Secondly, the RMBS surveillance groups failed to retest existing products after ratings model changes, despite the fact that many of them contained the same assets and risks that the model was revised to evaluate. Testing the existing deals would have resulted in a significant number of downgrades that might have upset investment banks and investors. For example, in July 2006, the S&P RMBS group updated its model with improved data and determined that, to avoid an increasing risk of default, subprime RMBS securities required a credit enhancement with 40 percent larger loss protection in the equity tranches. Even though S&P had determined that credit risk had increased and altered its model accordingly, it decided not to retest existing rated subprime RMBS securities as

[22] Moody's-COGR-0038027.
[23] PSI-SP-000404.

part of its surveillance effort. Moody's also did not retest existing RMBS securities. Its policy stated: "Currently, following a methodology change, Moody's does not re-evaluate every outstanding, affected rating." [24] Had the CRAs retested existing securities and issued appropriate downgrades in 2006, it would have sent an early signal to the market that there were problems in the subprime market and perhaps dampened the high risk lending.

Gamesmanship also took place with issuers seeking ratings for new securities to use the old model that produced higher ratings than the new model. For example, in 2007, Morgan Stanley sent an email to a Moody's analyst saying: "Thanks again for your help (and Mark's) in getting Morgan Stanley up-to-speed with your new methodology. As we discussed last Friday, please find below a list of transactions with which Morgan Stanley is significantly engaged already (assets in warehouses, some liabilities placed). We appreciate your willingness to grandfather these transactions [under] Moody's old methodology."[25]

--Mortgage Fraud. Still another problem was that, although the CRAs were aware of increased levels of mortgage fraud and lax underwriting, they did not factor that credit risk into their models. As early as 2004, the Federal Bureau of Investigations (FBI) issued a report announcing increased mortgage fraud: "[L]oan frauds are expanding to multitransactional frauds involving groups of people from top management to industry professionals who assist in the loan application process."[26] In 2006, the FBI reported that the number of Suspicious Activity Reports on mortgage fraud had increased sixfold, from about 5,600 in 2002, to about 35,000 in 2006, while mortgage fraud convictions had increased 131%.[27] The Mortgage Asset Research Institute (MARI) also reported increasing mortgage fraud over several years, including a 30% increase in 2006 alone.[28]

Internal emails demonstrate that CRA personnel were aware of the problem. In August 2006, for example, an S&P employee wrote: "I'm not surprised, there has been rampant appraisal and underwriting fraud in the industry for quite some time as pressure has mounted to feed the origination machine."[29] In September 2006, another S&P employee wrote: "I think it's telling us that underwriting fraud; appraisal fraud and the general appetite for new product among originators is resulting in loans being made that shouldn't be made." A colleague responded that the head of the S&P Surveillance Group "told me that broken down to loan level what she is seeing in losses is as bad as high 40's – low 50% I'd love to be able to

[24] MIS-OCIE-RMBS-0037203
[25] Email from Morgan Stanley to Moody's, 5/2/2007, SEC_MOODYS00000345.
[26] FBI, Financial Institution Fraud and Failure Report, 2004, http://www.fbi.gov/publications/financial/2004fif/fif04.pdf
[27] "Financial Crimes Report to the Public Fiscal Year 2006, October 1, 2005 – September 30, 2006," Federal Bureau of Investigation
[28] Ninth Periodic Mortgage Fraud Case Report to Mortgage Bankers Association, April 2007, Mortgage Asset Research Institute, LLC.
[29] Email from S&P employee, 8/8/06, S&P SEC-E 31894.htm.

publish a commentary with this data but maybe too much of a powder keg."[30] In October 2006, still another S&P employee wrote: "Pretty grim news as we suspected – note also the 'mailing in the keys and walking away' epidemic has begun – I think things are going to get mighty ugly next year!" Articles about the deterioration of the subprime and housing market were circulated within the credit rating agencies throughout 2006 and 2007, yet no model adjustments to the models were made to account for fraud.

In January 2007, when S&P was asked to rate a CDO with subprime loans issued by Fremont Investment and Loan, a subprime lender known for poor quality loans, an S&P ratings analyst sent an email to his supervisors: "I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?" One supervisor told him: "No, we don't treat their collateral any differently." The other wrote that, as long as he had current FICO scores for the borrowers, the analyst was "good to go." In the meantime, an article was circulated stating that Fremont had stopped using 8,000 brokers due to loans with some of the highest delinquency rates in the industry. Despite Fremont's higher credit risk, both S&P and Moody's rated the CDO in March 2007. By the end of the year, both began downgrading the CDO. Currently, two of the five AAA tranches have been downgraded 17 notches to junk status.

In September 2007, looking back, one Moody's managing director wrote: "[W]hy didn't we envision that credit would tighten after being loose, and housing prices would fall after rising, after all most economic events are cyclical and bubbles inevitably burst. Combined, these errors make us look either incompetent at credit analysis, or like we sold our soul to the devil for revenue, or a little bit of both."[31]

SEC Report. In 2007, after the mass downgrades began, the SEC initiated an examination of the credit rating agencies. In 2008, the SEC issued a report which found that despite the large increase in volume of CDO/RMBS products, the credit rating agencies did not increase their staff to rate or monitor these securities; the credit rating agencies appeared to be rating complex deals with little understanding of them; CRAs were not conducting ongoing surveillance of their rated products; and Wall Street firms were part of the CRA rating process and influenced the outcome.

Subcommittee Findings. Based upon the Subcommittee's ongoing investigation, we make the following findings of fact regarding the role of the credit rating agencies in the 2008 financial crisis.

1) **Inaccurate Rating Models.** From 2004 to 2007, Moody's and Standard & Poor's used credit rating models with data that was inadequate to predict how high risk residential mortgages, such as subprime, interest only, and option adjustable rate mortgages, would perform.

[30] Email from S&P employee, 9/29/06, S&P-SEC-E 333308.
[31] Moody's Managing Director, Moody's Town Hall Feedback, Sept. 2007, Moody's 0052080 at 79.

2) **Competitive Pressures.** Competitive pressures, including the drive for market share and need to accommodate investment bankers bringing in business, affected the credit ratings issued by Moody's and Standard & Poor's.

3) **Failure to Re-evaluate.** By 2006, Moody's and Standard & Poor's knew their ratings of residential mortgage backed securities (RMBS) and collateralized debt obligations (CDOs) were inaccurate, revised their rating models to produce more accurate ratings, but then failed to use the revised model to re-evaluate existing RMBS and CDO securities, delaying thousands of rating downgrades and allowing those securities to carry inflated ratings that could mislead investors.

4) **Failure to Factor In Fraud, Laxity, or Housing Bubble.** From 2004 to 2007, Moody's and Standard & Poor's knew of increased credit risks due to mortgage fraud, lax underwriting standards, and unsustainable housing price appreciation, but failed adequately to incorporate those factors into their credit rating models.

5) **Inadequate Resources.** Despite record profits from 2004 to 2007, Moody's and Standard & Poor's failed to assign sufficient resources to adequately rate new products and test the accuracy of existing ratings.

6) **Mass Downgrades Shocked Market.** Mass downgrades by Moody's and Standard & Poor's, including downgrades of hundreds of subprime RMBS over a few days in July 2007, downgrades by Moody's of CDOs in October 2007, and downgrades by Standard & Poor's of over 6,300 RMBS and 1,900 CDOs on one day in January 2008, shocked the financial markets, helped cause the collapse of the subprime secondary market, triggered sales of assets that had lost investment grade status, and damaged holdings of financial firms worldwide, contributing to the financial crisis.

7) **Failed Ratings.** Moody's and Standard & Poor's each rated more than 10,000 RMBS securities from 2006 to 2007, downgraded a substantial number within a year, and, by 2010, had downgraded many AAA ratings to junk status.

8) **Statutory Bar.** The U.S. Securities and Exchange Commission is barred by statute from conducting needed oversight into the substance, procedures, and methodologies of the credit rating models.

9) **Legal Pressure for AAA Ratings.** Legal requirements that some regulated entities, such as banks, broker-dealers, insurance companies, pension funds, and others, hold assets with AAA or investment grade credit ratings, created pressure on credit rating agencies to issue inflated ratings making assets eligible for purchase by those entities.

Excerpts from Documents Related to Credit Rating Agencies
Competitive Pressures Affecting Ratings

"Analysts and [Managing Directors] are continually 'pitched' by bankers, issuers, investors --all with reasonable arguments -- whose views can color credit judgment, sometimes improving it, other times degrading it (we 'drink the kool-aid'). Coupled with strong internal emphasis on market share & margin focus, this does constitute a 'risk' to ratings quality."

--Email from Moody's Chief Risk Officer to CEO Raymond McDaniel, 10/21/2007, MOODY'S-COGR-0038026, Ex. 24b.

"We are meeting with your group this week to discuss adjusting criteria for rating CDOs of real estate assets this week because of the ongoing threat of losing deals. ... Lose the CDO and lose the base business - a self reinforcing loop."

--Email from S&P employee, 8/17/2004, Subject: "RE: SF CIA: CDO methodology invokes reactions," S&P-SEC-E 008141, Ex. 3.

"We just lost a huge Mizuho RMBS deal to Moody's due to a huge difference in the required credit support level .... Losing one or even several deals due to criteria issues, but this is so significant that it could have an impact in the future deals. There's no way we can get back on this one but we need to address this now in preparation for the future deals."

--Email from S&P employee, 5/25/2004, Subject: "Competition with Moody's," S&P-SEC-E 005917, Ex. 2.

"Version 6.0 [a new version of the S&P ratings model] could've been released months ago and resources assigned elsewhere if we didn't have to massage the sub-prime and Alt-A numbers to preserve market share. ... We have known for some time (based upon pool level data and LEVELS 6.0 testing that - Subprime: B and BB levels need to be raised; ALT A: B, BB and BBB levels need to be raised (we have had a disproportionate number of downgrades.)"

--Internal S&P emails, 3/23/2005, Subject: "RE: LEVELS 5.6(c)," S&P-SEC-E 677571, Ex. 5.

"Screwing with [the model's] criteria to 'get the deal' is putting the entire S&P franchise at risk -- it's a bad idea."

--Email from S&P employee, 6/14/2005, Subject: "RE: Privileged Criteria Deliberations: CWHEQ 2005-C," S&P-SEC-E 1291974, Ex. 6.

"I am VERY concerned about this E3 [S&P's new CDO model]. If our current structure, which we have been marketing to investors and the mgr ... doesn't work under the new assumptions, this will not be good. Happy to comply [with S&P's model], if we pass, but will ask for an exception [from S&P] if we fail...."

--Email from Citigroup banker to S&P, 2/06/2006, Subject: "Re: Comstock," S&P-SEC-E 170916, Ex. 8.

"He described RMBS as the worst team to work on at Moody's. It is difficult to maintain market share in a market that has become commoditized and where Moody's expected loss analysis means higher cost for issuers."

--Email from Moody's employee, 4/7/2006, Subject: "Jay Siegel Exit Interview," SEC_MOODYS00001660, Ex. 17.

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"I am worried that we are not able to give these complicated deals the attention they really deserve and that they (CS) are taking advantage of the "light" review and the growing sense of 'precedent.'"

--Email from Moody's employee, 5/1/06, Subject: "Re: Magnolia 2006-5 Class Ds," PSI-Moodys-000086, Ex. 19.

"Heard you guys are revising your residential mbs rating methodology – getting very punitive on silent seconds. heard your ratings could be 5 notches back of mo[o]dys equivalent. gonna kill your resi biz. may force us to do moodyfitch only cdos!" "[A]ny truth to this?" "We put out some criteria a couple of weeks ago that we will begin to use for deals closing in July. … We certainly did [not] intend to do anything to bump us off a significant amount of deals."

--Email exchange involving UBS banker and S&P employees, 5/2006, PSI-SP-000355, Ex.11.

"We assume this scenario to be negative for the corporate business because Moody's will be giving out higher ratings on secured loans so issuers will be less likely to ask for an S&P rating on the issue."

--Email from S&P employee, 6/15/06, Subject: "question on impact to CDOs," PSI-SP-000385, Ex. 12.

"Your beloved customer Davenport just trolled the street and did a bunch of synthetics with different attachment points …. She is clearly arb-ing us for lack of a precise methodology … You want this to be a commodity relationship and this is EXACTLY what you get … How many millions does Morgan Stanley pay us in the greater scheme of things? How many times have I accommodated you on tight deals? Neer, Hill, Yoo, Garzia , Nager, May, Miteva, Benson, Erdman all think I am helpful, no?"

--Email from S&P employee to Morgan Stanley banker, 8/01/2006, Subject: "RE: can you call me? Have left you numerous messages," S&P-SEC-E 173322, Ex. 13.

"They've [S&P's RMBS group] become so beholden to their top issuers [investment banks] for revenue they have all developed a kind of Stockholm syndrome which they mistakenly tag as Customer Value creation."

--Email from S&P employee, 8/08/2006, Subject: "Re: Loss severity vs gross/net proceeds," S&P-SEC-E 318394, Ex. 14.

"I spoke to Osmin earlier and confirmed that Jason is looking into some adjustments to his methodology that should be a benefit to you folks [Chase]."

--Email from Moody's employee to Chase banker, 2/20/2007, Subject: "Re: Thanks for your help," SEC_MOODYS00001637.

"[T]he newest sickening trend. Issuers trying to pass their loss of profitability resulting from the latest blow out in spreads by demanding severe rating fee pricing reductions .... we lost the pwr deal because we refused to reduce our fee from 1.4 million to 1.1 million for a 4 billion dollar pool .... unbelievable ... the bankers make sh**ty loans with such skinny margins tha[t] they can't make any money and expect us to eat it. Given our current staffing (i.e. Not enough analysts to rate the current pipeline of deals), the opportunity cost of doing the deal at that ridiculously low fee and risking eroding our pricing structure going forward was deemed too high ... lets just hope the deal prices like crap without us."

--Email from S&P employee, 4/26/2007, Subject: "FW: PWR 16," S&P-SEC-E 1177499, Ex. 53.

"We have spent significant amount of resource on this deal and it will be difficult for us to continue with this process if we do not have an agreement on the fee issue." "We are okay with the revised fee schedule for this transaction. We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try to get to some middle ground with respect to the ratings."

--Email exchange between Moody's and Merrill Lynch, 6/12/07, Subject, "Re: Rating application for Belden Point CDO," PSI-Moodys-000097, Ex. 23.

"And so what happened was, it was a slippery slope. As you see markets that are robust, an example would be what happened recently in commercial mortgages, or more importantly what happened with subordinated tranches in residential mortgages in '04 and '05 with respect to subordinated tranches is that our competition, Fitch and S&P went nuts. Everything was investment grade. It didn't really matter."

--Moody's CEO Raymond McDaniel at Moody's Town Hall Meeting, September 10, 2007, Ex. 98.

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010

Excerpts from Documents Related to Credit Rating Agencies
Ratings Methodology

"[N]o body gives a straight answer about anything around here … how about we come out with new [criteria] or a new stress and ac[tu]ally have clear cut parameters on what the hell we are supposed to do."

--Instant Message from S&P employee, 5/08/2007, Ex. 30b.

"I would like to discuss how we plan on ultimately 'spinning' our revised correlation assumptions [regarding the model]."

--Email from S&P employee, 3/04/2005, Subject: "RE: FW: Wachovia Report Cites Questions of S&P's Integrity," S&P-SEC-E 401265, Ex. 25.

"This deal ended up not weak-linking to [Goldman Sachs]. Chui told me that while the three of us voted 'no', in writing, that there were 4 other 'yes' votes. … [T]his is a great example of how the criteria process is NOT supposed to work. Being out-voted is one thing (and a good thing, in my view), but being out-voted by mystery voters with no 'logic trail' to refer to is another. … Again, this is exactly the kind of backroom decision-making that leads to inconsistent criteria, confused analysts, and pissed-off clients."

--Email from S&P employee, 5/12/2005, Subject: "FW: Adirondack CDO," S&P-SEC-E 491870, Ex. 10c.

"Don't even get me started on the language he cites … which is one of the reasons I said the counterparty criteria is totally messed up. ... And not only have these trades consumed tons of my time, but they have generated an enormous amount of stress since I'm the one that has to break the news that these trades are wrong … which makes us look like idiots."

--Email from S&P employee, 4/23/2006, Subject: "RE: ABACUS 2006-12 – Writedowns immediately prior to Stated Maturity," S&P-SEC-E 177281, Ex. 10b.

"Since there is no published criteria outlining the change in methodology how are we supposed to find out about it?"

--Email from Morgan Stanley banker to Moody's employee, 8/19/2006, Subject: "RE: Pro-rata modeling criteria," SEC_MOODYS00000025, Ex. 37.

"Hopefully in the near future (next 3 to 6 months) we will have significantly enhanced capabilities to analyze many more scenarios than we currently do and therefore do a better job of differentiating the risk of different step down date."

--Email from Moody's employee, 9/28/2006, Subject: "RE: Bear SACO 2006-8 HELOC – 31 month stepdown," SEC_MOODYS00000925.

"When the required subordination for the BBB tranche was determined, we modeled the recoveries of the assets given a BBB scenario …. If we ran the recovery model with the AAA recoveries, it stands to reason that the tranche would fail ... since there would be lower recoveries and presumably a higher degree of defaults. Essentially, I'm wondering whether my initial feeling that a drill down approach on synthetics would not work is false. BUT are there any knock-on effects if the synthetic itself had synthetics in its portfolio? Rating agencies continue

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to create an even bigger monster -- the CDO market. Let's hope we are all wealthy and retired by the time this house of cards falters."

Email from S&P employee, 12/15/2006, Subject: "RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)," S&P-SEC-E 199613, Ex. 27.

"Can anyone give me a crash course on the 'hidden risks in CDO's of RMBS'?"

--Email from S&P employee, 1/17/2007, Subject: "FW: Summary of Conference Call," S&P-SEC-E 1319429, Ex. 28.

"It sounds like Moody's is trying to figure out when to start downgrading, and how much damage they're going to cause -- they're meeting with various investment banks."

--Internal UBS email, 5/07/2007, Subject: "ABS Subprime and Moody's Downgrades," *Pursuit Partners, LLC v. UBS, AG et al.*, Ex. 94o

"Over time, different chairs have been giving different guidelines at different points of time on how much over-enhancement we need for a bond to be notched up to Aaa, the numbers vary from 10% to 1/3 of bond size. The main reason I sent Tony to you is to get some general guidance on the notching practice, so that people can follow without having to run by you every time the issue comes up."

--Email from Moody's employee, 6/28/2007, Subject: "RE: Please READ M-1 sign off," SEC_MOODYS00002855, Ex. 39.

"Back in May, the deal had 2 assets default, which caused it to fail. We tried some things, and it never passed anything I ran. Next thing I know, I'm told that because it had gone effective already, it was surveillance's responsibility, and I never heard about it again. Anyway, because of that, I never created a new monitor."

--Email from S&P's employee, 8/07/2007, Subject: "RE: Fw: S&P CDO Monitor Kodiak CDO I: Urgent," S&P-SEC-E 163941, Ex. 96a.

"We might need to change our model as well for this. For now I am asking analysts to do the seasoning benefit themselves outside the model."

--Email from Moody's employee, 8/09/2007, Subject: "FW: Seasoning benefit in Alt-A model is fully functional now," SEC_MOODYS00001313, Ex. 40.

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010

Excerpts from Documents Related to Credit Rating Agencies

Deteriorating Subprime Mortgages

"The potential impact of mortgage fraud on financial institutions and the stock market is clear. If fraudulent practices become systemic within the mortgage industry and mortgage fraud is allowed to become unrestrained, it will ultimately place financial institutions at risk and have adverse effects on the stock market."

--Statement of Chris Swecker, Assistant Director of the Criminal Investigative Division, Federal Bureau of Investigations, 8/07/2004.

"Rampant fraud in the mortgage industry has increased so sharply that the FBI warned Friday of an 'epidemic' of financial crimes which, if not curtailed, could become 'the next S&L crisis.'"

--"FBI warns of mortgage fraud epidemic," CNN.com, 9/17/2004.

"I have been a mortgage broker for the past 13 years and I have never seen such a lack of attention to loan risk."

--Email from Resource Realty, 7/22/05, Subject: "Washington Mutual," PSI-SP-000395, Ex. 45.

"'Who Will Be Left Holding The Bag?' It's a question that comes to mind whenever one price increase after another—say, for ridiculously expensive homes—leaves each succeeding buyer out on the end of a longer and longer limb: When the limb finally breaks, who's going to get hurt? In the red-hot U.S. housing market, that's no longer a theoretical riddle. Investors are starting to ask which real estate vehicles carry the most risk—and if mortgage defaults surge, who will end up suffering the most."

--S&P economic research paper, 9/12/2005.

"I'm not surprised; there has been rampant appraisal and underwriting fraud in the [mortgage] industry for quite some time as pressure has mounted to feed the origination machine."

--Email from S&P Managing Director Richard Koch, 8/07/2006, Subject: "Re: Loss severity vs gross/net proceeds," S&P-SEC-E-318394, Ex. 14.

"Interesting Business Week article on Option ARMs, quoting anecdotes involving some of our favorite servicers (It's no wonder Homecomings is under FTC scrutiny; could WAMU be next?)." "This is frightening. It wreaks of greed, unregulated brokers, and 'not so prudent' lenders. ... Hope our friends with large portfolios of these mortgages are preparing for the inevitable."

--Email exchange among S&P employees, including Managing Director Richard Koch, 9/02/2006, Subject: "Re: Nightmare Mortgages," S&P-SEC-E 1027382, Ex. 46a.

"I'm surprised the OCC and FDIC doesn't come downharder on these guys - this is like another banking crisis potentially looming!!"

--Email from S&P Managing Director, 9/05/2006, Subject: "Re: Loss severity vs gross/net proceeds," S&P-SEC-E 318394, Ex. 46b.

Permanent Subcommittee on Investigations

EXHIBIT #1d

"You hit it right on the head – Ernestine [S & P head of surveillance group] told me that broken down to loan level what she is seeing in losses is as bad as high 40s -low 50s %[.] I'd love to be able to publish a commentary with this data but maybe too much of a powder keg"

--Email from S&P Managing Director, Subject: "RE: REO DATA," 9/29/2006, S&P-SEC-E 333308.

"To give you a confidential tidbit among friends the subprime brou haha is reaching serious levels - tomorrow morning key members of the RMBS rating division are scheduled to make a presentation to Terry McGraw CEO of McGraw-Hill Companies and his executive committee on the entire subprime situation and how we rated the deals and are preparing to deal with the fallout (downgrades)."

--Email from S&P Managing Director, 3/18/2007, Subject: "member firms reactions to troubled servicers," S&P-SEC-E 326209, Ex. 52a.

"In a meeting with Kathleen Corbet today, she requested that we put together a marketing campaign around the events in the subprime market, the sooner the better. … [S]he didn't feel that we are being proactive enough in communicating our thinking to the market as well as proactively protecting ourselves against bad press."

--Email from S&P employee, 3/20/2007, Subject: "Pre-empting bad press on the subprime situation," PSI-SP-000407, Ex. 52c.

"[O]ne aspect of our handling of the subprime that really concerns me is what I see as our arrogance in our messaging. … We did sound like the Nixon White House. Instead of dismissing people like him or assuming some dark motive on their part, we should ask ourselves how we could have so mishandled the answer to such an obvious question. I have thought for awhile now that if this company suffers from an Arthur Andersen event, we will not be brought down by a lack of ethics as I have never seen an organization more ethical, nor will it be by greed as this plays so little role in our motivations; it will be arrogance."

--Email from S&P employee discussing S&P conference call answering questions about mass downgrades of subprime mortgage backed securities, 7/13/2007, Subject: "Tomorrow's FT Column," Ex. 54a.

"[W]hy didn't we envision that credit would tighten after being loose, and housing prices would fall after rising, after all most economic events are cyclical and bubbles inevitably burst. Combined, these errors make us look either incompetent at credit analysis, or like we sold our soul to the devil for revenue, or a little bit of both. Moody's franchise value is based on staying AHEAD OF THE PACK on credit analysis and instead we are in the middle of the pack. I would like more candor from senior management about our errors and how we will address them in the future."

--Anonymous Moody's Managing Director after Town Hall Meeting with Moody's CEO Ray McDaniel, September 2007, Ex. 98.

"You're right about CDOs as WMD – but it's only CDOs backed by subprime that are WMD."

Email from Moody's employee, 11/27/2007, Subject: "Overnightor NY," PSI-MOODYS-000064, Ex. 58.

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010

Excerpts from Documents Related to Credit Rating Agencies
Grandfathering

"FYI. Just sat on a panel with Frderic Drevon, my opposite number at Moody's who fielded a question on what happens to old transactions when there is a change to rating methodologie. The official Moody's line is that there is no 'grandfathering' and that old transactions are reviewed using the new criteria. However, 'the truth is that we do not have the resources to review thousands of transactions, so we focus on those that we feel are more at risk.' Interestingly, Olivier Dufour from Fitch said they 'grandfathered' as it would otherwise be 'unfair'."

--Email from S&P employee, 3/21/2006, Subject: "Moodys," S&P-SEC-E 355327, Ex. 71.

"The overarching issue at this point is what to do with currently rated transactions if we do release a new version of Evaluator [S&P ratings model]. Some of [us] believe for both logistical and market reasons that the existing deals should mainly be 'grand fathered'. Others believe that we should run all deals using the new Evaluator. The problem with running all deals using E3 is twofold: we don't have the model or resource capacity to do so, nor do we all believe that even if we did have the capability, it would be the responsible thing to do to the market."

--Email from S&P employee, 6/21/2005, Subject: "RE: new CDO criteria," S&P-SEC-E 403320, Ex. 60.

"[T]he way surveillance is done is different from how a new deal is done. ... In my opinion, this creates a sense of disconnect and analysts (new deal and surveillance) do not feel a need to make sure there is a good process and procedure in place to identify basic global assumption changes. ... The two major reasons why we have taken the approach is (i) lack of sufficient personnel resources and (ii) not having the same models/information available for surveillance to relook at an existing deal with the new assumptions (i.e. no cash flow models for a number of assets). The third reason is concerns of how disruptive wholesale rating changes, based on a criteria change, can be to the market."

--Email from S&P employee to Head of Global Surveillance Ernestine Warner, 10/6/2005, Subject: "RE: Tomorrow's AM Agenda," S&P-SEC-E 1264306, Ex. 62.

"We are in a bit of a pickle here. My legal staff is not letting me send anything out to any investor on anything with an S&P rating right now. We are waiting for you to tell us that you approve the disclaimer or are grandfathering our existing and pipeline deals. My business is on 'pause' right now."

--Email from Morgan Stanley banker to S&P, 11/23/2005, Subject: "Disclaimer – Help," S&P-SEC-E 427311, Ex 64.

"'Rabo Tango are withdrawing any interest from LNR because they had a call with S&P who confirmed that this was being rated off the old methodology. Rabo's conclusion was that they felt this deal was a prime candidate for a downgrade when the new methodology kicked in. I apologize if my voice mail seemed curt but this is a huge issue for us and the investor came to this conclusion immediately after the call with the S&P person."

--Email from Goldman Sachs banker to S&P, 1/31/2006, S&P-SEC-E 1159095, Ex. 69.

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"Simply put - although the RMBS Group does not 'grandfather' existing deals, there is not an absolute and direct link between changes to our new ratings models and subsequent rating actions taken by the RMBS Surveillance Group. As a result, there will not be wholesale rating actions taken in July or shortly thereafter on outstanding RMBS transactions, absent a deterioration in performance and projected credit support on any individual transaction."

--Email from S&P employee, 6/23/2006, Subject: "RMBS LEVELS 5.7 and its Impact on Outstanding Deals," S&P-SEC-E 1255416, Ex. 72.

"Thanks again for your help (and Mark's) in getting Morgan Stanley up-to-speed with your new methodology. As we discussed last Friday, please find below a list of transactions with which Morgan Stanley is significantly engaged already (assets in warehouses, some liabilities placed). We appreciate your willingness to grandfather these transactions [with regards to] Moody's old methodology."

--Email from Morgan Stanley Executive Director to Moody's, 5/2/2007, Subject: "Upcoming CLOs / grandfathering list," SEC_MOODYS00000345, Ex. 76.

"Heads-up/note on further question that the FT [Financial Times] (Paul Davis) are pursuing: Why don't we reassess all outstanding bonds when we announce to change our model assumptions for future transaction? He is focussing on US CMBS's recent changes, but this question applies across the board."

--Email from Moody's Senior Director in Structured Finance, 5/25/2007, Subject: "FW: Financial Times inquiry on transparency of assumptions," MIS-OCIE-RMBS-0364942.

"Currently, following a methodology change, Moody's does not re-evaluate every outstanding, affected rating. Instead, it reviews only those obligations that it considers most prone to multi-notch rating changes, in light of the revised rating approach. This decision to selectively review certain ratings is made due to resource constraints."

--Moody's Structured Finance Credit Committee, 3/31/2008, MIS-OCIE-RMBS_095, Ex. 80.

"[E]ach of our current deals is in crisis mode. This is compounded by the fact that we have introduced new criteria for ABS CDOs. Our changes are a response to the fact that we are already putting deals closed in the spring on watch for downgrade. This is unacceptable and we cannot rate the new deals in the same away [sic] we have done before. ... bankers are under enormous pressure to turn their warehouses into CDO notes."

--Email from Moody's Eric Kolchinsky, 8/22/07, Subject: "Deal Management," PSI-Moody's 000032, Ex. 42.

"[I]t would be helpful to have a policy framework communicated to the market on when S&P will apply new criteria in model derived ratings to outstanding transactions and when it won't. ... [W]e are not being as transparent as we need to be."

--Email from S&P employee, 12/07/05, Subject: "re: Call from Abby Moses, Derivatives Week re: status of CDO Evaluator 3," PSI-SP-000179, Ex. 67.

"How do we handle the grandfathering issue in the context of consistent application of criteria."

--Email from S&P employee, 7/15/07, Subject: "re: Special ABP meeting," PSI-SP-000254, Ex. 74.

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010

Excerpts from Documents Related to Credit Rating Agencies

Chronic Resource Shortages

"Thanks for sharing the draft of the CDO surveillance piece you're planning to publish later this week. ... In the section about your CDO surveillance infrastructure, we were struck by the data point about the 26 professionals who are dedicated to monitoring CDO ratings. While this is, no doubt, a strong team, we wanted to at least raise the question about whether the company's critics could twist that number – e.g., by comparing it to the 13,000+ CDOs you're monitoring - and once again question if you have adequate resources to do your job effectively. Given that potential risk, we thought you might consider removing any specific reference to the number of people on the CDO surveillance team."

--Email from Moody's employee, 7/09/2007, Subject: "FW: CDO Surveillance Note 7_071.doc," SEC_MOODYS00000545.

"While I realize that our revenues and client service numbers don't indicate any ill [e]ffects from our severe understaffing situation, I am more concerned than ever that we are on a downward spiral of morale, analytical leadership/ quality and client service."

--Email from S&P employee, 10/31/2006, Subject: "A CDO Director resignation," S&P-SEC-E 354159.

"There is some concern about workload and its impact on operating effectiveness. ... Most acknowledge that Moody's intends to run lean, but there is some question of whether effectiveness is compromised by the current deployment of staff."

--Moody's SFG [Structured Finance Group] 2002 Associate Survey, Ex. 92a.

"We are over worked. Too many demands are placed on us for administrative tasks ... and are detracting from primary workflow .... We need better technology to meet the demand of running increasingly sophisticated models."

--Moody's BES Employee Survey 2005, Ex. 92b.

"Lehman is proposing an alternative way of calculating haircuts which I think has some merit .... Independent models are provided by several banks .... I must recognize that we do not have the knowledge nor the time to develop our own models."

--Email from Moody's employee, 12/05/2006, SEC_MOODYS00000052.

"I am trying to put my hat on not only for ABS/RMBS but for the department and be helpful but feel that it is necessary to re-iterate that there is a shortage in resources in RMBS. If I did not convey this to each of you I would be doing a disservice to each of you and the department. As an update, December is going to be our busiest month ever in RMBS. I am also concerned that there is a perception that we have been getting all the work done up until now and therefore can continue to do so. We ran our Staffing model assuming the analysts are working 60 hours a week and we are short resources. ... The analysts on average are working longer than this and we are burning them out."

--Email from S&P employee, 12/29/2004, Subject: "RE: Staffing and Allocation," S&P-SEC-E 006032.

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"We spend most of our time keeping each other and our staff calm. Tensions are high. Just too much work, not enough people, pressure from company, quite a bit of turnover and no coordination of the non-deal 'stuff' they want us and our staff to do."

--Email from S&P employee, 5/2/2006, Subject: "RE: Change in scheduling/Coaching sessions/Other stuff," S&P-SEC-E 1152365.

"RMBS has an all time high of 5900 transactions. Each time I consider what my group is faced with, I become more and more anxious. The situation with Lal, being off line or out of the group, is having a huge impact."

--Email S&P Head of Global Surveillance Ernestine Warner, 4/28/2006, S&P-SEC-E 1197409, Ex. 83.

"In light of the current state of residential mortgage performance, especially sub-prime, I think it would be very beneficial for the RMBS surveillance team to have the work being done by the temps to continue. It is still very important that performance data is loaded on a timely basis as this has an impact on our exception reports. Currently, there are nearly 1,000 deals with data loads aged beyond one month."

--Email from S&P Head of Global Surveillance Ernestine Warner, 12/20/2006, Subject: "Please continue temps," S&P-SEC-E 1223053, Ex. 84.

"I talked to Tommy yesterday and he thinks that the ratings are not going to hold through 2007. He asked me to begin discussing taking rating actions earlier on the poor performing deals. I have been thinking about this for much of the night. We do not have the resources to support what we are doing now. A new process, without the right support, would be overwhelming. … I really need to add to staff to keep up with what is going on with sub prime and mortgage performance in general, NOW."

--Email from S&P Head of Global Surveillance Ernestine Warner to Peter D'Erchia, 2/03/2007, Subject: "RE: Headcount for RMBS Surveillance?/," S&P-SEC-E 1201718, Ex. 86.

"We really need help. Sub prime is going down hill. The 20% not covered in our system is also of great concern. I am going ahead with interviewing for the open positions."

--Email from S&P Head of Global Surveillance Ernestine Warner to Peter D'Erchia, 2/13/2007, Subject: "RE: What's the problem now???," S&P-SEC-E 1201177, Ex. 87.

"We have worked together with Ernestine Warner (EW) to produce a staffing model for RMBS Surveillance (R-Surv). It is intended to measure the staffing needed for detailed surveillance of the 2006 vintage and also everything issued prior to that. This model shows that the R-Surv staff is short by 7 FTE- about 3 Directors, 2 AD's, and 2 Associates. The model suggests that the current staff may have been right sized if we excluded coverage of the 2006 vintage, but was under titled lacking sufficient seniority, skill, and experience."

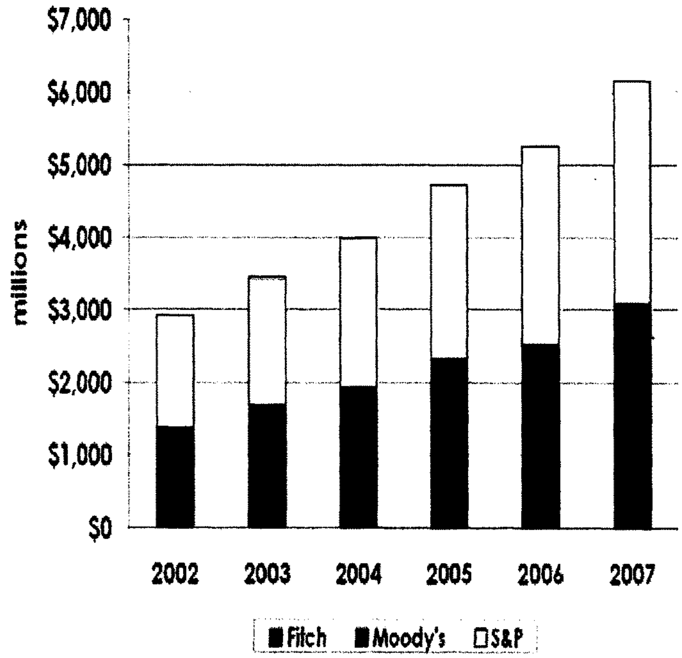
--Email from S&P employee to Susan Barnes, 4/24/2007, Subject: "Staffing for RMBS Surveillance," S&P-SEC-E 899493, Ex. 88.

"Unfortunately, our analysts are o[v]erwhelmed."

--Email from Moody's Eric Kolchinsky, 5/23/07, PSI-Moody's-000052, Ex. 91.

Prepared by the U.S. Senate Permanent Subcommittee on Investigations, April 2010

Revenue of the Three Credit Rating Agencies: 2002-2007



Source: thismatter.com/money

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EXHIBIT #1g

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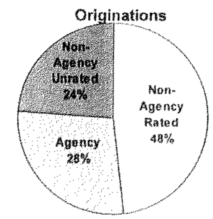
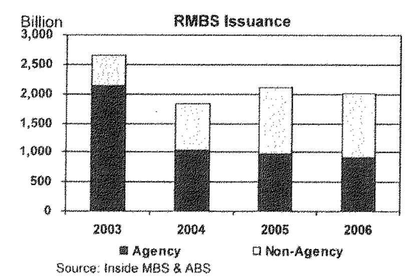
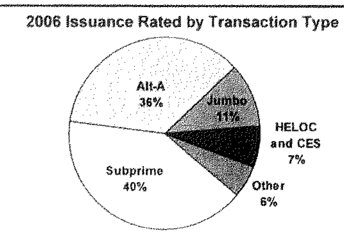
EXHIBIT #1h

2006 Originations and RMBS Issuance

- **Mortgage Originations - $2.5 Trillion**
  - Subprime Originations - $600 Billion
    (70-75% of which is securitized and rated)
- **RMBS Issuance - $1.9 Trillion**
  - Non-Agency (Rated) Market - $1.2 Trillion
    - Subprime Issuance - $435 Billion or 36%
  - Agency (Freddie, Fannie and GNMA) Market - $0.7 Trillion
- **Other Non-Securitized Outstandings - $0.6 Trillion**
  - Held on balance sheet or in portfolio by financial institutions and privately financed generally through a base of retail deposits







Source: *Standard & Poor's Rating Services, U.S. Residential Mortgage Subprime Market, March 29, 2007.*

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EXHIBIT #1i

Percent of the Original AAA Universe Currently Rated Below Investment Grade

Vintage	Prime Fixed	Prime ARM	Alt-A Fixed	Alt-A ARM	Option ARM	Subprime
2004	3%	9%	10%	17%	50%	11%
2005	39%	58%	73%	81%	76%	53%
2006	81%	90%	96%	98%	97%	93%
2007	92%	90%	98%	96%	97%	91%

Source: BlackRock Solutions as of February 8, 2010. Prepared by U.S. Senate Permanent Subcommittee on Investigations, April 2010

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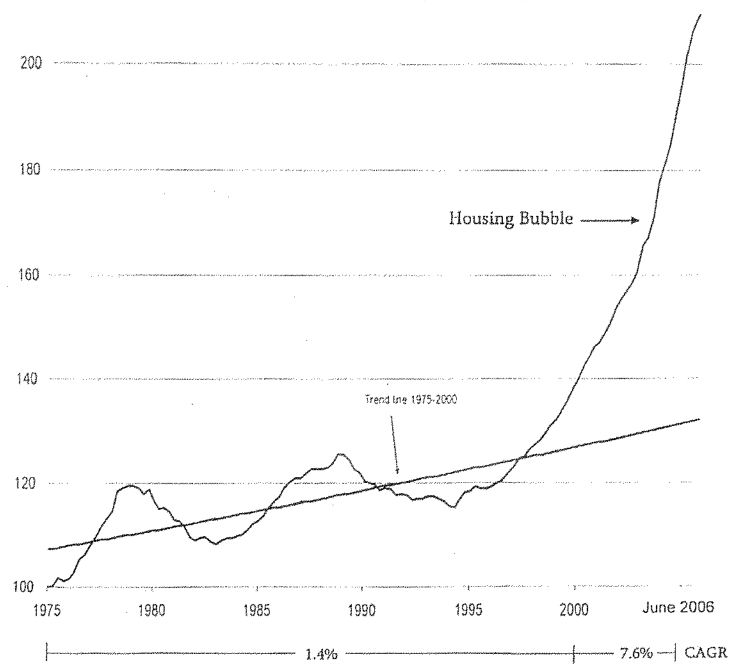
EXHIBIT #1j

ESTIMATION OF HOUSING BUBBLE: Comparison of Recent Appreciation vs. Historical Trends



Source: Office of Federal Housing Enterprise Oversight, Bureau of Economic Analysis

2

PAULSON & CO. INC.

PSI-Paulson&Co-02-00003

57321.141

Table 3: Biggest Clients of the Credit Rating Agencies

This table shows the amount of business each CDO originator did with the three main CRAs. Ranks are based on the total par amount of CDO tranches rated by the agency: the higher ranks correspond to more business. The total amount rated by the agency is shown in parentheses under the rank. The results are sorted by average ranking.

Originator	Average Rank	Moody's Rank ($mm)	Fitch Rank ($mm)	S&P Rank ($mm)
Merrill Lynch	1	1 ($76,908)	1 ($31,269)	1 ($77,275)
Citigroup	2	2 ($28,497)	6 ($2,972)	2 ($29,106)
UBS	3	6 ($17,124)	2 ($6,962)	4 ($20,396)
Wachovia	4	4 ($20,328)	7 ($2,527)	5 ($20,337)
Calyon	5	7 ($16,877)	3 ($4,656)	7 ($16,848)
Goldman Sachs	6	3 ($22,477)	14 ($0,798)	3 ($22,617)
Deutsche Bank	7	10 ($12,251)	5 ($3,390)	8 ($14,471)
Various Small Banks	8	5 ($18,742)	13 ($0,947)	6 ($18,689)
Credit Suisse	9	8 ($13,330)	8 ($1,893)	9 ($14,088)
RBS	10	12 ($10,686)	9 ($1,673)	12 ($11,704)
Lehman Brothers	11	11 ($11,985)	12 ($1,085)	11 ($12,024)
Bear Stearns	12	9 ($13,252)	16 ($0,296)	10 ($13,530)
Unknown	13	13 ($10,596)	11 ($1,248)	13 ($10,566)
Bank of America	14	14 ($7,994)	10 ($1,259)	14 ($8,412)
WestLB	15	17 ($4,178)	4 ($3,935)	19 ($1,345)
Dresdner Bank	16	15 ($7,732)	none	15 ($7,732)
Morgan Stanley	17	16 ($6,091)	17 ($0,242)	16 ($6,091)
Barclays Capital	18	18 ($3,005)	15 ($0,479)	17 ($3,417)
JP Morgan	19	19 ($1,769)	none	18 ($1,755)

Source: Anna Katherine Barnett-Hart, "The Story of the CDO Market Meltdown," March 2009.

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EXHIBIT #1k

Cash Flow & Hybrid Mezzanine SF CDOs of ABS: Exposure to Subprime RMBS Collateral by Cohort

CDO Year of Origination	Subprime RMBS Exposure
2000 Mezz SF CDOs	**9.9%**
2001 Mezz SF CDOs	**11.3%**
2002 Mezz SF CDOs	**24.4%**
2003 Mezz SF CDOs	**41.2%**
2004 Mezz SF CDOs	**44.5%**
2005 Mezz SF CDOs	**52.4%**
2006 Mezz SF CDOs*	**70.6%**

* Data for 2006 vintage deals includes deals having gone effective and started reporting by the end of February 2007

Source: Standard & Poor's, "Overview and Impact of the Residential Subprime Market," March 2007

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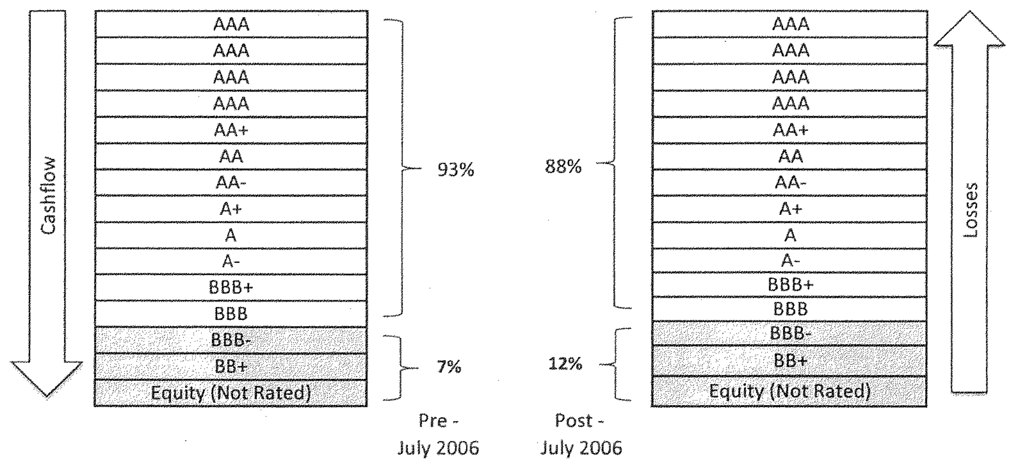
EXHIBIT #11

Typical Structure of a Residential Mortgage Backed Security

Reflecting July 2006 Change in Standard and Poor's Credit Rating Model



In July 2006, Standard and Poor's revised rating model increased the required credit enhancement for subprime RMBS from about 7% to 12%.

Source: Standard and Poor's data, S&P SEN-PSI 0001473

Prepared by U.S. Senate Permanent Subcommittee on Investigations, April 2010

From: Chang, Yu-Tsung
Sent: Tuesday, May 25, 2004 12:08 PM
To: Rose, Joanne; Jordan, Pat
Subject: Competition with Moody's

Joanne/Pat,
I was hoping I can get your thoughts on this.

We just lost a huge Mizuho RMBS deal to Moody's due to a huge difference in the required credit support level. It's a deal that six analysts worked through Golden Week so it especially hurts. What we found from the arranger was that our support level was at least 10% higher than Moody's. The arranger told us the breakdown of the support levels and we found that Moody's analysis of commingling risk and interest rate risk (30 year floaters but a significant majority of the mortgages could convert into fixed rate causing serious negative carry risk) were that those two risks did not require any credit support. Based on arranger's feedback, we suspect that because Mizuho is a mega bank, they ignored commingling risk and for interest rate risk, they took a stance that if interest rate rises, they'll just downgrade the deal.

Losing one or even several deals due to criteria issues, but this is so significant that it could have an impact in the future deals. There's no way we can get back on this one but we need to address this now in preparation for the future deals.

I had a discussion with the team leaders here and we think that the only way to compete is to have a paradigm shift in thinking, especially with the interest rate risk. Perhaps sizing for interest rate risk for the next 3-5 years only but take a stance that we need to downgrade if interest rate rises beyond what is reasonable for the next 3-5 years.

In any case, I'm interested in your thoughts as to how to address this problem, and whether it is something I should work with Tommy on the criteria issues.

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EXHIBIT #2

PSI-SP-000350

From: Raiter, Frank
Sent: Wednesday, August 18, 2004 12:21 PM
To: Gillis, Tom
Subject: FW: SF CIA: CDO methodology invokes reactions

Importance: High

Mickey, we particularly like the bold language from a discovery perspective.

-----Original Message-----
From: Scott, Gale
Sent: Tuesday, August 17, 2004 6:14 PM
To: Gugliada, Richard; Tesher, David; Jordan, Pat; Raiter, Frank; Diamond, Kim
Cc: Gillis, Tom
Subject: RE: SF CIA: CDO methodology invokes reactions
Importance: High

Privileged and Confidential - Kim Diamond added

Rich,

We are meeting with your group this week **to discuss adjusting criteria for rating CDOs of real estate assets this week because of the ongoing threat of losing deals.** I am much less concerned about whether it is an actual investor attack or not. Whatever the reason, the fact is, bonds below 'AAA' are pricing wider which impacts the weighted average pricing on the deals. Ultimately issuers will react by taking the path of least resistance and making sure Moody's is on the deals. Thereafter, it's only a matter of time before their rating is also mandated for the primary deals as well.

So yes, Moody's reaction is indeed predictable but if they have the ability to influence the market, what will be the impact on S&P? Are you telling us we should not be concerned because it is limited to CDO-squared investors? They seem to be an increasingly important link in the liquidity chain to me. Whatever the reason, if they can't buy or are forced to require wider pricing, what will be the impact on the overall market? While a predictable response to a competitive threat, let's carry it out to some "predictable" or reasonable results. In your expert opinion, what do you think the results of their responses will be and how are we reacting or do we need to react?

Gale

-----Original Message-----
From: Gugliada, Richard
Sent: Tuesday, August 17, 2004 5:09 PM
To: Scott, Gale; Tesher, David; Jordan, Pat; Raiter, Frank
Cc: Gillis, Tom
Subject: RE: SF CIA: CDO methodology invokes reactions

Privileged and Confidential

We have no plans on changing our methodology. The real differences in "CDO Criteria" come from the ratings on the underlying pools, that's where the biggest

Permanent Subcommittee on Investigations
EXHIBIT #3

PSI-SP-000346

differences occur with similarly rated pools we tend to come out with similar ratings.

In my opinion, our success (and Moody's failure) in RMBS, HEL, and some CMBS has caused Moody's to notch too severely in their CDOs. In other words, they are experiencing now what we went through in 2001 with respect to notching and it's impact on base business ratings. Lose the CDO and lose the base business - a self reinforcing loop. Their reaction seems to be a predictable response to a competitive threat.

Spread widening on the subordinate tranche CDOs who drop Moody's is attributable to the CDO-Squared investors who require Moody's ratings and now can't buy them or must take severe notching penalties in order to include them. I don't believe it to be an investor driven attack on our criteria as being too loose.

Hope this helps.
G

-----Original Message-----
From: Scott, Gale
Sent: Tuesday, August 17, 2004 3:17 PM
To: Gugliada, Richard; Tesher, David
Subject: FW: SF CIA: CDO methodology invokes reactions
Importance: High

What is your reaction to this? David, any more insight or intelligence about this? Can we discuss at some point?

Gale

-----Original Message-----
From: Duarte, Janice
Sent: Friday, August 13, 2004 5:38 PM
To: Albulescu, Henry; Althaus, Torsten; Anderberg, Stephen; Bastianpillai, Anjali; Bentham, Milbert; Bergman, Sten; Bryan, Andrea; Carelus, Jean-Baptiste; Chandler, Cian; Chang, Yu-Tsung; Chen, Weili; Cheng, Kenneth; Cheung, Lily; Chinn, Vanessa; Chiriani, Robert; Chopak, Laurie; Collingridge, Simon; Coyne, Patrick; Cretegny, Jerome; Csejtey, Rita; Cuby, James; Da Silva, Mei Lee; De Baere, Kevin; De Bie, Jacques; De Diego Arozamena, Alfredo; D'Erchia, Peter; Dougherty, Sean; Drexler, Michael; Duarte, Janice; Elengical, Jessica; Esser, Darren; Fazzio, Tullio; Flammier, Herve-Pierre; Fong, Winnie; Galli, Stephen; Gallizzo, Renee; Gaw, Mark; Ghetti, Belinda; Gilkes, Kai; Guadagnuolo, Lapo; Gugliada, Richard; Halprin, James; Harris, Sandra; Hegde, Suresh; Howley, Chris; Hudson, Danyel; Inglis, Perry; Jadotte, Mario; Jordan, Pat; Kambeseles, Peter; Kane, Brian; Khakee, Nik; Kharnak, Lina; Kitto, Thomas; Kobylinski, Jimmy; Kondo, Kenji; Lam, Diane; Lam, Jonathan; Leppert, Glen; Lewison, Martin; Loken, Andrew; Maroney, Robert; Martorell, Juan; Mccarthy, Terrence; McIntyre, Barbara; Michaux, Fabienne; Moriarty, Michael; Muthukrishnan, Ramki; Myneni, Ravi; Neilson, Francesca; Nelson, Soody; Ng, Chui; Ng, Swee-Fong; Nicholson, Mike; Nolan, Katarzyna; O'Brien, John; O'Keefe, Brian; Paciotti, Roberto; Polizu, Cristina; Quiles, Ericka; Quirk, Andrea; Quraishi, Rana; Rabiasz, Maria; Radicopoulos, Billy; Robert, Claire; Rothenberg, Stuart; Saito (S&P), Hiromi; Sampson, Kurt; Sargsyan, Eduard; Saxer, Samantha; Scanlin, Kate; Sera, Keith (S&P CMS Structured Fin); Serrano, Umberto; Sharma, Vandana; Smalls, Janine; Smith, Andrew (S&P); South, Andrew; Stanwix, Paul; Sun, George; Swiderek, Natalie; Tesher, David; Thomas Morgan, Sarah; Tora, Jose; Tsuei, Linda; Van Acoleyen, Katrien; Varma,

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Harsha; Vento, Jennifer; Vindigni, Kathy; Warman, Dov; Widernik, Anna; Wong, Calvin; Wong, Elwyn; Yang, Li; Yu, Ling
Cc: Arjoon, Naresh; Audino, Diane; Augustus, Ashok; Barkan, Susanne; Bessenoff, Arlene; Buendia, Rosario; Chu, Nancy; Colbert, Cathy; De Mollein, Juan; Del cioppo, Felicitas; Erturk, Erkan; Feinland Katz, Laura; Fernandez, Cesar; Fitzgerald, Carol; Gamza, Ilana; Gillis, Tom; Gogoll, Ted; Goldstein, David; Goodler, Richard; Hu, Joseph; Ingram, James; Johnson, Ron Louis; Kime, Kevin; Klein, David; Kochubka, Gary; Logan, Jacki; Losice, Abe; Mahoney, Patrick; Mcdonald, Scott; Murray, Tom; Popa, Andreea; Quinn, William; Raiter, Frank; Rojas, Andrea; Rose, Joanne; Scott, Gale; Shaknes, Svetlana; Shaw, Sam; Sheridan, Joseph; StructuredFinance; Tempkin, Adam; Traverso, Lucy; Walsh, Susan; Young, Sue; Zaineldeen, Richard
Subject: SF CIA: CDO methodology invokes reactions

SF Competitive Intelligence Alert

Asset Securitization report
The Premier Guide to Asset and Mortgage-Backed Securitization

CDO methodology invokes reactions

Monday, August 16, 2004

While not carrying the shock value of New Jersey Gov. Jim McGreevey's announcement last week, the fact that some CDOs backed by real estate collateral are pricing sans ratings from Moody's Investors Service has opened up a can of worms about CDO- rating methodologies and how those deals have priced. Now comes talk that Fitch Ratings will announce changes to their ratings metodology next month.

"Since our new criteria was introduced last year, we will be making refinements. We will have modest improvements to our approach, which we expect to bring out in September," said Fitch Managing Director John Schiavetta.

Some focused improvements pertain to CDO squared methodology and the use of Fitch product Vector as a trading tool for synthetically managed CDOs, said Schiavetta. But some of the improvements will affect CDOs backed by real estate collateral, currently a hot topic in the market.

"There's some increased granularity in the treatment of ABS sectors and that would have an impact on CMBS CDOs or any mortgage-related CDOs," Schiavetta explained.

It wasn't clear how deep the changes to Fitch's methodology would go in this area with more details to emerge in September. A spokesman for Standard & Poor's stated the CDO group there had not announced any

PSI-SP-000348

changes to its methodology pertaining to the CDOs or home-equity ABS.

Pricing wider

Market participants have been buzzing about the lack of a Moody's rating attached to some recently priced CDOs backed by real estate collateral (see ASR 7/19/04). As previously reported, throughout the year, a more conservative ratings methodology on deeply subordinated classes of hyper-tranched transactions rated by Moody's has left the leading rating agency off some recent home-equity ABS. Now home equity-focused CDOs are showing evidence of the same trend.

C-BASS CDO XI, a $500 million CDO backed by RMBS and ABS priced July 29 via joint-lead managers Deutsche Bank Securities and Lehman Brothers, was noticeably absent a Moody's rating, but rather had ratings from both Standard & Poor's and Fitch. The same was true for GMAC Institutional Advisors' a $500 million real estate CDO G-Star 2004-4 and the $300 million Acacia CDO 5 via RBS Greenwich Capital which priced in June.

Reaction from the market, in terms of pricing, has varied. For instance, the triple-A rated senior tranche of Acacia CDO 4, rated by Moody's and S&P but not Fitch, priced at 38 basis points over three-month Libor in April - the same pricing achieved for the triple-A seniors of Acacia 5, pricing in July and which did not contain a Moody's rating.

However, recent research from Lehman Brothers indicates that there has been some reaction to the lack of a Moody's rating in ABS. "The triple-B subordinate sector has tightened by 25 basis points since the beginning of June. However, subordinates not rated by Moody's due to its new and more stressful cashflow analytics criteria have been trading at wider levels. For example, a tripple-B rated (S&P and Fitch) tranche without a Moody's rating generally trades 150 to 200 basis points wider than a Moody's rated 'Baa2' bond," Lehman's said in its July 26 weekly report. - CMO

PSI-SP-000349

From: Gillis, Tom
Sent: Tuesday, November 09, 2004 12:11 PM
To: Scott, Gale
Subject: RE: APB Meeting - Nov 4

Gale,
when i get back to office i will resond in full. Thanks tom

-----Original Message-----
From: "Scott, Gale" <gale_scott@standardandpoors.com>
Sent: 11/9/04 9:57:04 AM
To: "Gillis, Tom" <tom_gillis@standardandpoors.com>
Cc: "Buendia, Rosario" <rosario_buendia@standardandpoors.com>, "Rose, Joanne" <joanne_rose@standardandpoors.com>
Subject: FW: APB Meeting - Nov 4

Tom,

I am confused. Why was there any dissention if this is the market reaction? Essentially, Joanne, Rosario and I ended up agreeing with your recommendation but the CDO team didn't agree with you because they believed it would negatively impact the business. It has not and there is no indication that it ever will. So why didn't we know what the "real" market sentiment was before the appeal meeting? We asked the questions and got answers, but I am now not sure if they were sufficient. I think the criteria process must include appropriate testing and feedback from the marketplace

Gale

-----Original Message-----
From: Inglis, Perry
Sent: Tuesday, November 09, 2004 2:59 AM
To: Scott, Gale
Cc: Gillis, Tom
Subject: Re: APB Meeting - Nov 4

Gale
The people we spoke to were indifferent to the two alternatives. There was no suggestion of taking their business elsewhere because of the new proposal (compared to all sorts of threats for the old stated coupon methodology!). My expectation is that it will be well received.

I hope that helps.

Perry

-----Original Message-----
From: Scott, Gale <gale_scott@standardandpoors.com>
To: Inglis, Perry <perry_inglis@standardandpoors.com>
CC: Gillis, Tom <tom_gillis@standardandpoors.com>
Sent: Tue Nov 09 00:09:36 2004
Subject: RE: APB Meeting - Nov 4

Permanent Subcommittee on Investigations
EXHIBIT #4

PSI-SP-000334

Perry,

Is it seen as preferable to the solution that you proposed? I am trying to ascertain whether we can determine at this point if we will suffer any loss of business because of our decision and if so, how much? We should have an effective way of measuring the impact of our decision over time.

Gale

-----Original Message-----
From: Inglis, Perry
Sent: Monday, November 08, 2004 1:28 PM
To: Scott, Gale
Cc: Gillis, Tom
Subject: RE: APB Meeting - Nov 4

Hi Gale

Yes we did speak to some clients - ML, Deutsche and UBS on the arranger side, UOB on the wholesale investor side, and Prudential on the investor/manager side. All of the reaction was positive - seen as a sensible outcome and good level of disclosure for the market and from the arranger's perspective preferable to the residual coupon solution.

Perry

-----Original Message-----
From: Gillis, Tom
Sent: 08 November 2004 16:49
To: Inglis, Perry
Subject: FW: APB Meeting - Nov 4
Importance: High

Perry,
Can you follow-up on Gale's question below if you haven't had a chance yet? Thanks Tom

-----Original Message-----
From: Scott, Gale
Sent: Friday, November 05, 2004 9:45 AM
To: Gillis, Tom; Shaw, Brenda; Wong, Calvin; Goldstein, David; Klein, David; Carrier, Henry; Sampson, Kurt; Jordan, Pat; D'Erchia, Peter; Ranganath, Ram; Gugliada, Richard; Buendia, Rosario; Hutchinson, Rose; Rose, Joanne; Chang, Yu-Tsung

Subject: RE: APB Meeting - Nov 4
Importance: High

Great. Thanks Tom. Have we been able to speak to any clients yet to get their reaction to this? Would it be possible for the PLs &/or criteria leaders to share market reaction with us?

Gale

-----Original Message-----
From: Gillis, Tom
Sent: Friday, November 05, 2004 8:00 AM
To: Scott, Gale; Shaw, Brenda; Wong, Calvin; Goldstein, David; Klein, David; Carrier, Henry;

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Sampson, Kurt; Jordan, Pat; D'Erchia, Peter; Ranganath, Ram; Gugliada, Richard; Buendia, Rosario; Hutchinson, Rose; Rose, Joanne; Chang, Yu-Tsung

Subject: RE: APB Meeting - Nov 4

Gale,

The specific symbology would be 'AAAp' and 'NRi'. We cannot use slash between ratings because that is how we rate bonds with puts. The Muni group graciously agreed to abandon to their use of 'p' for provisional ratings that they have used for decades. We have contacted core to make the requisite changes. We may not be able to get it on RD or many of the feeds that we issue may not be able to accept it (Bloomberg for instance). We should make sure that our own feeds can handle it - Liquid, SADB, and CDO Accelerator? Thanks Tom

-----Original Message-----
From: Scott, Gale
Sent: Thursday, November 04, 2004 4:21 PM
To: Gillis, Tom; Shaw, Brenda; Wong, Calvin; Goldstein, David; Klein, David; Carrier, Henry; Sampson, Kurt; Jordan, Pat; D'Erchia, Peter; Ranganath, Ram; Gugliada, Richard; Buendia, Rosario; Hutchinson, Rose; Rose, Joanne; Chang, Yu-Tsung

Subject: RE: APB Meeting - Nov 4
Importance: High

Tommy,

What exactly did APB agree to as far as symbology was concerned? AAA/NR or are there also subscripts that would delineate principal vs. interest.

Gale

-----Original Message-----
From: Gillis, Tom
Sent: Thursday, November 04, 2004 3:22 PM
To: Shaw, Brenda; Wong, Calvin; Goldstein, David; Klein, David; Scott, Gale; Carrier, Henry; Sampson, Kurt; Jordan, Pat; D'Erchia, Peter; Ranganath, Ram; Gugliada, Richard; Buendia, Rosario; Hutchinson, Rose; Rose, Joanne; Chang, Yu-Tsung

Subject: FW: APB Meeting - Nov 4

FYI!

-----Original Message-----
From: Daicoff, Cathy
Sent: Thursday, November 04, 2004 1:31 PM
To: Samson, Sol; Gillis, Tom; Sprinzen, Scott; Chew, Bill; Griep, Cliff; Dawson, Petrina

Subject: RE: APB Meeting - Nov 4

Sol, at this point APB has only approved the use of NR on the interest portion. At this point the structured group is receiving requests to rate the principal separate from interest, but no market need in the interest rating itself. There are a number of analytical issues to consider about potential rating changes that may occur on the interest portion depending on changes in credit quality for the referenced pool. Thus, to facilitate the decision we needed to make today APB approve p and i separation with the need for any analytical group who wants to rate i other than NR to come back to APB for approval and criteria review. We would imagine that we would shortly receive these request once our policy is

PSI-SP-000336

out.

-----Original Message-----
From: Samson, Sol
Sent: Thursday, November 04, 2004 1:22 PM
To: Daicoff, Cathy; Gillis, Tom; Sprinzen, Scott; Chew, Bill
Subject: RE: APB Meeting - Nov 4

Assigning dual or separate ratings is perfectly fine with me. (All along, I have opposed the silly approach that is in current usage, as I think you know.)

But I'm unclear regarding the criteria for rating each of the components (especially interest)....are we going to rate to payment with NO reduction whatsoever, i.e., no credit event above the threshold?

-----Original Appointment-----
From: Chew, Bill On Behalf Of Daicoff, Cathy
Sent: Thursday, November 04, 2004 10:36 AM
To: Sprinzen, Scott; Samson, Sol
Subject: FW: APB Meeting - Nov 4
When: Thursday, November 04, 2004 9:00 AM-11:00 AM (GMT-05:00) Eastern Time (US & Canada).

Where: Regular Location

Scott, Sol: Attached is proposal for SF to begin assigning separate ratings to principal and interest. Proposal is restricted to structured credit-liked notes where the two sources of

credit can be fully separated. Please review and e-mail or call with any comments or questions. Thanks, Bill 7981.

PSI-SP-000337

From: Warrack, Thomas
Sent: Wednesday, March 23, 2005 12:11 PM
To: Parisi, Frank; Osterweil, Terry; Barnes, Susan; Kennedy, Martin; Mason, Scott; Stock, Michael
Cc: Grow , Brian (S&P); Cao, Becky
Subject: Re: LEVELS 5.6(c)

We all agreed that the levels outlined below needed to go up, just no where near as high as 6.0 had them going.

-----Original Message-----
From: Parisi, Frank <francis_parisi@standardandpoors.com>
To: Warrack, Thomas <thomas_warrack@standardandpoors.com>; Osterweil, Terry <terry_osterweil@standardandpoors.com>; Barnes, Susan <susan_barnes@standardandpoors.com>; Kennedy, Martin <martin_kennedy@standardandpoors.com>; Mason, Scott <scott_mason@standardandpoors.com>; Stock, Michael <michael_stock@standardandpoors.com>

CC: Grow , Brian (S&P) <brian_d_grow@standardandpoors.com>; Cao, Becky <Becky_Cao@standardandpoors.com>
Sent: Wed Mar 23 08:42:51 2005
Subject: RE: LEVELS 5.6(c)

While I agree with number 1, I'm puzzled. When we first reviewed 6.0 results **a year ago** we saw the sub-prime and Alt-A numbers going up and that was a major point of contention which led to all the model tweaking we've done since. Version 6.0 could've been released months ago and resources assigned elsewhere if we didn't have to massage the sub-prime and Alt-A numbers to preserve market share.

As for timing, we need to get the AVM updates out ASAP as our analysis is several months old at his point. Also, the HVI shows continued deterioration as more MSAs shift into higher risk.

-----Original Message-----
From: Warrack, Thomas
Sent: Wednesday, March 23, 2005 8:09 AM
To: Osterweil, Terry; Barnes, Susan; Kennedy, Martin; Mason, Scott; Parisi, Frank; Stock, Michael
Cc: Grow , Brian (S&P); Cao, Becky
Subject: RE: LEVELS 5.6(c)

Terry, Unless the HVI is truly insignificant (we'll see in the testing) we may need to give issuers at least some notice.

Other suggestions for 5.7-

1- We have known for some time (based upon pool level data and LEVELS 6.0 testing) that

Subprime: B and BB levels need to be raised
ALT A: B, BB and BBB levels need to be raised (we have had a disproportionate number of downgrades)
(Question: how do we effect ALT A levels without effecting Jumbo to much ??, maybe going back to the hits for limited doc, investor and second home, etc.)

Is there a temporary fix we could put in to move the levels up a bit, while we are waiting for 6.0?

2- How about smoothing some of the extreme bucketing in the criteria (LTVs over 80, etc.)

Permanent Subcommittee on Investigations
EXHIBIT #5

PSI-SP-000226

3- IO criteria by term, so that the further out is the IO period the lower the hit, and that if the IO period coincides with the ARM period of the Hybrid ARM the hit is worse.

4- Is there a way to automate all the outside of the model breakouts the analysts are required to do?
Can the model automatically produce the reports needed for the LTV > 90% and 2nd lien analysis?
LEVELS (maybe thru an auto download into an Excel report) could do the same calculations we are making on the outside, including a suggested (committee would still need to approve) weighted average number.

Thanks, Tom

-----Original Message-----
From: Osterweil, Terry
Sent: Tuesday, March 22, 2005 9:20 PM
To: Barnes, Susan; Kennedy, Martin; Mason, Scott; Parisi, Frank; Stock, Michael
Cc: Warrack, Thomas; Saftoiu, Elena; Karkhanova, Lyudmila; Momin, Naushad; Grow , Brian (S&P); Cao, Becky; Mahoney, Patrick; Bui, Truc

Subject: FW: LEVELS 5.6(c)

All,

After meeting with the IT team and discussing the changes that we are requesting for this release (new format, new loss coverage report, updated HVI, updated HPI, possibly new neg-am criteria and new SPIRE related fields), the time needed to get this release out is expanding. So, in order to keep our indexes current (we are already 3 quarters behind), we are doing a quick 5.6(c) release. This release will include only an updated HVI and HPI (both 4th quarter '04) and the new AVMs. Since this is relatively complete, we can test quickly and get it out at the beginning of April for May deals (there should be very little change in our levels).

Once this is done, we will then work on version 5.7 (yes, at this point Frank won't care). This version will include all of the above mentioned items, including a revised format with SPIRE related fields. We can have this done in a couple of months.

If any one has any questions on this, let me know.

Terry

-----Original Message-----
From: Saftoiu, Elena
Sent: Monday, March 14, 2005 11:51 AM
To: Osterweil, Terry; Mason, Scott
Cc: Fong, Vivien; Momin, Naushad; Karkhanova, Lyudmila; Mahoney, Patrick; Bui, Truc

Subject: Release 5.6c

We have revised the requirements document for Release 5.6c - please see attached.

PSI-SP-000227

Scott,
Please let us know about the Volatility codes.

Terry,
We would like to have the updated 5.6c file format (new AVMs, ...)

We thought to send Release 5.6c like a mini-release i.e.
the users will need to re-run QC and re-analyze the pools (can not run the old reports).

thanks!
Elena

PSI-SP-000228

From: Parisi, Frank
Sent: Tuesday, June 14, 2005 11:11 AM
To: Bruzese, Frank; Mason, Scott; Osterweil, Terry; Kennedy, Martin; Stock, Michael
Cc: Kostiw, Karen; Tencer, Steve; Beauchamp, Kyle; Warrack, Thomas; Barnes, Susan
Subject: RE: Privileged Criteria Deliberations: CWHEQ 2005-C

Frank,

As you observed LIBOR is more volatile than PRIME and rates fluctuate over time. That's the simple answer that needs no further discussion, or as you put it "it is what it is" and we need to stand behind it.

Why these questions come up every month is obvious -- issuers don't like the outcome. However, the right thing to do is to educate all the issuers and bankers and make it clear that these are the criteria and that they are not-negotiable. If this is clearly communicated to all then there should be no monthly questions.

OC targets will fluctuate month to month based on changes in rates, but I don't see the problem -- if issuers want to protect against changes they should be hedging their production, we are not the hedge. That's the way the financial markets work. Deals get sized according to the current rates -- if things change that's a risk of doing business. The "long term" solution is to apply the then current vectors consistently across all deals -- no exceptions, no special cases.

Screwing with criteria to "get the deal" is putting the entire S&P franchise at risk -- it's a bad idea.

Frank

-----Original Message-----
From: Bruzese, Frank
Sent: Tuesday, June 14, 2005 10:41 AM
To: Mason, Scott; Osterweil, Terry; Kennedy, Martin; Stock, Michael; Parisi, Frank
Cc: Kostiw, Karen; Tencer, Steve; Beauchamp, Kyle; Warrack, Thomas
Subject: Privileged Criteria Deliberations: CWHEQ 2005-C

To all,

I am currently working on a bond-insured HELOC deal for Countrywide in which FSA has submitted a structure. Charlie Campbell is inquiring as to why the OC requirement on this deal has increased since March (1.25-1.65 target). From what Kyle and I were able to tell, it is purely an interest rate vector move based on the Prime-LIBOR spread. Currently, the Prime-LIBOR relationship is wholly based on the relationship between the two rates the day the vectors are created. LIBOR is more volatile than prime on a day-to-day basis, but the relationship is very consistent over a longer period of time. Please see chart below:

Average Difference Between Prime and 1 Month LIBOR

Deal	12 month	24 month	36 month	48 month	60 month
Current	2.54%	2.49%	2.51%	2.54%	2.55%
March	2.65%	2.61%	2.64%	2.69%	2.70%

Notice that the Prime-LIBOR spread over a five year period never narrows from April first

Permanent Subcommittee on Investigations
EXHIBIT #6

PSI-SP-000382

payment vectors to July first payment vectors. The question is, are we prepared to consistently reply to inquiries that "it is what it is" from month-to-month, knowing full well that OC targets will fluctuate purely on short-term Prime-LIBOR spread volatility? How do we address this problem now as this structure needs to go out today, and what long term solutions should be in the works? Thanks and regards.

All loss coverage levels provided by Standard and Poor's are contingent upon your representation that all mortgage loans in any loan level file submitted by you to Standard & Poor's for analysis are correctly categorized as "High Cost Loans", "Covered Home Loans", or "Home Loans", as categorized by the current version of Standard & Poor's LEVELS® Glossary Appendix E.

Frank Bruzese
Structured Finance
Standard & Poor's
55 Water Street, 40th Floor
New York, NY 10041
Phone: 212.438.1809
Fax: 212.438.2661
frank_bruzese@standardandpoors.com

PSI-SP-000383

From: Vonderhorst, Brian
Sent: Wednesday, February 08, 2006 3:09 PM
To: Bruzese, Frank; Warrack, Thomas; Barnes, Susan; Tegen, Daniel; Shaikh, Waqas; Osterweil, Terry
Cc: Arne, Errol
Subject: RE: EMC Compares

I don't think this is enough to satisfy them. What's the next step?

-----Original Message-----
From: Bruzese, Frank
Sent: Wed Feb 08 14:55:37 2006
To: Warrack, Thomas; Barnes, Susan; Tegen, Daniel; Shaikh, Waqas; Osterweil, Terry
Cc: Arne, Errol; Vonderhorst, Brian
Subject: RE: EMC Compares

All,

I changed the first payment date for all loans that were seasoned 5 years or greater back to their original date so they would receive credit in LEVELS (approx 17.4% of total pool balance). The net effect was not as great as expected:

WA AAA loss coverage dropped from 28.75 to 28.00
WA BBB loss coverage dropped from 11.00 to 10.75

The OC requirement dropped from an initial of 7.20% building to 8.05%, to an initial of 7.05% building to 7.85%.

How should I proceed from here?

All loss coverage levels provided by Standard and Poor's are contingent upon your representation that all mortgage loans in any loan level file submitted by you to Standard & Poor's for analysis are correctly categorized as "High Cost Loans", "Covered Home Loans", or "Home Loans", as categorized by the current version of Standard & Poor's LEVELS® Glossary Appendix E.

Frank Bruzese
Structured Finance
Standard & Poor's
55 Water Street, 40th Floor
New York, NY 10041
Phone: 212.438.1809
Fax: 212.438.2661
frank_bruzese@standardandpoors.com

Permanent Subcommittee on Investigations
EXHIBIT #7

PSI-SP-000362

services are performed as entirely separate activities in order to preserve the independence and objectivity of each analytic process. Each analytic service, including ratings, may be based on information that is not available to other analytic areas.

-----Original Message-----
From: Bruzese, Frank
Sent: Wednesday, February 08, 2006 11:26 AM
To: Warrack, Thomas; Barnes, Susan; Tegen, Daniel; Shaikh, Waqas; Osterweil, Terry
Cc: Arne, Errol; Vonderhorst, Brian
Subject: EMC Compares

Please see below some of the characteristic differences between 05-B and 06-A:

1) % Reperforming

05-B	06-A
100%	98%

Reperforming loans in 06-A were not given seasoning credit, but loans in 05-B were, thereby giving 05-B better loss coverage with regards t this characteristic.

2) LTV:

05-B

Levels

Orig	Adj
88.90	71.72

06-A

Levels

Orig	Adj	Outside Model Adj
91.37	77.25	Approx 81

Original LTV and adjusted LTV are both higher, before methodology change for 06-A.

3) FICO and RG

05-B
WA 510.51

06-A
WA 522.67

Although the WA FICO is higher for 06-A, the risk grade multiple is worse (2.774 vs 2.542). This is attributed to the higher balance loans having the worse FICOs.

4) Seasoning

PSI-SP-000363

05-B

<1 0%
1-3 53.42%
3-5 18.81%
5-10 27.21%
>10 0.56%

06-A

<1 1.51%
1-3 64.14%
3-5 17.03%
5-10 17.04%
>10 0.30%

Seasoning credit is stripped out for 06-A, whereas it was included for 05-B for all reperforming loans. Reperforming loans however, are essentially the entire deal.

5) Doc Types

05-B
V - 28.95%
Z-68.31%

06-A
V-74.15%
Z-22.35%

Call me with any questions.

All loss coverage levels provided by Standard and Poor's are contingent upon your representation that all mortgage loans in any loan level file submitted by you to Standard & Poor's for analysis are correctly categorized as "High Cost Loans", "Covered Home Loans", or "Home Loans", as categorized by the current version of Standard & Poor's LEVELS® Glossary Appendix E.

Frank Bruzese
Structured Finance
Standard & Poor's
55 Water Street, 40th Floor
New York, NY 10041
Phone: 212.438.1809
Fax: 212.438.2661
frank_bruzese@standardandpoors.com

PSI-SP-000364

such information. Ratings are statements of opinion, not statements of fact or recommendations to buy, hold, or sell any securities.

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PSI-SP-000365

From: Kharnak, Lina
Sent: Thursday, February 16, 2006 8:07 PM
To: Ghetti, Belinda
Subject: FW: Re: comstock

B, take a look.....

-----Original Message-----
From: Tang, Edward C [FI] [mailto:edward.c.tang@citigroup.com]
Sent: Thu Feb 16 18:13:16 2006
To: Kharnak, Lina
Subject: Re: comstock

Thanks, lina. I'm out today and tommorow but I am VERY concerned about this E3. If our current strucutre, which we have been marketing to investors and the mgr, (and which we have been doing prior to the release of the beta cash flow assumptions) doesn't work under the new assumptions, this will not be good. Happy to comply, if we pass, but will ask for an exception if we fail...

-----Original Message-----
From: Kharnak, Lina
To: Tang, Edward C [FI]
Sent: Thu Feb 16 09:57:03 2006
Subject: RE: comstock

Hi Ed,

Yes, you will have to apply E3. I will also send you beta cashflow assumptions with revised recovery rates.

If you have a portfolio, shoot it over, we can start testing the impact of E3 internally.

Lina

-----Original Message-----
From: Tang, Edward C [FI] [mailto:edward.c.tang@citigroup.com]
Sent: Wednesday, February 15, 2006 2:24 PM
To: Kharnak, Lina
Subject: RE: comstock

yes, it is silvermine 2.

-----Original Message-----
From: Kharnak, Lina [mailto:lina_kharnak@standardandpoors.com]
Sent: Wednesday, February 15, 2006 2:23 PM
To: Tang, Edward C [FI]

Permanent Subcommittee on Investigations
EXHIBIT #8

PSI-SP-000351

Subject: RE: comstock

Is this the next Silvermine transaction? Let me check.

-----Original Message-----
From: Tang, Edward C [FI] [mailto:edward.c.tang@citigroup.com]
Sent: Wed Feb 15 14:19:00 2006
To: Lina Kharnak (E-mail)
Subject: comstock

Lina, we are generally targeting an april close w/ 10% CDO basket on comstock.

Will E3 apply, in your best guess? Will E3 penalize the CDO assets?

PSI-SP-000352

From: De Diego Arozamena, Alfredo
Sent: Tuesday, May 02, 2006 9:58 AM
To: Chiriani, Robert; Fong, Winnie; Cho, Jaiho; Carelus, Jean-Baptiste; Zhao, Bruce
Cc: Mooney, Shannon
Subject: RE: ***Privileged & Confidential Committee Deliberations **** - Madaket Funding

After speaking to Shannon to better understand the nature and sensitivity of the failure, I'm OK with the results.

Alfredo

From: Chiriani, Robert
Sent: Tuesday, May 02, 2006 9:45 AM
To: De Diego Arozamena, Alfredo; Fong, Winnie; Cho, Jaiho; Carelus, Jean-Baptiste; Zhao, Bruce
Cc: Mooney, Shannon
Subject: ***Privileged & Confidential Committee Deliberations **** - Madaket Funding
Importance: High

****** PRIVILEGED & CONFIDENTIAL COMMITTEE DELIBERATIONS****

Dear Committee Members,

As you may recall, Madaket Funding is a HG CDO of ABS with Standish-Mellon as the manager and Citi as the banker. We had a number of issues on the modeling side, including an initial request to rate only to principal on the Class D tranche. Since that is not appropriate under our rating methodology, Citi did make adjustments to the capital structure so that the rating would fully address the terms of the note (P&I).

There is one run failing on the class D tranche (BBB-). Shannon has provided details in the e-mail below. I submit for your consideration the banker's argument to waive the one failing run. I am not a proponent of run waivers, but given that it is passing under E3 & beta cash flow assumptions, I would tend to be more forgiving.

Please let me know your thoughts. I would be happy to re-convene the committee if you feel that is warranted.

Bruce, John O'Brien & I are meeting with the manager in Boston on Thursday (let's hope the Yankees can win tonight and even the season series before I have to go to Red Sox Nation!)

Bob

-----Original Message-----

From: Mooney, Shannon

Sent: Wednesday, April 26, 2006 12:30 PM

To: Chiriani, Robert

Subject: Madaket Funding Modeling Issue

Permanent Subcommittee on Investigations
EXHIBIT #9

PSI-SP-000366

Hi Bob,

Under Evaluator 2.4.3 cashflow assumptions the Class D (BBB-) tranche is failing in one scenario by 48 basis points. The failing scenario is classified by the following: Fast Prepayment Environment; Libor BBB Down; Sawtooth Mid Default Pattern. This default pattern stresses defaults out to year nine. The collateral has a WAL of 8 years in the base case and a WAL of 7 years in the fast prepayment environment. The cashflows indicate that the deal can withstand this default pattern. In other words, the deal is not running out of collateral; there is some portion of the collateral available to default in year nine. The banker is arguing that it is too punitive to run a default pattern that assumes defaults are occurring beyond the WAL of the collateral. He is requesting that this run be omitted.

It should be noted that Class D is not failing under E3 cashflow assumptions. The E3 results are attached.

Best,

Shannon Mooney

Senior Research Assistant, Global CDO Group

Structured Finance Ratings

Standard & Poor's

55 Water Street, 41st Floor

New York, NY 10041

Phone: 212-438-7447

Fax: 212-438-2650

shannon_mooney@standardandpoors.com

<< File: QRamp Pricing 4.26.2006.xls >> << File: QRamp E3 Results Pricing 4.26.2006.xls >>

PSI-SP-000367

From: O'Brien, John
Sent: Wednesday, May 03, 2006 9:01 AM
To: Rashid, Malik
Subject: RE: Broadwick Funding.
Sure. Call me when you're free.

John

-----Original Message-----
From: Rashid, Malik
Sent: Tuesday, May 02, 2006 9:32 PM
To: O'Brien, John
Subject: RE: Broadwick Funding.

John,

Let's re-group on this tomorrow at a time that suits you; I realize that the closing date is coming soon. I apologize for not being able to partake in the call today; issues cropped up in nearly every transaction I'm currently staffed on.

Malik

-----Original Message-----
From: Meyer, Chris
Sent: Monday, May 01, 2006 9:08 PM
To: O'Brien, John
Cc: Rashid, Malik
Subject: RE: Broadwick Funding.

John,

I'm not sure what they are talking about in terms of the modeling based solution, but I'm not sure how you can model the counterparty risk with respect to Writedown Reimbursement Amounts. In addition, you can tell them that if the are referring to ABACUS 2006-12, which closed lastThursday, that is the last trade that will not be required to post Writedowns (unless they can demonstrate conclusively that our concern is otherwise dealt with in the structure). It was a known flaw not only in that particular ABACUS trade, but in pretty much all ABACUS trades (which between the three of us were all rated by the same person...who neglected to catch other important criteria issues...or ignored them after being told to correct them by Team Leaders and business managers). The ABS desk at Goldman has already been told that the all of the de-linking criteria would need to be addressed in future ABACUS trades, and this includes posting of Writedown Amounts.

In terms of the CSA and opinion language, they do have a point...if we indeed have RAC. Nevertheless, I always copy and past the description of the opinion from the counterparty criteria article and ask why they can't include the language. It's very generic and doesn't ask them to speak to any details.

It looks like swap termination payments to the swap counterparty are netted senior out of the Synthetic Security Counterparty Account. Is this the case?

I'm not sure if this helps. At this point, I'm not thinking all that clearly.

Permanent Subcommittee on Investigations
EXHIBIT #10a

PSI-SP-000339

Regards,
Chris

-----Original Message-----
From: O'Brien, John
Sent: Mon 5/1/2006 5:55 PM
To: Meyer, Chris
Cc: Rashid, Malik
Subject: FW: Broadwick Funding.

Chris - Would really appreciate any/all guidance on this you can offer. Trying to wrap this up as soon as possible.

Thanks,
John

-----Original Message-----
From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 5:23 PM
To: Rashid, Malik
Cc: O'Brien, John; Kim, Jeong-A
Subject: RE: Broadwick Funding.

Malik thanks for the feedback -

1. GS has not agreed to this hold back provision in any of our previous transactions (including the ABACUS deal that just closed last week) - and we cannot agree to it in this deal. We'd discussed the modeling based solution with respect to this counterparty risk back on April 13th - and it was ultimately communicated to us the following week there would be no changes in this transaction on this point.

2. I agreed with your long term rating comment (BBB+) as well as the 10 day delivery of the opinion. I thought this was reflected in the document - but I assure you it will be so in the next deal.

3. In terms of timeliness - the CDO holds the collateral and as soon as there is a termination and the appropriate termination payments have been made - the lien that the synthetic security counterparty has on the collateral is released to the trustee. this is outlined in section 12.2 of the indenture. Is there specific language you'd like to see here? if so, I'd be happy to review and try and incorporate, where appropriate.

4. Given that the CSA is will be subject to RAC, S&P will have ability to refview the opinion and to the extent it is not satisfactory, act accordingly. We cannot agree to specifically enumerate the carve outs at this time, due to the fact that there may be changes in case law, market practice, etc. that would have an impact on the opinion between now and the time when any opinion would be required.

From: Rashid, Malik [mailto:malik_rashid@standardandpoors.com]
Sent: Monday, May 01, 2006 4:53 PM
To: Bieber, Matthew G.
Cc: O'Brien, John; Kim, Jeong-A
Subject: RE: Broadwick Funding.

Matt,

I realize that GS abd the CDO group have differences in opinion over certain

PSI-SP-000340

provisions, but I understand from conversations on Friday and today that the group reiterates their view. Below are our comments from our review of the revised CDS documents circulated on 4/21. This reflects the latest feedback from the CDO group related to the downgrade/posting provisions for this specific transaction, and you'll find that these are repetitive from our last set of comments on the CDS.

Malik

--->

1. To de-link GS's counterparty risk with respect to reimbursements, Writedown amounts need to be posted for one year as long as its rating is below AA- or A-1+. This posting for one year should remain and should not be extinguished if the swap terminates early as a result of GS being the defaulting/affected party. Writedowns can be considered permanent after the expiration of one year.

2. On p.5 of the Schedule:

- the second level rating trigger should be A-2 or BBB+, not BBB-.

- It looks like GS is choosing to remain in the swap by posting when its rating falls below the second level rating trigger. The opinion with respect to the collateral should be delivered within 10 days, not 30.

- Re: my earlier comment on the opinion addressing the timeliness issue - because this is a situation where Party A's credit rating is low, there is greater concern over the CDO's ability to avoid loss arising from exposure to Party A credit risk. While the CSA does speak to Party B's rights as Secured Party, we need more comfort that the CDO terminate the CDS (when the need arises) and liquidate the collateral to make itself whole in a timely manner without undue delay.

- Also on the opinion, we are not certain as to what "customary and usual assumptions, carveouts, and exceptions" mean. Our concern is whether such language limits the opinion's scope. We're trying to de-link GS's credit risk so it can choose to remain in the CDS regardless of what its rating is, so we'd like to make sure that the opinion's description today does not limit its scope.

-----Original Message-----
From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 3:14 PM
To: O'Brien, John
Cc: Kim, Jeong-A
Subject: RE: Broadwick Funding.

ok. the sooner the better. just a reminder - we cannot agree to holding write downs in the deal for a year or any short term rating triggers.

From: O'Brien, John [mailto:john_o'brien@standardandpoors.com]
Sent: Monday, May 01, 2006 2:58 PM
To: Bieber, Matthew G.

PSI-SP-000341

Cc: Kim, Jeong-A
Subject: RE: Broadwick Funding.

Matt - Malik will be sending you comments to the last draft of the swap later today.

Regards,
John O'Brien

-----Original Message-----
From: Bieber, Matthew G. [mailto:matthew.bieber@gs.com]
Sent: Monday, May 01, 2006 9:48 AM
To: O'Brien, John; Kim, Jeong-A
Cc: Mangalgiri, Vickram S.; Mishra, Deva R.
Subject: Broadwick Funding.

John and Jeong-A

Hope the weekend and vacation was enjoyable. As discussed last week, I'd like to finalize all outstanding points on Broadwick Funding by the end of the day this Wednesday. To that end, would you please let me know when its most convenient for you to discuss any remaining comments you have to the documents over the next day or so? Additionally, it appears we'll be slightly increasing the size of the S Note in the transaction by approx. $1.5mm. Look forward to hearing from you.

Best Regards,
Matt

PSI-SP-000342

From: Guarnuccio, Keith
Sent: Monday, April 24, 2006 6:36 AM
To: Ghetti, Belinda
Subject: FW: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

I thought Chui had a meeting with these guys ect and vetted the issues with them - lets sit down on this today to make sure we are looking at this the correct way. Also - today may be the day to take him out to lunch.

Keith

-----Original Message-----
From: Meyer, Chris
Sent: Sun Apr 23 18:49:51 2006
To: Ghetti, Belinda
Cc: Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Belinda,

Don't even get me started on the language he cites...which is one of the reasons I said the counterparty criteria is totally messed up. Oh...and ABACUS 2006-8 was a Moody's and Fitch only trade that was apparently reviewed and approved by Chui. I can't tell you how upset I have been in reviewing these trades. And not only have these trades consumed tons of my time, but they have generated an enormous amount of stress since I'm the one that has to break the news that these trades are wrong...which makes us look like idiots. They've done something like fifteen of these trades, all without a hitch. You can understand why they'd be upset (pissed even) to have me come along and say they will need to make fundamental adjustments to the program.

Regards,
Chris

-----Original Message-----
From: Ghetti, Belinda
Sent: Sun 4/23/2006 6:25 PM
To: Meyer, Chris
Cc: Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Completely unaware of this language.

-----Original Message-----
From: Williams, Geoffrey [mailto:Geoffrey.Williams@gs.com]
Sent: Sun Apr 23 18:24:02 2006
To: Meyer, Chris; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda; Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

See 10.3(f) of the Indenture of this transaction. This was negotiated with S&P in connection with our last transaction, ABACUS 2006-8.

From: Meyer, Chris [mailto:christopher_meyer@standardandpoors.com]

Permanent Subcommittee on Investigations
EXHIBIT #10b

PSI-SP-000001

Sent: Sunday, April 23, 2006 6:18 PM
To: Williams, Geoffrey; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda; Guarnuccio, Keith
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Geoff,

I'm unaware of market related information ever being used to determine the amount that should be posted in connection with Writedowns of any kind. Given that Belinda, Keith Guarnuccio and I are highly involved with issues relating to PAYGOs, we'd be most interested in knowing where we've approved this type of language -- since this would be a significant departure from our current criteria. As you point out, it is a conservative position for S&P to take, but it is one we've taken with all Dealers. Since time is of the essence, this may be another issue that we table for 2006-12, but would have to be addressed in future trades.

Regards,
Chris

-----Original Message-----
From: Williams, Geoffrey [mailto:Geoffrey.Williams@gs.com]
Sent: Sun 4/23/2006 3:25 PM
To: Meyer, Chris; Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Yukawa, Shin; Ghetti, Belinda
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Chris -- we're happy to build in the appropriate 1 year / 3 year CDO language that you describe in your first point below. However, we are not going to be able to accommodate your second request. We drafted this language in the spirit of the clause that we recently incorporated (and had approved by both you and Moody's) into our cds confirm which governs the amount that must be posted given an implied writedown of a CDO reference obligation. The premise is that market information is very relevant in determining whether or not a reference obligation that has sustained writedowns is expected to write back up and I do not see why this methodology is relevant only in determining the amount that should be posted under the cds.

I would add that this scenario is very different from an optional redemption as you point out below since the optional redemption is at Goldman's option and a stated maturity is not. We therefore cannot settle for the most conservative alternative as I believe you are suggesting.

David -- can you please point Chris to language he is looking for on his third point?

Let us know if you have any questions. Thanks. Geoff.

From: Meyer, Chris [mailto:christopher_meyer@standardandpoors.com]
Sent: Saturday, April 22, 2006 6:03 PM
To: Gerst, David
Cc: Egol, Jonathan; Tourre, Fabrice; Williams, Geoffrey; Yukawa, Shin;

PSI-SP-000002

Ghetti, Belinda
Subject: RE: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

David,

I've had an opportunity to review the proposed language this afternoon.

1. Clause (b) -- the one calendar year "cure period" is only applicable to non-CDO Reference Obligations in this case, the RMBS and CMBS Reference Obligations). For CDO Reference Obligations, our criteria is that we'll deem a Reference Obligation, which has experienced a Writedown, to be "defaulted" (a) after one year if the Reference Obligation is undercollateralized by more than 25% and (b) after three years if the Reference Obligation is undercollateralized by 25% or less.

2. Clause (A) -- I'm a little confused. I thought the proposal put forth on Wednesday was that to the extent there was any Writedown which (per our tests) hadn't been deemed permanent, then Goldman would reimburse the full amount of the Writedown. The current formula suggests Goldman may pay an amount less that the full amount of the Writedown. I was expecting to see language similar to the Optional Redemption Reimbursement Amount, which addresses the exact same concern in the context of when Notes are optionally redeemed.

If you can direct me to the specific location in the Schedules of the Basis Swap and Put that contain the identical language to Part 1.3(v) of the CDS Schedule, I would appreciate it.

Chris

-----Original Message-----
From: Gerst, David [mailto:David.Gerst@gs.com]
Sent: Fri 4/21/2006 9:30 AM
To: Meyer, Chris
Cc: Egol, Jonathan; Tourre, Fabrice; Williams, Geoffrey; Yukawa, Shin
Subject: ABACUS 2006-12 - Writedowns immediately prior to Stated Maturity

Chris,

Below is our proposed language to determine how much Goldman has to pay the Issuer if a writedown occurred shortly before maturity of the Notes.

On the Stated Maturity for any Series of Notes, if (i) any such Series of Notes maturing on such date has an ICE Currency Adjusted Aggregate Outstanding Amount Differential greater than zero and (ii) an ICE Reference Obligation Notional Amount Differential is greater than zero with respect to one or more Reference Obligations (a) that remain in the Reference Portfolio at such time of determination, (b) with respect to which the ICE Reference Obligation Notional Amount Differential was equal to zero on the day that was one calendar year prior to such Stated Maturity, (c) that, at the time of such Stated Maturity, has an Actual Rating above (1) if rated by Moody's, "Ca" (2) if rated by S&P, "CC" or (3) if rated by Fitch, "CC" and (d) with respect to which no Credit Event (other than a Writedown) has occurred at any time on or prior to such Stated Maturity, Goldman will pay to

PSI-SP-000003

Counterparty an amount, if greater than zero, equal to the lesser of (A) the aggregate of the difference, determined for each such Reference Obligation, of (i) the ICE Reference Obligation Notional Amount Differential of such Reference Obligation and (ii) if greater than zero, the ICE Reference Obligation Notional Amount of such Reference Obligation less the related Current Dollar Price and (B) the ICE Currency Adjusted Aggregate Outstanding Amount Differential of each Series of Notes for which the Stated Maturity is such date.

Also, please note that Section 7.10 of the Indenture (issuing ordinary shares) and the Basis Swap and Put Schedules (regarding Bankruptcy) address your concerns as previously drafted. Let me know if you need me to point you to the appropriate provisions.

Thanks,

David

PSI-SP-000004

From: Drexler, Michael
Sent: Thursday, May 12, 2005 8:44 AM
To: Wong, Elwyn; Bryan, Andrea; Kambeseles, Peter
Subject: FW: Adirondack CDO

Importance: High

-----Original Message-----
From: Drexler, Michael
Sent: Thursday, May 12, 2005 8:43 AM
To: Guadagnuolo, Lapo; Cheng, Kenneth; Esser, Darren; Ghetti, Belinda; Rothenberg, Stuart; De Diego Arozamena, Alfredo

Subject: FW: Adirondack CDO
Importance: High

Just in case you were wondering ...

This deal ended up not weak-linking to GS. Chui told me that while the three of us voted "no", in writing, that there were 4 other "yes" votes.

Ignoring for a moment my stupid (and arrogant!) irritation that the correct side lost, in my mind this is a great example of how the criteria process is NOT supposed to work. Being out-voted is one thing (and a good thing, in my view), but being out-voted by mystery voters with no "logic trail" to refer to is another. How can we possibly reconstruct the argument of the winning side for future deals if it does not exist in writing for general reference?

Also, it is not clear that this decision will be universally applied. Again, this is exactly the kind of backroom decision-making that leads to inconsistent criteria, confused analysts, and pissed-off clients.

1) Transparent decisions,
2) In writing,
3) Universally disseminated.

-----Original Message-----
From: Cheng, Kenneth
Sent: Friday, May 06, 2005 2:59 AM
To: Drexler, Michael; Ng, Chui; Guadagnuolo, Lapo; Kharnak, Lina; Khakee, Nik; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

Hey Chui:

I've been out the last few days. It's Golden Week here in Asia. So finally getting these e-mails. There's much already said on this issue so I'll keep my comments short.

Permanent Subcommittee on Investigations
EXHIBIT #10c

PSI-SP-000005

I agree with Mike's points in his most recent e-mail. Since we have clear established criteria on the requirements for counterparty ratings, the only supportable rationale for not holding GS to it is if they can show that the deal works without reliance on the premia. This is the same line of reasoning you used to get comfortable with ABACUS.

The lfty tables and 20% rule, while perhaps useful at the time they were established and within the context they were applied, is, in this instance, merely a way around the intent of our counterparty ratings criteria. Using it here creates opens up abuse of our criteria, devoiding it of much meaning. As others have suggested, we should, and will, take steps to remove these inconsistencies without losing their true intents.

Arigato,
Ken

-----Original Message-----
From: Drexler, Michael
Sent: Thursday, May 05, 2005 11:52 PM
To: Ng, Chui; Guadagnuolo, Lapo; Kharnak, Lina; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

Hey Chui:

I think the issue here is exactly this-if we can not rely on the premia from GS (i.e. the premia do not exist), will the tranches in the deal pass? If the answer is the "yes", then none of the tranches are dependent on GS; if the answer is "no", then the tranches are dependent on GS, and we must deal with GS's c/p risk via either posting/downgrade language or by linking the rating.

So, if we ignore this test, we implicitly are saying that any counterparty risk can be taken by a CDO (as long as the premia paid do not sum to greater than 20% of the liability balances). This is the implication of the issue at hand.

Cheers,

Mike

-----Original Message-----
From: Ng, Chui
Sent: 05 May 2005 15:42
To: Ng, Chui; Drexler, Michael; Guadagnuolo, Lapo; Kharnak, Lina; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

To clarify, while we will check the cashflows with the premium removed,

PSI-SP-000006

for the purpose of seeing if the "AAA" and "AA" notes passes, the deal will run the cashflow model with the premium included. We will not ask Goldman to remove the premium from the cashflow model.

-----Original Message-----
From: Ng, Chui
Sent: Thursday, May 05, 2005 10:24 AM
To: Drexler, Michael; Guadagnuolo, Lapo; Kharnak, Lina; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart
Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

We will check the cashflow but we are confident it will pass for the "AAA" and "AA" with out the premium. So structurally the A-1 Goldman risk is covered for the "AAA" and "AA" notes.

The only remaining issue was that Goldman did not want to weaklink the "A" (why not, I have no idea). Applying the 20% rule and the downgrade language is simply to allow Goldman not to have to disclose a weaklink of "A" rated notes in the deal. This then becomes consistent with A-1 interest rate swap providers in "AAA" deal and no weaklink is disclosed.

This criteria vote was NOT to eliminate the counterparty posting or the need to address counterparty risk in sCDOs. It was to address the issue of Goldman's weaklink disclosure or not. Sorry if my email was not clear on the issue.

-----Original Message-----
From: Drexler, Michael
Sent: Thursday, May 05, 2005 7:58 AM
To: Guadagnuolo, Lapo; Ng, Chui; Kharnak, Lina; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart
Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

I also vote "no". I agree with Lapo that the 20% criteria (as calculated below) effectively eliminates the need for any counterparty posting in any synthetic CDO. Our goal is quite the opposite-to more directly and specifically assess counterparty risk in all CDO transactions.

Also, as Henry points out, I think the basic problem is the 20% "free pass" rule for bivariate risk. Since these risks can be assessed or structurally mitigated, they should be.

-----Original Message-----
From: Guadagnuolo, Lapo
Sent: 05 May 2005 09:09

PSI-SP-000007

To: Ng, Chui; Kharnak, Lina; Drexler, Michael; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

Hi Chui,

I would vote NO on this one. Primarily, if I understand correctly, for the fact that if we apply this 20% criterion here that it could have a big impact to the synthetic CDOs, where in many cases counterparties support for much less than 20% and we always require stringent A-1+ downgrade language.

However, from earlier emails, it seems to me that the cash-flows for AAA and AA are very strong, so we could "convince" GS to do a "quick and dirty" calculation that shows that AAA and AA pass (and we know in our hearts that they will pass!) and accept the donwgrade language they propose for the "A" note, since a A-1 is consistent with "A".

Regards
Lapo

-----Original Message-----
From: Ng, Chui
Sent: 05 May 2005 04:31
To: Kharnak, Lina; Drexler, Michael; Guadagnuolo, Lapo; Khakee, Nik; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

To all:

The resolution to the Goldman conundrum is as follows:

- We are applying a derivation of the 20% A-1 supporting AAA criteria
- The main concern in this deal is really the premium paid by Goldman rated A+/A-1 on roughly 13.3% of the portfolio - and this is only simply the spread above LIBOR not the entire coupon on the 13.3%, so in reality it is a miniscule portion well below the 20% of the portfolio.
- But in order to comply with this Goldman needs to

PSI-SP-000008

add in downgrade language, where if they are downgraded to below A-1, they have to replace, find a guarantor (both at their own cost) or post collateral suitable to S&P.

- Failure to do so will result in a termination of the CDS where Goldman is the affected party and it will not be an Issuer EOD so all termination payments to Goldman subordinated until rated notes are retired.

In exchange, we will not require the "A" rated notes to be weak-linked to Goldman, nor will we stress the cashflow modeling by removing the premium.

This will be conveyed to Goldman soon so speak now or I will take your silence as an affirmative vote. Without naming names the current vote stand at 4 non-silent YES votes and 0 NO votes.

Chui

-----Original Message-----
From: Kharnak, Lina
Sent: Tuesday, May 03, 2005 7:23 AM
To: Drexler, Michael; Ng, Chui; Guadagnuolo, Lapo; Khakee, Nik; Cheng,
Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego
Arozamena, Alfredo; Rothenberg, Stuart
Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

Mike, Chui and I discussed the modeling approach yesterday. There is some room on the AAA and the AA level, so that it may pass without the premium. Would you then weaklink to GS rating on the single A tranche, since it would not pass? I do not think it would work in this deal.

-----Original Message-----
From: Drexler, Michael
Sent: Tue May 03 02:58:22 2005
To: Ng, Chui; Guadagnuolo, Lapo; Khakee, Nik; Kharnak, Lina; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda; Esser, Darren; De Diego Arozamena, Alfredo; Rothenberg, Stuart

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: RE: Adirondack CDO

Hey Chui:

PSI-SP-000009

I think the solution in ABACUS provides good insight in how to deal with this new proposal. In ABACUS, you basically analyzed the cash-flow mechanics and determined that the GS premia were not needed to pay AAA and AA. Consequently, no posting is necessary since the failure of GS to pay its premium 1) doesn't hurt the rated notes and 2) leaves it as the Affected Party.

It seems to me that the same assessment should be made here: Determine whether GS's payment is necessary to pay higher-rated notes; if it is, it needs to be posted; if not, then it does not. As you point out, the best way to determine this is in a cash-flow model.

As to the Ifty tables, 20% buckets. etc, we need to stop using these as they contradict our published counterparty criteria. We will put a Blast out on this soon.

Cheers,

Mike

-----Original Message-----
From: Ng, Chui
Sent: Tue May 03 00:03:35 2005
To: Guadagnuolo, Lapo; Drexler, Michael; Khakee, Nik; Kharnak, Lina; Cheng, Kenneth; Albulescu, Henry; Ghetti, Belinda

Cc: Wong, Elwyn; Kambeseles, Peter; Tesher, David; Bryan, Andrea
Subject: Adirondack CDO

Criteria Members and colleagues:

Goldman Sachs again has presented us with another conundrum due to a last minute addition to a deal. In a static CASHFLOW CDO of a $1.5 billion portfolio of "AAA" and "AA" ABS, they at the last minute proposed to include a $200 MM synthetic bucket of single name CDS referencing "AAA" and "AA" ABS. The counterparty to all these CDS will be Goldman Sachs rated "A+/A-1." The CDO will take the proceeds that would been used to outright purchase the ABS (had they not enter into the CDS) and invested it in eligible investments rated "AAA" and for illustrative purposes, the investments are paying LIBOR flat. The inputs into the Evaluator will be the rating of the referenced "AA" or "AAA" ABS of each CDS. The premium (assume for illustrative purposes to be 50 bps) from Goldman plus the LIBOR yield from the investment will go into the cashflow model and establish the various rating level breakeven numbers.

The issues is that this Synthetic bucket is roughly 13.3% so with Goldman as a single counterparty, it exceeds the "ifty-table" concentration limit to all "A-1" counterparties of 5%. How have we handled the 50 bps premium paid by a

PSI-SP-000010

counterparty rated "A-1" in a "AAA" deal for concentration amount over 5%? I have asked Goldman to post one period of premium in advance. Goldman declined. I have asked that the cashflow model strip out the 50 bps of $200 MM, but the structure is so tight that this would most likely cause the "A" and lower tranches to fail.

Goldman has pointed to their Synthetic CDO - the ABACUS series (which I rated), where Goldman is the Swap counterparty but does not post one period in advance. Before you all crucify me and say that this all my own doing, let me explain.

In ABACUS, the deal issued three classes "AAA", "AA" and "A." Like all sCDO deals the proceeds went into "AAA" collateral yielding LIBOR + some small spread. This yield plus the premium from Goldman under the CDS was sufficient to cover the coupon on all three classes. Normally in a "AAA" deal, we would required the A-1 counterparty to post one period of premium in advance. This way if the A-1 CP defaults, the deal terminates and with the one period premium in advance; the notes will be made whole for principal and interest up to the termination date.

In ABACUS however, it was not a single tranche deal. It was a fully funded capital structure (with the exception of the first loss and the super senior). It had a waterfall where all Interest collections were used to pay the classes SEQUENTIALLY. Because of the capital structure, if Goldman failed to pay the premium on the CDS, the LIBOR + a small spread on the "AAA" collateral was sufficient to pay the FULL coupon on the "AAA" and "AA" classes (by the waterfall these would be paid first) and any shortfall will be absorbed only by the "A" class. The "A" rated class is taking only commensurate "A" rated risk as it would only take a loss of coupon if "A+/A-1" Goldman defaulted. So structurally, it was approved that Goldman in the ABACUS deal did not have to post until they were below "A/A-2." The deal was also linked to Goldman's rating and disclosed in OM.

For Adirondack, Goldman is asking for the same treatment: no posting on the 13.3% $200MM synthetic bucket - same as ABACUS. I do not think the situations are identical between Adirondack and ABACUS.

In Adirondack, the premium from Goldman is going into a cashflow model to establish a breakeven level. Lost of part this premium in the cashflow model is based on the "AA" or "AAA" referenced ABS of the CDS and the premium of the remaining "non-defaulting" referenced ABS is assumed to be available for the tenor of the deal. Goldman's default, which would cause the deal to lose the ENTIRE premium for the remaining tenor of the deal is not modeled. In ABACUS, there was no cashflow model, the subordination level (used to protect principal of the classes) was simply (1- recovery) *SDR. Loss of premium due to Goldman default had no effect on the subordination levels. In

PSI-SP-000011

Adirondack, the premium is used to determine breakeven rates which affects the levels of subordination in the deal.

So to summarize the issues:

1. Do we hold Goldman to the cashflow criteria "Ifty-table" limits?
2. If the answer to 1. above is "no," then how do we handle Goldman paying in the premium?

Here are some recently brainstormed proposed answers to 2:

* Treat it like ABACUS and Goldman post at A-2 (accept Goldman's proposal)
* Take out the premium from the cashflow model
* Treat like ABACUS only if taking out the premium from cashflow shows that the classes rated high than Goldman still passes

* Apply the 20% A/A-1 supporting AAA rule (this means do away with the Ifty-tables)

Any other suggestions, as always, will be welcomed. We need to respond to Goldman by Thursday.

Sorry for the long email. I know this makes for a good insomnia remedy! Thanks for getting this far in my email!

Chui C. Ng
Credit Market Services
Standard & Poor's
55 Water Street 41st Floor
New York, NY 10041-0003
Phone: 212-438-2558 Fax: 212-438-2650

PSI-SP-000012

From: Warrack, Thomas
Sent: Friday, May 05, 2006 11:41 AM
To: Kambeseles, Peter
Cc: Albergo, Leslie; Barnes, Susan; Kennedy, Martin; Kostiw, Karen; Mason, Scott; Mcdermott, Gail; Osterweil, Terry; Parker, Samuel; Stock, Michael; Vonderhorst, Brian
Subject: Confidential- Criteria Changes in LEVELS 5.7

Pete, Yes & No- and sorry we did not communicate as we should have.

We put out some criteria changes a couple of weeks ago that we will begin to use for deals closing in July.
Significant changes included an update to our Housing Volatility Index (a home price indicator) which will be increasing our loss severity calculations and a more conservative approach to first liens with piggyback (silent seconds). Together these two changes will be making a moderate change in raising our credit support requirements going forward.

However to say that these changes will leave us 5 notches back of Moody's sounds like a gross over statement, especially since we have been a notch or two more liberal then they have been (causing the split rating issues) for over the last year or two. The simulations that we did on the impact of our changes, more often then not we believe will bring our requirements close to theirs or in certain situations slightly higher.
We certainly did intend to do anything to bump us off a significant amount of deals.

I'd like to respond aggressively to this, I'd be happy to contact Robert Morelli at UBS to discuss further. Is he on the CDO side of the business?

We can run some simulations at his request to try and validate/dispute his belief.

Thanks, Tom

-----Original Message-----
From: Kambeseles, Peter
Sent: Wednesday, May 03, 2006 8:15 PM
To: Warrack, Thomas; Vonderhorst, Brian
Subject: FW:

any truth to this??

-----Original Message-----
From: robert.morelli@ubs.com [mailto:robert.morelli@ubs.com]
Sent: Wednesday, May 03, 2006 12:28 PM
To: Kambeseles, Peter
Subject: RE:

heard you guys are revising your residential mbs rating methodlogy - getting very punitive on silent seconds. heard your ratings could be 5 notches back of moddys equivalent. gonna kill your resi biz. may force us to do moodyfitch only cdos!

was just looking for a little color.

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PSI-SP-000355

From: Wong, Calvin
Sent: Thursday, June 15, 2006 3:21 PM
To: Moulton, Curt
Cc: Gillis, Tom
Subject: FW: question on impact to CDOs

Curt,

See David Tesher's comments below. Calvin

-----Original Message-----
From: Bryan, Andrea
Sent: Thursday, June 15, 2006 2:24 PM
To: Tesher, David; Wong, Calvin
Cc: Jordan, Pat
Subject: RE: question on impact to CDOs

I agree with David's statements.

-----Original Message-----
From: Tesher, David
Sent: Thursday, June 15, 2006 1:49 PM
To: Wong, Calvin; Bryan, Andrea
Cc: Jordan, Pat
Subject: RE: question on impact to CDOs

Calvin,

First Scenario:

We are being forced to deal with the changes that Moody's has introduced by modifying our CLO methodology (i.e. recovery levels) -- given the spread compression the market believes loans will experience -- Moody's is increasing CLO recovery levels in order to alleviate the spread compression stress that leverage loan market participants believe may occur due to the LGD Moody's initiative ... Moody's goal is to allow CLO's to continue to go to market with the same level of leverage that they have been historically going coming to market with .... Challenge is .... I do not know where Moody's will ultimately come out with their CLO recoveries ... This makes it difficult for us to maneuver given we do not know on the CF front where Moody's will end up with its recovery levels for CLO's... (not to mention that we are also in the middle of changing a couple of things on the CDO front {CDO Evaluator and CF assumptions}).

Second Scenario:

I believe we should first meet with the LSTA and "surface" this concept .... before rolling it out to the leverage loan market ... If we did move to mirror Moody's, we will get pulled into the Moody's negative publicity around this issue ... and from a spread perspective, would anger the leverage loan market participants as our initiative will solidify the spread compression the leverage loan market participants

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PSI-SP-000384

are worried about ...

Hence, a similar move from our corporate colleagues will result in the same "scrambling" effort on our CLO front (i.e. modifying CF assumptions in order to deal with the spread compression at the asset level ... complicated by the proposed Evaluator changes) --

David

-----Original Message-----
From: Wong, Calvin
Sent: Thursday, June 15, 2006 12:54 PM
To: Tesher, David; Bryan, Andrea
Cc: Jordan, Pat
Subject: FW: question on impact to CDOs

Any thoughts on Curt's question from the standpoint of our CDO business?
Calvin

-----Original Message-----
From: Moulton, Curt
Sent: Thursday, June 15, 2006 12:47 PM
To: Gillis, Tom; Wong, Calvin
Subject: question on impact to CDOs

Hi,

Boy is this recovery stuff complicated. I am trying to understand the impact of two scenarios.

First scenario:
Let's assume for a moment that S&P does not change the current approach to ratings in the corporate area and that Moody's implements their proposal. We assume this scenario to be negative for the corporate business because Moody's will be giving out higher ratings on secured loans so issuers will be less likely to ask for an S&P rating on the issue. But what would this mean for the SF business?

Second scenario:
Let's assume S&P follows Moody's and elevates secured loan ratings by, say, 3-4 notches. We assume this would keep us competitive with Moody's on corporate ratings. But what would this mean for the SF business?

Final question: Is there any difference in impact to our SF business from these two scenarios?

Thanks, Curt

PSI-SP-000385

From: Wong, Elwyn
Sent: Tuesday, August 01, 2006 11:12 PM
To: Ghetti, Belinda; Stoval, Shawn (FID)
Subject: RE: Can you call me? Have left you numerous messages
Shawn,

People take vacation. You just did. Now's my turn.

Belinda answered #2. So let me address #1 and #3. They are the same thing really. You have two things to blames :
(a) Your beloved customer Davenport just trolled the street and did a bunch of synthetics with different attachment points and detachment points all with fixed recovery, some simple structures like yours and some complicated structures. She is clearly arb-ing us for lack of a precise methodology. So we woke up reacting with a better and fairer solution. It's not us flipflopping on you. She is doing this one time too many.
(b) You want this to be a commodity relationship and this is EXACTLY what you get. Have you thought about how Justin never argued on how much he has to pay and in the end how much he really left on the table? $20k perhaps for the year? How many millions does Morgan Stanley pay us in the greater scheme of things? How many times have I accomodated you on tight deals? Neer, Hill, Yoo, Garzia , Nager, May, Miteva, Benson, Erdman all think I am helpful, no?

So, did you even contemplate sending in the portfolio to Bob_watson@sandp.com to see what your recovery is as I described in a previous e-mail. Unlikely to be 70% but as I said it took your competitors less than 1/2 hour to restructure a little (the change in risk is minimal I assure you) and recovery shoots right back up. I leaned on Belinda once to give you 70% so I will let her decide or at least you try to see you can do something a little different.

Elwyn

-----Original Message-----
From: Ghetti, Belinda
Sent: Tuesday, August 01, 2006 9:59 PM
To: Stoval, Shawn (FID); Wong, Elwyn
Subject: RE: Can you call me? Have left you numerous messages

With respect to the 5pct limitation, I thought we taled about it. If you structure whereby the CLN which is purchased by the CDO is delinked from the counterparty (premium in advance and posting for MTM of the charged assets, if necessary (i.e. Not a GIC) than you may overlook the limitation.

Unfortunately, most indentures may lump all synthetics in the limitations, so you need to see if the trustee of that deal would account it in the bucket or not.

With respect to the recoveries, I have requested our quants to produce a "prototype" evaluator that would produce recoveries for the tranches rated. For the moment we have to do it internally.

Hope this helps ... A bit?

Hope this helps.

-----Original Message-----
From: Stoval, Shawn (FID) [mailto:Shawn.Stoval@morganstanley.com]
Sent: Tue Aug 01 20:31:39 2006
To: elwyn_wong@sandp.com

Permanent Subcommittee on Investigations
EXHIBIT #13

PSI-SP-000343

Cc: Ghetti, Belinda
Subject: Can you call me? Have left you numerous messages

Elwyn,

3 things I need to discuss with you, the first two are urgent.

1) Recovery rate on future trades. Elwyn, I priced 2 trades based on your stated methodology. Paramax never would have received the pricing they did on trade #1 if I couldn't use at least a 65% recovery on the second trade. Changing this now costs me a large amount of money.

The position you have put me in is the same as you changing the Accelerator with no notice, no grandfathering, nada. Every day we (and the rest of the Street) show out bids based on our understanding of your methodology. Changes to methodology are a HUGE deal for us. You would never change the Accelerator assumptions on a dime and tell the market to "deal with it", which is basically what you have done to me. Trades will have been "done", hedges made, and capital committed -- all based on a firm understanding of how you rate. I believe it is unfair to change your methodology on a dime, with no prior notice, and when I am on the hook financially. Do you disagree? I would propose a compromise: for the second trade, we can get a fixed recovery like last time, but for trades beyond the next I will work under the new framework. But changing one day to the next just ruins us. And you have precedent for doing such a compromise: When you went from 2.4 to 3.0, there was a period of time where you would rate on either model. I am asking for a similar "dual option" window for a short period. I do not think this is unreasonable.

2) I need to get definitive guidance on an issue with Davenport and the 5% "counterparty" concentration limitation -- can we do another trade with them? Different people at S&P have told us (me vs. the account) different things. The account is frustrated with S&P as a result. I promised I would get to the bottom of it. THIS IS HOLDING UP THE TRADE. I NEED HELP HERE. I NEED SOMEONE AT S&P TO ADDRESS THIS DEFINITIVELY. IS THAT YOU? IF NOT, I NEED TO KNOW WHO CAN SPEAK FOR S&P ON THE MATTER. I have calls into Belinda, you, and Ken Cheng, but no one has called me back. Who do I talk to?

3) Longer term, but for Paramax trades #3 and beyond I will want to know if how use the S&P accelerator to determine the recovery rate. This way I can solve the issue under the new methodology.

Please call me. I have left at least 4 messages for you now.

Thanks Elwyn,
Shawn

PSI-SP-000344

communication is directed in the UK to those persons who are market counterparties or intermediate customers (as defined in the UK Financial Services Authority's rules).

PSI-SP-000345

From: Gutierrez, Michael
Sent: Tuesday, August 08, 2006 9:36 AM
To: Koch, Richard
Subject: RE: Loss severity vs gross/net proceeds

They've become so beholden to their top issuers for revenue they have all developed a kind of Stockholm syndrome which they mistakenly tag as Customer Value creation - this Homecomings thing is going to be messy and I need this controversy now like a hole in the head but we have to be evenhanded with all companies- I'll give you a ring today on this

-----Original Message-----
From: Koch, Richard
Sent: Monday, August 07, 2006 9:21 PM
To: Gutierrez, Michael
Subject: RE: Loss severity vs gross/net proceeds

I'm not surprised; there has been rampant appraisal and underwriting fraud in the industry for quite some time as pressure has mounted to feed the origination machine. With respect to your last sentence, our RMBS friends never questioned the news about the Homecomings (RFC) investigations of its lending practices during the call today, it was all uncomfortably cozy for my taste.

Richard W. Koch
Director, Structured Finance Ratings
Standard & Poor's
55 Water Street (42nd Fl)
New York, NY 10041-0003
(212) 438-2513
(212) 438-2662
Richard_Koch@sandp.com

-----Original Message-----
From: Gutierrez, Michael
Sent: Monday, August 07, 2006 4:55 PM
To: Koch, Richard
Subject: Loss severity vs gross/net proceeds

Rich:

I may have mentioned this already but in putting together slides for the AFN conference I noticed a disturbing pattern - for each of three companies with high gross and net proceeds recovery the loss severity was mind-boggling - between 40 and 52 % (even for one with 92% net proceeds recovery) I think this may be a story that needs to be told and it isn't about broken servicing shops. That kind of disparity points to one thing - bloated appraisals at origination (or flat out appraisal fraud) I was shocked - even with regional price depreciation there is no way the gap should be so stark between current value and total recoverability on the outstanding balance.

I'd like to have Gregg run a report comparing loss severity to net and gross

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PSI-SP-000091

proceeds for all our sub prime servicers to see if this is indeed a trend or just an aberration on the peers chosen for a particular slide. If it does turn out to be a pattern we need to be careful how we use this - perhaps comparing the overall portfolio loss severity at the platform level vs. that of S&P rated transactions - there could be a good commentary out of this (or a bad reflection on how the deal side treats valuations on originations)

Michael Gutierrez
Director
Standard & Poor's
Structured Finance
Servicer Evaluations
55 Water Street, 41st Floor
New York, NY 10041-0003
Tel (212) 438-2476
Fax (212) 438-2664

PSI-SP-000092

DATE: 12/01/2003
TIME: 18:38:33 GMT
AUTHOR: Kimon, Noel
RECEIPIENT: Clarkson, Brian
CC:
SUBJECT: RE: Noel Kimonpe2003.doc

If possible I would like to stop by at 3:30. If not possible I will email comments.

-----Original Message-----
From: Clarkson, Brian
Sent: Monday, December 01, 2003 10:03 AM
To: Kimon, Noel
Subject: Noel Kimonpe2003.doc

Curren draft please stop by when you have a moment

Noel Kimon — Group Managing Director, Real Estate and Derivatives Group

Noel led the Real Estate and Derivatives Group to strong results in 2003. At the beginning of the year, issuance volume for Commercial Real Estate and Derivatives was expected to be flat and down respectively in 2003 with price increases and new products representing the vast bulk of the forecasted 10% increase in year over year revenues. While the Derivatives area did experience a 10% decline in issuance volume and deal count, the continued low interest rate environment led to a year over year deal increase of 21% in CMBS. Noel and his team handled the increase and met or exceeded almost every financial and market share objective and goal for his Group. The only shortfall was in one important area of business development (CDO analyzer) where both a change in fundamental direction as well as missed deadlines resulted in sales delays until 2004. Noel's Group also provided analyst support for the RMBS team through-out the year. Overall, Noel and his team had a very successful 2003.

Through November total revenue for Noel's Group has grown 16% compared with budgeted growth of 10% with CMBS up 19% and Derivatives up 14%. This was achieved by taking advantage of increased CMBS issuance volumes and by meeting or slightly exceeding market share objectives for the Group. The Derivatives team has achieved a year to date 96% market share compared to a target share of 95%. This is down approximately 2% from 2002 primarily due to not rating Insurance TRUP CDO's and rating less subordinated tranches. Noel's team is considering whether we need to refine our approach to these securities. The CMBS team was able to meet their target share of 75%. However this was down from 84% market share in 2002 primarily due to competitor's easing their standards to capture share.

Noel's Group was also successful in new business initiatives although results were not even among products. While the CDO Analyzer product (formally Navigator) was redirected in 2003, it still failed to achieve its revised sales target of $175,000 (Ray: I think this was the last estimate) by year end. This was due in part to the combination with MKMV but also to missed deadlines by the CDO analyzer team. However, we believe that the combination with MKMV will ultimately result

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EXHIBIT #15

PSI-MOODYS-000096

DATE: 01/12/2006
TIME: 04:35:00 GMT
AUTHOR: May, William
RECEIPIENT: Harris, Gus
CC:
SUBJECT: RE: BES and PEs

Permanent Subcommittee on Investigations
Document originally produced in unformatted text; reformatted (including exclusion of metadata) for readability by the Subcommittee. Original document retained in Subcommittee files.

Top Achievements in '05:

1. Protected our market share in the CDO corporate cash-flow sector (CLOs, CBOs [there was only one but we rated it] and SME CLOs). To my knowledge we missed only one CLO from BofA and that CLO was unratable by us because of it's bizarre structure.

2. Managed the group to minimize turnover. The only senior analysts who left in '05 were Kathy Lu and Phil Mack, both of whom were about to receive very negative PE's. I considered putting this as my #1 accomplishment. In fact, I believe it should quite possibly be the #1 achievement for all four MDs for 2005. It seems to me that one of the greatest challenges for a Derivatives MD at Moody's is simply to create a working atmosphere that will encourage talented people to stay despite the fact that we pay 1/3 to 1/2 market rate. We do this by creating a workplace where (i) the analysts know that they are valued, (ii) they have real input into the work product, (iii) they have the time to function as at least quasi-spouses and quasi-parents, (iv) they receive public and private praise for their accomplishments and (v) backstabbing and incivility are not tolerated. In short, the MDs worked hard to compensate the staff with intangible, non-cash emoluments.

3. Brought a minimum of cohesion to the lawyers in the group (i.e. more or less herded cats). This last year was the first year where we had regular lawyers' lunches. The lawyers actually showed up to the lunches which is something they did not do in previous years (we often included William Ma and Marlow in London, btw). The lawyers thoroughly hashed out difficult legal issues that face the group without ripping one another to shreds--also something not accomplished in prior years. To some this may seem a minor achievement. Believe me, it wasn't.

4. Managed CLO deal flow successfully. I view this as related but different from goal # 1. The number of CLOs that we rated increased by approximately 61% last year. The number of amendments that we had to process and committee increased more than that, though I do not have hard numbers. At the end of the year, when the deal flow was reaching its crescendo, we lost three experienced CLO analysts (Elena, Stephanie, Phil). Despite these formidable challenges, we managed to get all the deals rated with no loss of market share, minimal turnover and almost no complaining from clients.
We also managed to quell a near uprising from the leading bankers in the SME CLO market (Wachovia and Merrill) over the level of our credit estimates for their managers' collateral. We now have, as best I can tell, 100% market share in the SME CLO market and a promise from one of our major clients in that space (Fortress) to do a Moody's-only deal because of their happiness with our overall level of service to them.
We also finished and promulgated a comprehensive CLO Rating Guide and a "beta" version of the CLO Committee Template which we expect to make mandatory by 1/31.

5. Outreach to the market/Internal outreach. I spent a great deal of time making sure that I got to spend some time with the major investment banks in the CLO space. I tried to do this in a relaxed, non-deal pressured environment--lunch, dinner, drinks, chatting people up at conferences, unscheduled phone calls, etc. I also co-chaired the IMN conference in New York last March where I got much more face time than either of the reps from S&P or Fitch and I spoke on two other conference panels.
Internal outreach: You told me last year that you wanted me to identify key people in our group and work with them to protect and grow our business. You also said the BES survey should get positive results.

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EXHIBIT #16

PSI-MOODYS-000072

DATE: 04/11/2006
TIME: 20:32:52 GMT
AUTHOR: Kanef, Michael
RECEIPIENT: Clarkson, Brian
CC:
SUBJECT: RE: Jay Siegel Exit Interview

I will speak to him. MBK.

-----Original Message-----
From: Clarkson, Brian
Sent: Tuesday, April 11, 2006 4:20 PM
To: Kanef, Michael
Subject: FW: Jay Siegel Exit Interview
Sensitivity: Confidential

Could you contact Jay about this? I think we need to chat with him I am fairly sure where he was going with this but we need to be sure.

-----Original Message-----
From: O'Connell, Dan
Sent: Friday, April 07, 2006 3:49 PM
To: Kanef, Michael; Clarkson, Brian
Cc: Elliott, Jennifer
Subject: Jay Siegel Exit Interview
Sensitivity: Confidential

<< File: MoodysNet Exit Interviews.htm >>

Jay joined Moody's in June 1994 after working for a total of 6 years as a lawyer, the first four years with Brown & Wood and the remaining two with Cadwalader, Wickershan & Taft. He explained that he was working long hours, in some cases for two full days without going home, and wanted an improved balance of work and personal life. Moody's offered that to him, even after he became a Managing Director.

Despite this, he decided that he now wants to spend more time with his family. Although he will continue to consult with Moody's, he expects to only spend about 20 hours per month in this role and will spend some time considering setting up a non-profit organization.

During his time at Moody's, Jay worked both in SFG and FIG. He found his rotation in the fundamental area to be very valuable. Relationship management skills are essential in this area of the business, and he was able to develop these skills under Ted Young. He wonders why Moody's does not rotate more people between the ratings areas of the firm.

He described RMBS as the worst team to work on at Moody's. It is difficult to maintain market share in a market that has become commoditized and where Moody's expected loss analysis means higher cost for issuers. In addition, staffing issues have become a great challenge. He explained that if the area requested additional headcount early in the year, management responded that it was too soon to know if we would have a good year. Later in the year, management responded that since the team was able to produce without the additional staff this far into the year, they could finish the year without increased headcount.

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EXHIBIT #17

PSI-MOODYS-000079

This meant long hours for the staff and therefore, employees in other areas had no interest in rotating into RMBS.

On a positive note, salary increases over the past two years have helped the team hire more qualified people. The down side is that these newer hires have greater ambition and higher expectations. It makes it more challenging to keep them at Moody's. Managements approach is to target the best two people and focus our effort on keeping and developing these employees.

Finally, Jay stated that he has a long term interest in the success of Moody's. With this in mind he mentioned that he was worried that if Moody's stock price suffers in the future, more members of the management team may decide to leave.

PSI-MOODYS-000080

DATE: 04/27/2006
TIME: 19:59:20 GMT
AUTHOR: Ramallo, Karen
RECEIPIENT: Frankowicz, Wioletta; DiRienz, Mark; Grohotolski, Joseph; Maymi, Carlos A.
CC: Kornfeld, Warren
SUBJECT: RE: **MGIC Home Re 2006-1 Committee#3**

At the end of the day, I guess I was trying to say that I would have been comfortable going with the grid results (with the previously committeed seasoning benefit) and not necessarily notching up so high for the higher ARM concentration relative to previous transactions after thinking through some of the questions below that the committee requested that I consider.

For previous synthetic deals this wasn't as much of an issue since the ARM % wasn't as high, and from reading previous memos, we were not making much of an adjustment for changes in loan type concentrations. At this point, I would feel comfortable keeping the previously committeed levels since such a large adjustment would be hard to explain to Bear, especially since the pool has barely changed. During future committees, these points will likely come again and we can address them in more detail. So unless anybody objects, Joe and I will tell Bear that the levels stand where they were previously.

Thanks,
Karen

-----Original Message-----
From: Frankowicz, Wioletta
Sent: Thursday, April 27, 2006 12:18 PM
To: Ramallo, Karen; DiRienz, Mark; Grohotolski, Joseph; Maymi, Carlos A.
Cc: Kornfeld, Warren
Subject: RE: **MGIC Home Re 2006-1 Committee#3**

Karen,

Are you suggesting we should follow the 'revised' approach on deals going forward? If so, i think it would help to see the 'revised' approach applied to a deal we've previously committeed and discuss the appropriateness and magnitute of the various adjustments vs. the CES grid in a committee setting -- the points you raise below are good and I personally thought that standardizing these adjustments is definitely the way to go to keep the methodology consistent across deals.

Or are you revisiting the levels and asking for votes on your recommendation for the pool from yesterday's committee based on the additional details you provided/calculated below? -- it is not clear to me from below if you are revising your recommendation and if so what it is. If you are asking for votes on loss coverage for the pool from yesterday, I still think quick committee would help keep all on same page through the voting process -- there are just too many open items/adjustments and thus it is easier to vet this out verbally in committee setting.

w

-----Original Message-----
From: Ramallo, Karen
Sent: Wednesday, April 26, 2006 7:16 PM

PSI-MOODYS-000093

To: DiRienz, Mark; Grohotolski, Joseph; Frankowicz, Wioletta; Maymi, Carlos A.
Cc: Kornfeld, Warren
Subject: **MGIC Home Re 2006-1 Committee#3**

Thanks for taking the time for this third committee. I appreciate your participation (I know it's been painful along the way!). This email will be painfully long as well. But below are some questions we had about our methodology during this committee and my thoughts. I would appreciate your input.

- Point#1 - Is the CES Grid appropriate given that CES have fixed rates while the majority of the underlying 1st liens in this synthetic deal are ARM loans, or are the suggested levels per the grid not conservative enough?
- Thought - While CES loans may have fixed rates, the grid should be taking into account the propensity to default of the underlying 1st lien borrower (same borrower holds 1st and 2nd, so the probability of default for that borrower would be the same (or maybe even higher for the 2nd lien given the lack of equity). The CES severities will be higher, however. Therefore, I would think it is conservative to use the CES Grid for MI deals since the "exposure" treated as a CES is not a true CES, but we are still faced with probabilities of defaults on largely ARM borrowers (78% of deal). The grid may actually be too conservative if it was created assuming higher frequencies on the 2nd liens given the compromised willingness to pay resulting from little if any equity ownership (not sure if this was the case?).

- Point#2 - Are we double penalizing by adjusting levels upwards from the CES grid to reflect increasing proportions of hybrid ARM collateral in these deals?
- Thought - Since the CES grid was created assuming 80-90% underlying 1st lien hybrid ARM loans (and likely about 30% IO), I would argue that we should not be adjusting the suggested CES grid levels to reflect higher concentrations of ARM collateral in this deal, relative to the last deal, since it is 78% ARM and only 15% IO loans, and in line with (or even better) than the assumed 1st lien parameters. During the committee, however, I recommended a notch and a half higher on the Aaa suggested by grid to at least make a distinction compared to the last deal. The original committee vote made a 3.5 notch adjustment to the grid Aaa levels due to the higher ARM % (which thinking about it after the fact, seems high to me given that the 1st lien population is at least as good as that assumed by the CES grid).

- Point#3 - Should the CES grid apply because we do not have 80% purchase loans (44% in this case)?
- Thought - For the Smart Home 2006-1, Smart Home 2006-2, and the Home Re 2005-1 deals, the % of purchase loans ranged between 43% and 47%, and adjustments were not made to reflect this lower % of purchases. I would argue that the expectation of 80% purchase loans behind the CES grid was due to the fact that these piggyback combinations with a CES are more prominent for purchase transactions as an affordability product. In the synthetic deals, the exposure is not related to an affordability product nor to a borrower that has very little equity stake (and even if the borrower has an underlying 2nd lien, a default would first occur on the 2nd lien, and not the 1st lien which is in the reference portfolio which represents the true credit risk to the deal). In addition, home price appreciation of recent years would have helped create easy equity ownership without amortization of the loan. In addition, the MI Coverage % in this deal is 29%, which is preferable over the 20% assumed by the grid since more losses can be absorbed before exhausting the 29% coverage vs. a 20% LTV CES loan.

- Point#4 - Should levels be higher for 2-4 family and Investor property hits?
- Thought - 2-4 family properties were only 8% of the deal, and investor properties 8% as well. Plugging the appropriate inputs into the CES grid would roughly result in a Aaa hit of 50 bps

PSI-MOODYS-000094

assuming the current Aaa of 24. I feel this hit can likely be covered by the 1.5 notch increase that I had recommended above to the 23.50 Aaa level per the CES grid (recommended 25 at Aaa prior to seasoning benefit). At the end of the day, this hit is not significantly large for this deal.

- Point#5 - Is the CES grid appropriate for determining levels on CES pools aged 2 years with a significant proportion of 2 and 3 yr hybrid ARMs that are about to reset?
- Thought - Not sure about this point, but I would think that our methodology should consistently evaluate CES loans regardless of the age and the proximity of the reset dates on the underlying 1st lien loans. When the CES grid was created, I suppose that we assumed higher default frequencies to compensate for the reset/payment shock risk since we assumed 80-90% hybrid ARMs (although this risk is more of an unknown when a pool is newly originated since we don't have a real-life indication of interest rate movements). In this case, like we saw via the interest rate risk analysis, and given current rates/6 month LIBOR levels/housing appreciation, I think I would be more comfortable assigning levels per the CES grid given our likely stressed assumptions. I'm assuming the CES grid was created when our forward LIBOR assumptions hit a higher peak (thereby posing more reset risk; if not at the initial adjustment due to the ICAP, possibly more payment shock risk at subsequent rate adjustments). Since we recently reduced the peak in the assumed forward curve to 3.25% from the earlier level of 4.25%, this might imply that we were stressing payment shock moreso in the past due to a higher expected peak.

Any other questions I may have missed? Any thoughts? If you feel we do not have a case to bring down the levels to my recommendation from today's committee after considering the above factors, I will gladly tell Bear that the previously committeed levels are where we stand. And looking at the recently committeed Home Re 2006-1 deal (Radian), we notched the Aaa suggested by the CES grid by only 1.5 notches to reflect a higher % of ARMs (64%) so that we at least make a distinction from the previous Radian deal that had 48% ARMs. This may prove to be an inconsistent manner of hitting the CES grid for increasing %s of ARM collateral (hit 3.5 notches on this MGIC deal originally).

Thanks.

Karen Ramallo
Structured Finance Group - RMBS
Moody's Investors Service
☎ 212-553-0370
✉ karen.ramallo@moodys.com

PSI-MOODYS-000095

DATE: 05/01/2006
TIME: 20:43:50 GMT
AUTHOR: Michalek, Richard
RECEIPIENT: Yoshizawa, Yuri
CC: Xu, Min; Zhu, Qian
SUBJECT: RE: Magnolia 2006-5 Class Ds

I am worried that we are not able to give these complicated deals the attention they really deserve, and that they (CS) are taking advantage of the "light" review and the growing sense of "precedent".

As for the precedential effects, we had indicated that some of the "fixes" we agreed to in Qian's deal were "for this deal only" (e.g., Administrative Expense cap and indemnity payments to Trustee). When I asked Roland if they had given further thought to a more robust approach, he said (unsurprisingly) that they had no success and could we please accept the same [stopgap] measure for this deal.

Not that the chosen stopgap measure was not good enough, just that the weight of "this is what we have done in the past and you had gotten comfortable" is growing with every deal and the incentive to unravel the documents and try to understand just how the complicated pieces fit together is growing ever smaller.

When you add a "reduced fee" to the scale, it definitely tips it over to "light review". As for the light review, the blacklines won't pick up the changes that, upon closer review, we wish we had made in the first transaction. And, as would I should the role be reversed, any attorney stepping in for me on this trade will focus only on the blacklined changes.

Min and I are working through some of the "old" complications (not blacklined) in the new deal's documentation, but we don't want to reinvent a wheel already on a roll, even if, as we discovered when we tried to make sense of the already present definitions of "Expected Interest Amount" and "Delivered Obligation Interest Make-Whole Amount", the roll is not particularly smooth. (When confronted with our questions, CS and counsel said "we'll have to look at this, I think you're right, there seems to be something that doesn't work here".)

We'll do what we can with the time we have, and with the principle of "work/life balance" firmly in our minds. Nevertheless, I think all effort should be made to resist the idea that this is worthy of reduced fees, or "light" reviews. (If headlines are going to be made, this structure may be just the source of error that in hindsight we really will wish we had given more time.)

Rick.

-----Original Message-----
From: Yoshizawa, Yuri
Sent: Monday, May 01, 2006 10:41 AM

Permanent Subcommittee on Investigations
EXHIBIT #19

PSI-MOODYS-000086

To: Michalek, Richard; Zhu, Qian
Subject: FW: Magnolia 2006-5 Class Ds

Rick, Qian,

I asked Roland and Fiachra to send over the docs for the new trades blacklined against the one that you closed (not the new ones that Rick is working on with Min). I looked through the blacklines and it looks like the changes are minimal - e.g., names, pricing, dates, etc. - except for the swap which has more changes due to the removal of funding language.

Rick, If you're jammed until the end of the month, I can see if someone else can pick this up. It shouldn't be too difficult given the minimal changes. Regarding any new changes you and Min are asking for, we can ask for the same changes here if you let me or Qian know what those changes are.

Qian, There are a few portfolio changes and I have already told Fiachra that we will be charges each new portfolio as a new deal. He seems to understand that from his email below. The changes to the model shouldn't be difficult to run quickly. We can have Roland send us the portfolios.

-----Original Message-----
From: Jawurek, Roland [mailto:roland.jawurek@credit-suisse.com]
Sent: Friday, April 28, 2006 9:33 AM
To: Yoshizawa, Yuri
Cc: O'Driscoll, Fiachra
Subject: RE: Magnolia 2006-5 Class Ds

Hello Yuri:

Please find attached the following documents:

1) Draft Pricing Supplement for Series D1

PSI-MOODYS-000087

2) Draft Pricing Supplement for Series D2

3) Draft CDS Confim for Series D3

4) Blackline PS Series D1 vs Final PS Series A through C (A through C closed on March 31)

5) Blackline PS Series D2 vs Series D1

6) Blackline CDS Confirm Series D3 vs PS Series D2 (confirm section only)

The blacklines attached are "changed pages only". I would like to direct your attention to the blacklines. You will see that the changes are generally limited to required form and data changes.

Many thanks,

Roland

212 [redacted]

= Redacted by the Permanent Subcommittee on Investigations

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<www.credit-suisse.com/americas/legal/salestrading <outbind://5/www.credit-suisse.com/americas/legal/salestrading>>

-----Original Message-----
From: O'Driscoll, Fiachra
Sent: Thursday, April 27, 2006 4:55 PM
To: 'Yoshizawa, Yuri'
Cc: Jawurek, Roland
Subject: RE: Magnolia 2006-5 Class Ds

That agrees with my understanding on the fees etc. The unfunded has a portfolio identical to one of the two notes, so I should clarify my original email by saying there are only two "new" portfolios.

The constituting instruments and the swap confirms will be identical to each other and to those for the existing Class A notes except with respect obvious economic points where they must differ (e.g. dates, principal amounts, coupons, attachment points, name schedules etc.) and the unfunded swap confirm will be identical to the note swap confirm except that it's counterparty will be Credit Suisse as opposed to Magnolia.

PSI-MOODYS-000088

The trade is a static, nonmanaged transaction as before.

Roland will get you the blacklines first thing in the morning. And thanks for your help! (Any thoughts as to a date we can set for a team dinner, as we discussed?)

-----Original Message-----
From: Yoshizawa, Yuri [mailto:Yuri.Yoshizawa@moodys.com]
Sent: Thursday, April 27, 2006 4:05 PM
To: fiachra.o'driscoll@credit-suisse.com
Subject: Re: Magnolia 2006-5 Class Ds

Fiachra,
I also just realized that there are actually three ratings that are being required for 2 notes and 1 swap. Are the note documents identical to each other? And is the swap confirm identical to the confirms underlying the notes? If everything is identical, I can stick to the pricing below. Please send me the blackline for one of the note documents against the older deal and the other note against the first note.

Thank you.

-----Original Message-----
From: Yoshizawa, Yuri
To: 'fiachra.o'driscoll@credit-suisse.com' <fiachra.o'driscoll@credit-suisse.com>
Sent: Thu Apr 27 15:54:43 2006
Subject: Re: Magnolia 2006-5 Class Ds

Fiachra,

Can you please send over the documents blacklined against the other 2006-5 documents to me? I believe Rick's concern is that despite what you say regarding them coming from the same issuer, the constituting documents may be very different. Please send over the blackline so that I can see them and so that any other analyst that I assign can use them for review. I expect that compared to the documents for the class rated single A, they will be identical except for the attachment points and pricing and schedule of names. If so, I can ask Qian to run the numbers and give the documents to someone else to review.

Also, the terms of my fee arrangement are very clear on the fact that the portfolios must be identical. One of the key reasons why the fees are much lower compared to the full waterfall deals is because they are usually very much similar from deal to deal in terms of structure and documents. Also, the 2nd + tranches are priced lower (~ $40k lower) because we only have to monitor one reference portfolio. This trade, because it has the different CUSIPs would be considered a different deal under my pricing - i.e., $85k for a static deal. Please let me know if this deal is not static. I can't remember from the name alone.

Yuri

Yuri Yoshizawa
Moody's Investors Service
(212) 553-1939

Sent From My Blackberry

-----Original Message-----
From: O'Driscoll, Fiachra <fiachra.o'driscoll@credit-suisse.com>
To: Yoshizawa, Yuri
Sent: Thu Apr 27 13:43:44 2006

PSI-MOODYS-000089

Subject: Magnolia 2006-5 Class Ds

Yuri, we have traded the Magnolia 2006-5 Class D securities (that is, the Baa tranches BELOW the Aaa to A classes that traded a few weeks ago). The 3 investors each required a SMALL number of CUSIP changes to the original pool, but there are no new asset classes and the essential character of the trades remains the same. There are also no changes proposed to the ref. obs., the collateral assets or anything else.

Rick has said that he won't be able to focus on it any time soon and that we should expect a closing date in LATE May.

(a) Unless Moody's is unhappy with the documents that we closed the last transaction on, we don't think the documents need any changes.

(b) I'm going to have a major political problem if we can't make this short and sweet because, even though I always explain to investors that closing is subject to Moody's timelines, they often choose not to hear it.

Can you make someone else available to us?

Fiachra O'Driscoll
Credit Suisse
Managing Director
Synthetic CDO Trading
Tel : (212) 538-6680
Fax : (212) 743-1090
Cellphone : (917) [redacted]
Please note my new email address
Email : fiachra.o'driscoll@credit-suisse.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

PSI-MOODYS-000090

DATE: 10/24/2006
TIME: 21:25:54 GMT
AUTHOR: Michalek, Richard
RECEIPIENT: Fu, Yvonne; Harrington, William; Remeza, Algis;
CC: Jiang, Ivan
SUBJECT: managing expectations: 2 different stories

Invicta is conceding that this is a "first quarter 2007" transaction. This outcome is, I believe, in part the result of their itemizing and calendaring all of the necessary tasks on their way to issuance. And noticing after two weeks how they were slipping on their deadlines.

Koch, on the other hand, is still moving hard towards the "end of November" deadline. However, they are increasing their pressure on us to ensure that we are "keeping the playing field level" viz. the rated entities and current "market practices".

As to "level playing fields", they specifically charge that Primus is trading on a more flexible ISDA Schedule, they [presumably] have lower capital charges given our insistence on a termination payment "solution" (either modeling or otherwise), and they presumably do not have the same degree of "operational suffering" (their term) from our (now) asking for clarification and quantification that was not asked in connection with Primus. (We reassured them that their deal is being held to standards consistent with the other deals now coming to market, and that existing deals are being asked to update/evolve their methodologies to the extent there are unaddressed material risks. Nevertheless, and no matter how many times we made the assurance, they clearly implied that they would not accept different standards from the outstanding Moody's-rated vehicles.)

I mention this to reinforce the expectation that concessions we make in the interest of getting the deal(s) rated will be used against us.

Rick Michalek
VP/Senior Credit Officer
212.553.4076
212.298.7127 (fax)

DATE: 12/12/2006
TIME: 19:04:00 GMT
AUTHOR: Brennan, James
RECEIPIENT: Emmett, Catherine (London)
CC: Bellis, Andrew (London)
SUBJECT: RE: Re legal points outstanding

We probably could rate down further in the capital structure, but it really depends on what Taberna will covenant to. It may be best to set up a call tomorrow with Taberna so we can all get on the same page.

As for the perpetuals, we agreed that 100% of proceeds that come in from these securities after ten years will be treated as principal proceeds.

Jim

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Emmett, Catherine (London) [mailto:catherine_emmett@ml.com]
Sent: Tuesday, December 12, 2006 10:35 AM
To: Brennan, James
Cc: Bellis, Andrew (London)
Subject: RE: Re legal points outstanding

Jim,
We are pricing on Thursday and want to get this sorted ASAP. Have been speaking to Plamen and my feeling is that the only way we'll maybe get Taberna to agree to the covenants is if you rate down to Aa2 on the B Notes at the same levels as the other agencies.
If you you let me know what covenant levels you would need to get there I'll speak to Taberna.

I thought we had agreed on perps?

Cheers Cath

Merrill Lynch
MLFC, 2 King Edward Street
London EC1A 1HQ
Tel: +44 20 7995 4776
Please click on <http://www.ml.com/ukregulatorynotices/uk_regulatory.htm> for important disclosures.

-----Original Message-----
From: Brennan, James [mailto:James.Brennan@moodys.com]
Sent: Tuesday, December 12, 2006 2:18 PM
To: Emmett, Catherine (London)
Subject: RE: Re legal points outstanding

If you have a 21 year WAL and the WARF is 1761, the default probability is 31.29%. This extrapolates the default probability from the 21 year life based on the ten year WARF. Your calculation uses the default probability of each asset and then you use a weighted average. Slight difference, but I wanted to point this out to you.

Permanent Subcommittee on Investigations
EXHIBIT #21

PSI-MOODYS-000081

Jim

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Emmett, Catherine (London) [mailto:catherine_emmett@ml.com]
Sent: Tuesday, December 12, 2006 7:51 AM
To: Brennan, James
Subject: RE: Re legal points outstanding

Bit unclear what you mean - is the figure that we have incorrect?

Cheers
Cath

Merrill Lynch
MLFC, 2 King Edward Street
London EC1A 1HQ
Tel: +44 20 7995 4776
Please click on <http://www.ml.com/ukregulatorynotices/uk_regulatory.htm> for important disclosures.

-----Original Message-----
From: Brennan, James [mailto:James.Brennan@moodys.com]
Sent: Tuesday, December 12, 2006 1:06 AM
To: Emmett, Catherine (London)
Subject: RE: Re legal points outstanding

I got your voicemail as well. I can't send my results over, however, I can tell you that with your assumptions, I am getting similar results. Just to let you know, when you calculate the default probability, use the WARF and then extrapolate the default probability using the life of the portfolio. In terms of how the A2 Note will rate out, this will be heavily dependent on the covenants Taberna sets with respect to the WARF and MAC. I think we still have some issues left to resolve especially with respect to the covenants, ramp-up, and how perpetuals are treated.

Thanks

Jim

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Emmett, Catherine (London) [mailto:catherine_emmett@ml.com]
Sent: Monday, December 11, 2006 4:06 PM
To: Brennan, James
Subject: RE: Re legal points outstanding

Jim,
please can you send your results?

PSI-MOODYS-000082

Many thanks
Cath

Merrill Lynch
MLFC, 2 King Edward Street
London EC1A 1HQ
Tel: +44 20 7995 4776
Please click on <http://www.ml.com/ukregulatorynotices/uk_regulatory.htm> for important disclosures.

-----Original Message-----
From: Brennan, James [mailto:James.Brennan@moodys.com]
Sent: Friday, December 08, 2006 11:52 PM
To: Emmett, Catherine (London)
Subject: RE: Re legal points outstanding

Just to let you know, I will need to get back with you on Monday with the model results. Sorry for the inconvenience and hope you enjoyed your days off.

Thanks

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Emmett, Catherine (London) [mailto:catherine_emmett@ml.com]
Sent: Wednesday, December 06, 2006 2:10 PM
To: Brennan, James
Cc: Bellis, Andrew (London); Chagnard, Florent (London)
Subject: RE: Re legal points outstanding

Taberna will not remove the language on the WARF tests etc. They point out that in the US deals you rate down to Aa1 level.
What rating would you have here do you think on the Class B notes?

Merrill Lynch
MLFC, 2 King Edward Street
London EC1A 1HQ
Tel: +44 20 7995 4776
Please click on <http://www.ml.com/ukregulatorynotices/uk_regulatory.htm> for important disclosures.

-----Original Message-----
From: Brennan, James [mailto:James.Brennan@moodys.com]
Sent: Wednesday, December 06, 2006 6:25 PM
To: Emmett, Catherine (London)
Cc: Bellis, Andrew (London); Chagnard, Florent (London)
Subject: RE: Re legal points outstanding

On the perps, that is different from what we discussed. Why not 100%?

PSI-MOODYS-000083

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Emmett, Catherine (London) [mailto:catherine_emmett@ml.com]
Sent: Wednesday, December 06, 2006 11:46 AM
To: Brennan, James
Cc: Bellis, Andrew (London); Chagnard, Florent (London)
Subject: Re legal points outstanding

Jim,
To confirm even if we notch all the unconfirmed ratings you think your results will still be ok and can check and come back by the end of the week. When you run the ratings please can you let me know where the junior Aaa tranche comes out.

For my records, recoveries on CMBS and B Notes come from the CDO ROM model

On the legal points
Perps - we will agree that after yr ten 80% of interest is used as principal.

Deferring grace period - I suppose we can change language to lose the grace period though please note this is deviating from what we have in the Dekania deals in Europe...

Re the Mac etc - I will pass on your thoughts to Plamen but promise nothing!!

If you can drop an email letting me know your results that would be great.

Many thanks
Cath

Merrill Lynch
MLFC, 2 King Edward Street
London EC1A 1HQ
Tel: +44 20 7995 4776

PSI-MOODYS-000084

DATE: 03/08/2007
TIME: 01:56:11 GMT
AUTHOR: Ramallo, Karen
RECEIPIENT: Krayn, Yakov
CC:
SUBJECT: RE: DQ Hit for Jake's ACE Deal

Jake,

I just spoke with Sue Valenti at Deutsche regarding this deal and she is resisting the changes to the LC levels. She is pushing back dearly saying that the deal has been marketed already and that we came back "too late" with this discovery (although we caught this before the FWP printed; did you ever tell Karan that the levels were contingent on the loans being OTS current as of the cut-off date?)

She claims it's hard for them to change the structure at this point. Given the level of pushback, I figure we'll have to discuss this with Warren in the morning. Do you think you can run the optimized model given the new levels and then we can compare that to the initial structure and run by Warren?

-----Original Message-----
From: Kornfeld, Warren
Sent: Tuesday, March 06, 2007 11:21 AM
To: Ramallo, Karen
Cc: Krayn, Yakov (Jacob)
Subject: RE: DQ Hit for Jake's ACE Deal

ok

-----Original Message-----
From: Ramallo, Karen
Sent: Tuesday, March 06, 2007 9:47 AM
To: Kornfeld, Warren
Cc: Krayn, Yakov (Jacob)
Subject: RE: DQ Hit for Jake's ACE Deal

Warren - revising recommendation to below (previously had said 160 bp hit to Aaa, meant to say 120 bp hit to Aaa to use a 3x multiple rather than the typical 4x)

New Recommendation: 40 bp hit to B2, 120 bp hit to Aaa.

-----Original Message-----
From: Ramallo, Karen
Sent: Tuesday, March 06, 2007 9:41 AM
To: Kornfeld, Warren
Cc: Krayn, Yakov (Jacob)
Subject: RE: DQ Hit for Jake's ACE Deal

Warren,

Permanent Subcommittee on Investigations
EXHIBIT #22

PSI-MOODYS-000073

Just stopped by to see if you had any feedback. Jake needs to signoff on the FWP today and I'll need to resolve this issue with Deutsche.

Thanks.
Karen

-----Original Message-----
From: Ramallo, Karen
Sent: Monday, March 05, 2007 1:01 PM
To: Kornfeld, Warren
Cc: Krayn, Yakov (Jacob)
Subject: DQ Hit for Jake's ACE Deal

Warren,

Jake has a Resmae 100% subprime 1st lien deal and he just discovered that approximately 3% of the pool will be 30 days OTS past due as of the cut-off date of Feb. 1.

OTS Delinquency Status as of: Feb. 1st
Delinquencies as of Feb. 1st: 3% 30 days OTS (i.e. missed Dec. 1st payment; there will be no 60 day delinquencies)
Closing Date: March 14th

The adjustment per our framework would be roughly 30 bps to B2 and 90 bps for Aaa (a 3x multiple); this assumes that the 3% that is 30 days OTS as of 2/1 (or 59 days MBA) will become another month past due as of 3/1 (or 59 days MBA past due). As with previous deals we've looked at, we're not yet hitting for the loans that are OTS current as of 2/1 but that could actually be 1 month past due as of the closing date of 3/1). I would also argue for a higher hit given the 6 week lag between delinquency reporting/cut-off and the closing date.

Recommendation: 40 bp hit to B2, 160 bp hit to Aaa.

This adjustment is a bit high but we are not driving the structure anyhow and I do not think this will change the structure significantly (the last column below show how overenhanced we are at the given ratings given the other agency's required bond sizes).

Solve with Fully Funded Initial OC : y SvcFee Adj = n Swap 2
Lossess Incurred Full Mtg Losses Realized Entered Vs Calc Diff (SHOULD BE ZERO)
Tranching 1 CE Level Check FRM CE From Tranching Tool Entered Req CE Size
Sub-ordination % plus Initial OC Size Cumul Advance Rate

PSI-MOODYS-000074

Aaa OK 26.10% 26.10% 77.40% 22.60%
77.40% 77.40% 27.75% No -1.65%
Aa1 OK 22.60% 22.60% 3.95% 18.65% 3.95% 81.35%
23.84% No -1.24%
Aa2 OK 19.40% 19.40% 4.30% 14.35% 4.30% 85.65%
19.44% No -0.04%
Aa3 OK 17.45% 17.45% 1.60% 12.75% 1.60% 87.25%
17.79% No -0.34%
A1 OK 15.75% 15.75% 1.80% 10.95% 1.80% 89.05%
15.95% No -0.20%
A2 OK 14.05% 14.05% 1.85% 9.10% 1.85% 90.90%
14.06% No -0.01%
A3 OK 12.55% 12.55% 1.25% 7.85% 1.25% 92.15%
12.83% No -0.28%
Baa1 OK 11.10% 11.10% 1.45% 6.40% 1.45% 93.60%
11.37% No -0.27%
Baa2 OK 9.80% 9.80% 0.85% 5.55% 0.85% 94.45%
10.55% No -0.75%
Baa3 OK 8.80% 8.80% 1.45% 4.10% 1.45% 95.90%

0.00%

0.00%

0.00%

NIM

EL 5.30% 95.90% **Yield**
Tolerance (bps)
O/C 1

Initial 4.10% **Because sizes were entered, Initial OC is ignored**

Target 4.10%

DATE: 06/12/2007
TIME: 15:55:29 GMT
AUTHOR: Smith, Zach
RECEIPIENT: Fu, Yvonne; Mangalgiri, Vickram
CC: Kolchinsky, Eric
SUBJECT: RE: Rating application for Belden Point CDO

Yvonne,
We are okay with the revised fee schedule for this transaction. We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try and get to some middle ground with respect to the ratings. Thanks, Zach

-----Original Message-----
From: Fu, Yvonne [mailto:Yvonne.Fu@moodys.com]
Sent: Monday, June 11, 2007 6:27 PM
To: Mangalgiri, Vickram (GMI)
Cc: Kolchinsky, Eric; Smith, Zach (GMI - NY SWAPS)
Subject: Re: Rating application for Belden Point CDO

Vickram, as we mentioned in the various phone calls, we do not view this transaction as a standard CDO transaction and the rating process so far has already shown that the analysis for this deal is far more invloved and will continue to be so. We have spent significant amount of resource on this deal and it will be difficult for us to continue with this process if we do not have an agreement on the fee issue. Thanks.

-----Original Message-----
From: Mangalgiri, Vickram (GMI) <Vickram_Mangalgiri@ml.com>
To: Fu, Yvonne
CC: Kolchinsky, Eric; Smith, Zach (GMI - NY SWAPS) <zach_smith@ml.com>
Sent: Mon Jun 11 13:53:18 2007
Subject: RE: Rating application for Belden Point CDO

I think we were still discussing whether the higher upfront fees should apply. We have not gotten a chance to go through all the other minor fees in detail (which looks like there are a lot). I checked around on the desk and no one here has ever heard or seen this fee structure applied for any deal in the past. Could you point us to a precedent deal where we have approved this? If there is none, can you send us a blackline of this schedule vs the standard schedule that we use for all CDOs?

Thanks

Vickram Mangalgiri	4 World Financial Ctr, Fl 7
	New York, NY 10080
Global Structured	212 449 9206 Direct
Credit Products	212 669 0897 Fax
Merrill Lynch	vickram_mangalgiri@ml.com

Permanent Subcommittee on Investigations
EXHIBIT #23

PSI-MOODYS-000097

-----Original Message-----
From: Fu, Yvonne [<mailto:Yvonne.Fu@moodys.com>]
Sent: Monday, June 11, 2007 1:39 PM
To: Mangalgiri, Vickram (GMI)
Cc: Kolchinsky, Eric
Subject: Rating application for Belden Point CDO

Vickram,
Just to follow up on the fee discussion Eric had with you a while ago, we'd like to see an indication from you that ML is ok with the attached complex CDO fee schedule being applied to Belden Point CDO.
Thanks,
Yvonne

PSI-MOODYS-000098

From:	Fu, Yvonne
Sent:	Tuesday, June 12, 2007 7:22 PM (GMT)
To:	'Smith, Zach (GMI - NY SWAPS)' <zach_smith@ml.com>; Mangalgiri, Vickram (GMI) <Vickram_Mangalgiri@ml.com>
Cc:	Kolchinsky, Eric <Eric.Kolchinsky@moodys.com>
Subject:	RE: Rating application for Belden Point CDO

Zach,
Thanks for this feedback. We agree that this will not be a precedent for future deals by default and we will discuss with you on a case by case basis if Complex CDO rating application should be applied to future deals. We will certainly continue working with you on this transaction, but analytical discussions/outcomes should be independent of any fee discussions. Thanks.

-----Original Message-----
From: Smith, Zach (GMI - NY SWAPS) [mailto:zach_smith@ml.com]
Sent: Tuesday, June 12, 2007 11:55 AM
To: Fu, Yvonne; Mangalgiri, Vickram (GMI)
Cc: Kolchinsky, Eric
Subject: RE: Rating application for Belden Point CDO

Yvonne,
We are okay with the revised fee schedule for this transaction. We are agreeing to this under the assumption that this will not be a precedent for any future deals and that you will work with us further on this transaction to try and get to some middle ground with respect to the ratings. Thanks, Zach

-----Original Message-----
From: Fu, Yvonne [mailto:Yvonne.Fu@moodys.com]
Sent: Monday, June 11, 2007 6:27 PM
To: Mangalgiri, Vickram (GMI)
Cc: Kolchinsky, Eric; Smith, Zach (GMI - NY SWAPS)
Subject: Re: Rating application for Belden Point CDO

Vickram, as we mentioned in the various phone calls, we do not view this transaction as a standard CDO transaction and the rating process so far has already shown that the analysis for this deal is far more invloved and will continue to be so. We have spent significant amount of resource on this deal and it will be difficult for us to continue with this process if we do not have an agreement on the fee issue. Thanks.

-----Original Message-----
From: Mangalgiri, Vickram (GMI) <Vickram_Mangalgiri@ml.com>
To: Fu, Yvonne
CC: Kolchinsky, Eric; Smith, Zach (GMI - NY SWAPS) <zach_smith@ml.com>
Sent: Mon Jun 11 13:53:18 2007
Subject: RE: Rating application for Belden Point CDO

I think we were still discussing whether the higher upfront fees should apply. We have not gotten a chance to go through all the other minor fees in detail (which looks like there are a lot). I checked around on the desk and no one here has ever heard or seen this fee structure applied for any deal in the past. Could you point us to a precedent deal where we have approved this? If there is none, can you send us a blackline of this schedule vs the standard schedule that we use for all CDOs?

Thanks

Permanent Subcommittee on Investigations
EXHIBIT #23-Addendum

From: Fu, Yvonne
To: Yoshizawa, Yuri; Polansky, Jonathan; Kolchinsky, Eric; May, William
Cc: Lam, Wai Har (Ivy); Surana, Sunil
Subject: RE: 3Q Market Coverage-CDO
Date: Friday, October 05, 2007 12:39:55 PM

---

no story from my side. but I noticed that there are three Fitch only deals with less than $100m notional per deal - they obviously would not contribute much to the $ based market share, but they contributed to about 3% in deal # market share.

From: Yoshizawa, Yuri
Sent: Fri 10/5/2007 12:13 PM
To: Polansky, Jonathan; Kolchinsky, Eric; Fu, Yvonne; May, William
Cc: Lam, Wai Har (Ivy); Surana, Sunil
Subject: Re: 3Q Market Coverage-CDO

Can you please take a look at the deals that we didn't rate from the spreadsheet that Ivy sent out last night to double check the information and to let me know any of the "stories"? Thank you.

Yuri Yoshizawa
Moody's Investors Service
(212) 553-1939

Sent From My Blackberry

-----Original Message-----
From: Surana, Sunil
To: Yoshizawa, Yuri; Polansky, Jonathan; Kolchinsky, Eric; Fu, Yvonne; May, William
CC: Lam, Wai Har (Ivy)
Sent: Fri Oct 05 11:59:21 2007
Subject: RE: 3Q Market Coverage-CDO

Yuri,

Market share by deal count dropped to 94%, though by volume it's 97%. It's lower than the 98+% in prior quarters. Any reason for concern, are issuers being more selective to control costs (is Fitch cheaper?) or is it an aberration.

Sunil

> -----Original Message-----
> From: Lam, Wai Har (Ivy)
> Sent: Thursday, October 04, 2007 6:15 PM
> To: Yoshizawa, Yuri; Polansky, Jonathan; Kolchinsky, Eric; Fu, Yvonne; May, William
> Cc: Surana, Sunil
> Subject: 3Q Market Coverage-CDO
>
> Hello all,
>
> Attached please find 3Q Market Coverage-CDO. Please let me know if you have any questions.
>
> Ivy Lam
> Moody's Investors Service
> 99 Church Street, 8th FL
> New York, NY 10007
> Tel: 212-553-1068 Fax: 212-553-4170

Permanent Subcommittee on Investigations
EXHIBIT #24a

PSI-MOODYS-MS-000001

From: McDaniel, Raymond
Sent: Sunday, October 21, 2007 11:08 PM (GMT)
To: McDaniel, Raymond [redacted]
Subject: Credit Policy issues at Moody.doc
Attach: Credit Policy issues at Moody.doc

<<...>>

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Permanent Subcommittee on Investigations
EXHIBIT #24b

MOODY'S-COGR-0038025

Credit Policy issues at Moody's suggested by the subprime/liquidity crisis

1 The management group has begun identifying issues and weaknesses that the organization needs to address. These are treated in very preliminary form in the Solutions document that has been included in the Directors Packet.

2 My purpose here is to offer a framework for how we are thinking about these challenges conceptually and note some of the initiatives being taken.

3 We will also need to conduct a careful post mortem of the experience

Conflict of interest

MARKET SHARE

4 In an increasing number of markets, Fitch is an acceptable substitute for either S&P or Moody's. In other markets, any one of the three is enough. With the loosening of the traditional duopoly, how do rating agencies compete?

5 Ideally, competition would be primarily on the basis of ratings quality, with a second component of price and a third component of service. Unfortunately, of the three competitive factors, rating quality is proving the least powerful given the long tail in measuring performance. Were that the extent of the problem --that it is hard to measure quality and hence price and service are disproportionately weighted -- it would pinch profitability, forcing rating agencies to spend more on service and take less in fees. But that is no different than for most other businesses and we can cope. The real problem is not that the market does underweights ratings quality but rather that, in some sectors, it actually penalizes quality by awarding rating mandates based on the lowest credit enhancement needed for the highest rating. Unchecked, competition on this basis can place the entire financial system at risk. It turns out that ratings quality has surprisingly few friends: issuers want high ratings; investors don't want rating downgrades; short-sighted bankers labor short-sightedly to game the rating agencies for a few extra basis points on execution.

6 Moody's for years has struggled with this dilemma. On the one hand, we need to win the business and maintain market share, or we cease to be relevant. On the other hand, our reputation depends on maintaining ratings quality (or at least avoiding big visible mistakes). For the most part, we hand the dilemma off to the team MDs to solve. As head of corporate ratings, I offered my managers precious few suggestions on how to address this very tough problem, just assumed that they would strike an appropriate balance. I set both market share and rating quality objectives for my

MDs, while reminding them to square the circle within the bounds of the code of conduct.

7 Although the business does square the circle in some situations, the market share pressure persists in others. Moody's has erected safeguards to keep teams from too easily solving the market share problem by lowering standards. These protections do help protect credit quality.

(a) Ratings are assigned by committee, not individuals. (However, entire committees, entire departments, are susceptible to market share objectives.)

(b) Methodologies & criteria are published and thus put boundaries on rating committee discretion. (However, there is usually plenty of latitude within those boundaries to register market influence.)

(c) Strong culture of integrity; code of conduct etc.

8 We are adding several more safeguards

(d) No one with market share objectives may chair rating committee

(e) Tighter limits on the link between LOB revenue performance and individual compensation

9 This does NOT solve the problem though. The RMBS and CDO and SIV ratings are simply the latest instance of trying to hit perfect rating pitch in a noisy market place of competing interests.

RATING EROSION BY PERSUASION

10 Analysts and MDs are continually "pitched" by bankers, issuers, investors --all with reasonable arguments -- whose views can color credit judgment, sometimes improving it, other times degrading it (we "drink the kool-aid"). Coupled with strong internal emphasis on market share & margin focus, this does constitute a "risk" to ratings quality. Various protections are being set in place:

(f) A more independent credit policy function

(g) More cross-LOB participation in credit policy committees

(h) More cross-LOB rotation of managers or credit policy people

In addition, bad ratings must be perceived to have (much) worse consequences than market share slippage. Accountability is key. (It is also tricky to implement.)

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RATING EROSION FROM SUCCESS

11 . The RMBS & derivatives teams are comprised of conscientious bright people working long hours. They are highly desirous of getting the rating right.

12 But a certain complacency about ratings quality is inevitable after a prolonged period of rating success. For years these deals were seemingly overcollateralized (characterized by upgrades consistently and broadly outpacing downgrades), given rising housing prices and low interest rates and a decent economy. There seemed to be ample surplus even for a bad scenario. But, as it turned out, not enough for an extreme scenario.

13 Organizations often interpret past successes as evidencing their competence and the adequacy of their procedures rather than a run of good luck.

14 Failures motivate search for new methods and systems less likely to fail. In contrast, our 24 years of success rating RMBS may have induced managers to merely fine-tune the existing system - to make it more efficient, more profitable, cheaper, more versatile. Fine-tuning rarely raises the probability of success; in fact, it often makes success less certain.

INDEPENDENT REVIEW WITHIN MOODY'S

15 We are instituting periodic, independent review of: ratings, methodologies, models, assumptions, and data used in the rating process, with concerns referred back to the rating group for attention

16 We have been criticized for rating methodologies that are not sufficiently transparent. We publicly post methodologies and, in many cases, our models in an effort at transparency. In addition, we will now: (i) publish & discuss key assumptions, adequacy of supporting data, areas of greatest uncertainty; (ii) describe/dimension scenarios that would trigger loss for a structured tranche.

17 It is crucial that we bring the broadest credit judgment possible to market sectors and asset types. To do that better, we will look for ways to better track market pricing, liquidity, metrics, investor/trader sentiment to infuse our credit thinking with a more timely and dynamic sense of real world conditions.

18 Chris Mahoney has initiated the Global Financial Risks Perspectives series, to identify and discuss financial system risks and is developing a new annual process of identifying and publishing a "central scenario" for expected market and economic conditions, along with several stress scenarios. Each rating sector or region will

CONFIDENTIAL & PROPRIETARY MOODY'S-COGR-0038028 further develop or adapt these scenarios for use in industry outlooks, rating committees, and research. This should add coherence and substance to the assumptions that go into our ratings, as well as improving our transparency to the market.

THE NEED FOR INVESTMENT

19 Might under-funding put our ratings accuracy at risk? We should closely and regularly evaluate the adequacy of staffing, data system, models, methodologies, and credit oversight. One way to do that might be an independent rank ordering of rating groups in terms of resource adequacy. Concerns might be reported as part of Chester's quarterly ERM report.

20 To state the obvious, there will always be tension between funding ratings quality and hitting our margins.

21 Moody's Mortgage Model (M3) needs investment

22 Data & data systems in SFG and Banking need investment

23 From a credit policy perspective, we want to be in a position to JUST SAY NO to a market opportunity, when imperative to do so from a quality perspective. We have done that in the past (e.g. net interest margin securitizations; capital notes on SIVs; Canadian CP liquidity arrangements). How to do it more aggressively without simply exiting whole market sectors is an unsolved problem.

Other

24 Our Aaas are intended to be estimations of expected credit loss over the life of a security. In Fundamental this means that once in a very great while a single Aaa might default on an obligation and trigger a loss. But in SFG it means that a larger number of Aaas might realize a loss but at such low levels as a percentage of principle and interest that the loss is consistent with the rating. This can lead to greater volatility in the rating of a structured security. The market may find that volatility inconsistent with their expectations at the Aaa or Aa rating levels. We are looking for ways to respond.

From: Tesher, David
Sent: Friday, March 04, 2005 11:23 AM
To: Inglis, Perry; Bryan, Andrea; Howley, Chris
Cc: Gilkes, Kai; Jordan, Pat
Subject: RE: FW: Wachovia Report Cites Questions Of S&P's Integrity

For next Tuesdays PL meeting .... I would like to discuss how we plan on ultimately "spinning" our revised correlation assumptions (i.e. 3/18) .... combined with the fact that we plan on eliminating our stress factors .... as our current proposal stands ... Besides being "called out" for our current correlation assumptions ... I just want you all to be aware that the article also made it quite clear that a change in correlation assumptions .... without a corresponding change in subordination levels (i.e. "higher") ... would imply we did something to "neutralize" the shift to a more stringent set of correlation assumptions ...

I would like to be proactive .... as opposed to being reactive ....given this statement has been publicly made .... and will definitely be picked-up by market participants relatively quickly .... (See Below Paragraph from the Wachovia Correlation Piece) ....

"Any change to S&P's inter-industry correlation assumption would require greater sub-ordination for new. S&P-rated CDOs, especially highly leveraged ones like synthetic CDO-squared transactions. Older transactions if not actually downgraded, could suffer from implicit downgrades. Ratings-sensitive investors would clearly be adversely affected by any actual downgrades. For example, insurance companies may be assessed higher capital charges, and structured investment vehicles (SIVs) may be downgraded. This, of course, assumes that S&P neither grandfathers the monitoring of existing transactions under the old methodology nor makes other changes to the methodology that would conveniently offset the changes in correlation."

David

-----Original Message-----
From: Inglis, Perry
Sent: Monday, February 28, 2005 10:03 AM
To: Kambeseles, Peter; Gugliada, Richard; Jordan, Pat; Bergman, Sten; Albulescu, Henry; O'Keefe, Brian; Sharma, Vandana; Galli, Stephen; Khakee, Nik; Tesher, David; Bryan, Andrea; Wong, Elwyn; Howley, Chris; Anderberg, Stephen; Pedvis, Andrew; Gaw, Mark

Subject: RE: FW: Wachovia Report Cites Questions Of S&P's Integrity

I think it is a shame that these articles do not discuss the fact that we have never suggested that there are not macroeconomic factors that affect all obligors. That is what our stress factors are there for. This point seems to be better understood by Creditflux (quoting Kai). We should also make sure that we are highlighting the 'problems' with stress factors when considering shorts and that this was a driver behind us looking at our modelling assumptions - NOT Moody's article!

Perry

-----Original Message-----
From: Kambeseles, Peter
Sent: 28 February 2005 14:46
To: Gugliada, Richard; Jordan, Pat; Bergman, Sten; Albulescu, Henry; O'Keefe, Brian; Sharma, Vandana; Galli, Stephen; Khakee, Nik; Tesher, David; Bryan, Andrea; Wong, Elwyn; Howley, Chris; Kambeseles, Peter; Anderberg, Stephen; Pedvis, Andrew; Gaw, Mark; Inglis, Perry

Subject: FW: Wachovia Report Cites Questions Of S&P's Integrity

Attached is the Wachovia report referenced in the Bondweek and ASR articles below.

The sentence in the report that many in the financial press are focusing on is:
It is widely reasoned among market participants that S&P has not made significant modifications to its correlation assumptions because of the competitive advantage they give S&P over its rating agency rivals in the fast-growing synthetic CDO market.... Given S&P's generous inter-industry correlation assumption of 0%, it is not surprising that S&P has the dominant share of publicly rated part of this market.

==

Wachovia Report Cites Questions of S&P's Integrity
Scott Goodwin - Bondweek
Feb. 25, 2005

A new report from Wachovia Securities cites market opinion challenging the integrity of Standard & Poor's. It reports there is widespread belief in the markets that, for business reasons, S&P has not followed the lead of its fellow rating agencies in changing its methodology in rating collateralized debt obligations. "When one looks at their market share, that's a natural question to ask," Natasha Chen, v.p. in the CDO research group at Wachovia in New York, told BW.

Wachovia notes that Moody's Investors Service and Fitch Ratings have made changes to their correlation assumptions, particularly for rating deals referenced to a synthetic pool of assets. These assumptions play a critical role in determining how much credit enhancement is needed to achieve top rating marks. "The topic of correlation and modeling correlation is one of the hottest areas in credit today," Chen said, explaining why Wachovia is addressing the issue now. "It's a difficult problem."

Permanent Subcommittee on Investigations
EXHIBIT #25

PSI-SP-000048

The report says many market participants believe S&P has not made changes to its correlation assumptions because its current criteria help it win business. "Given S&P's generous inter-industry correlation assumption of 0%, it is not surprising that S&P has the dominant share of the publicly rated part of this market," the report says.

Chen stressed the report is not meant as an attack on S&P but to discuss all three rating agencies' assumptions. "We try to point out the weaknesses in the three." She said the report was put out without any input from the group's origination side and declined to predict how it might affect Wachovia's relationship with the rating agencies.

S&P spokesman Adam Tempkin said it is evaluating studies on asset correlation and will update the marketplace on its findings in the near future. "We were the first to highlight the importance of asset correlation in our model and have done extensive research on a variety of assumptions used in our model since that time. This work is ongoing," he said in a statement. Tempkin declined to specifically address the report's claim S&P has not changed its assumption for market share reasons.

Moody's and Fitch officials did not return calls by press time.

==

Research offers new option in debate over CDO correlation

ASR, Monday, February 28, 2005

Rating agencies have always had different views of asset correlation assumptions, so when it comes to rating synthetic CDOs, methodologies vary so widely investors have felt less than concrete with the guidance given.

Default correlation, a measure of how credits in a portfolio perform together, appears to be a sticky point. As a result of varying correlation assessments, Fitch Ratings, Moody's Investor's Service and Standard & Poor's all have different attachment points when rating synthetic CDOs. Despite the various opinions, fueled by the tight spread environment, synthetic CDOs are rising in popularity; it seems each quarter, investors face an onslaught of new CDO-of-CDOs, for example.

The CDO research team at Wachovia Securities delved into this issue last week, issuing research titled The Young and the Restless: Correlation Drama at the Big Three Rating Agencies.

"The report is very timely because synthetic CDOs are becoming more and more popular and there is some inconsistency in the way the rating agencies are looking at correlation," said Wachovia Managing Director Arturo Cifuentes. "They have conflicting views."

That said, the agencies are quick to point out they haven't been asleep at the wheel.
"We are currently in the midst of extensive research on a variety of assumptions to our model," reports S&P spokesman Adam Tempkin.

"We have done a great deal of research and we are now comfortable with the correlation assumptions we have and the methodology and analysis we have used to achieve them," added Moody's Managing Director Yuri Yoshizawa.

The current practice is to use equity return correlation as a proxy for industry-level asset correlation. These numbers are plugged into popular Monte Carlo simulations but Wachovia researchers found one exception to the standard view that high correlation is good for junior tranches and bad for senior tranches.

In the report, penned by Analyst Natasha Chen, Wachovia looks at correlation from a loss perspective. But when the synthetic CDO is viewed by a performance measure, such as expected internal rate of return, research shows that the expected IRR of a senior tranche is generally unaffected by high correlation, whereas the expected IRR of a junior tranche is dramatically reduced by high correlation.

"The results for the junior tranche were the most surprising," Chen explained.
Basically, the lower the tranche, the greater the difference in IRR means. Senior investors, CDO researchers found, are barely affected by correlation and junior investors "should actually prefer low correlation," said the report. Wachovia recommends that investors seeking a more complete view of performance should also analyze Monte Carlo-based IRR results. - CMO

<< File: Young_and_the_Restless_022205_r.pdf >>

PSI-SP-000049

From: Watson, Bob
Sent: Wednesday, May 17, 2006 5:36 PM
To: Ghetti, Belinda
Subject: RE: an error in the new correlation assumptions?
Hi Belinda,

I have already brought this issue up and it was decided that it would be changed in the future, the next time we update the criteria. In addition to not being intuitive, it increases the likelihood that the correlation matrix is not positive definite. All empirically observed correlation matrices are positive definite, so being not positive definite means that the correlation matrix is inconsistent. It also means that we cannot perform the Cholesky decomposition, which is required to correlate the random number in the Monte Carlo simulation. If this happens, we adjust the individual entries in the correlation matrix just enough to make it positive definite.

If I remember correctly this also causes problems in the model with correlation between EDS and CDS.

This issue should be addressed the next time we change correlation assumptions. Since Kai and Norbert are gone, I am not sure who to bring this up with or who is now responsible for this criteria.

Bob Watson
Director
Standard & Poor's Credit Market Services
55 Water Street, 41st Floor
New York, NY 10041-0003
Tel: 212-438-2728
e-mail: bob_watson@standardandpoors.com

-----Original Message-----
From: Ghetti, Belinda
Sent: Wednesday, May 17, 2006 1:01 PM
To: Watson, Bob
Subject: FW: an error in the new correlation assumptions?

Bob
This guy says that there is an error in the correlation assumptions. See below.

-----Original Message-----
From: Isaac Efrat [mailto:IEfrat@aladdincapital.com]
Sent: Wednesday, May 17, 2006 12:53 PM
To: belinda_ghetti@sandp.com
Subject: FW: an error in the new correlation assumptions?

Belinda,

It was nice meeting you yesterday at the Bear event. This is a e-mail I told you about regarding the correlation assumption that you probably hadn't intended to make.

Isaac

Permanent Subcommittee on Investigations
EXHIBIT #26

PSI-SP-000013

Isaac Efrat
Senior Managing Director
Aladdin Capital Management LLC
Six Landmark Square
Stamford, CT 06901
Tel: (203) 487-6773
Fax: (203) 326-7902
Cell: (347) [redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

-----Original Message-----
From: Isaac Efrat
Sent: Monday, March 20, 2006 9:06 AM
To: 'david_tesher@sandp.com'
Cc: 'kai-gilkes@standardandpoors.com'
Subject: an error in the new correlation assumptions?

Hi David,

Thanks for a terrific presentation at the UBS conference. I mentioned to you a possible error in the new Evaluator 3.0 assumptions:

Two companies in the same Region belonging to two *different* local Sectors are assumed to be correlated (by 5%), while if they belong to the *same* local Sector then they are *un*correlated.

I think you probably didn't mean that.

Best regards,
Isaac

Isaac Efrat
Senior Managing Director
Aladdin Capital Management LLC
Three Landmark Square
Stamford, CT 06901
Tel: (203) 487-6773
Fax: (203) 326-7902
Cell: (347) [redacted]

PSI-SP-000014

From: Ghetti, Belinda
Sent: Saturday, December 16, 2006 9:33 AM
To: Billick, Nicole; Meyer, Chris
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

Yes, drill down approach seems to be reasonable, the more I think about it. I guess we can run some numbers and see if it makes sense. Left a message for Lapo see what he says.

Chris: for your BoA deal, they seem to be passing pik stresses but only with fix cap. Variable cap fails everything up to the A-2. They may think about putting a pct limitation for pikable CDO. In any case, I think I can offer them the fix cap solution. I will then send them the language of the implied write down Jammy.

Both of you, have a good weekend.

-----Original Message-----
From: Billick, Nicole
Sent: Saturday, December 16, 2006 01:01 AM Eastern Standard Time
To: Meyer, Chris; Ghetti, Belinda
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

glad my cdo^2 problems are amusing mr. meyers :)

I'm back to the mindset now that we should be able to drill down & pop in the ~100 abacus portfolio assets into the overall portfolio papa portfolio of ~99 names. I think drill down should work as long as you mark each abacus asset as 'cdo1' and put in the BBB attachment & detachment point. running abacus originally w/AAA vs BBB recoveries was to determine that magic attachment point, so now that that is done, I think it is ok if each of the baby abacus assets receive the liability/tiered recovery rate wrt the respective liability of the new overall CDO at hand bc at the end of the day that is what we are looking at....(did that make sense?) so I agree w/Chris that the backed out/implied recovery of the BBB baby abacus tranche would probably be zero here in the AAA liability scenario of this new portfolio/deal I'm rating....which also means in the B environment the sucker should look a bit better....

this also makes me think that the baby abacus assets should be run w/the same Pd tables as the new overlying CDO, i.e., so if abacus was run w/stressed/harsher Pds but my overall new CDO is run at normal 3.2, I think the baby abacus assets should also be run at the normal 3.2 level (same rationale as above).

i almost hate to ask bc i've been ignoring the this whole coming of the new year....but are we seriously doing away w/2.4.3 even for CMBS portfolios? (even if CMBS group still uses it???)

to Chris's point - if the baby abacus assets are composed of synthetic CDOs - then is a bigger nightmare that i do not want to think about right now....but technically you could keep going & going. This all makes me wonder if this is truly worth it - my portfolio also references Cobalt III (almost pure synthetic, but cash modeled - hybrid) as well - to me this BBB asset is sooo lucky to get a 30% recovery in a AAA scenario!!! do not see why it deserves a higher recovery over abacus....

ok, i'm going to sleep now (I know, finally), but the above just hit me - we'll see what I think after some solid shut eye.

-----Original Message-----
From: Meyer, Chris
Sent: Friday, December 15, 2006 8:31 PM
To: Ghetti, Belinda; Billick, Nicole
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

So, in thinking about Nicole's CDO of CDO problem (hee, hee), it seems reasonable (to me anyways) to tier recoveries on single tranche CLNs (or single tranche swaps). Doesn't it make sense that a BBB synthetic would likely have a zero recovery in a AAA scenario - depending on tranche thickness?

When the required subordination for the BBB tranche was determined, we modeled the recoveries of the assets given a BBB scenario (indicating the severity of loss in a BBB economic environment given the position of the asset in the capital strucutre). If we ran the recovery model with the AAA recoveries, it stands to reason that the tranche would fail...since there

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would be lower recoveries and presumably a higher degree of defaults. Essentially, I'm wondering whether my initial feeling that a drill down approach on synthetics would not work is false. BUT are there any knock-on effects if the synthetic itself had synthetics in its portfolio? Rating agencies continue to create and even bigger monster -- the CDO market. Let's hope we are all wealthy and retired by the time this house of cards falters. :o)

-----Original Message-----
From: Ghetti, Belinda
Sent: Friday, December 15, 2006 07:08 PM Eastern Standard Time
To: Meyer, Chris; Billick, Nicole
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

When you have time, can you send over the disclosure language for variable notes.

-----Original Message-----
From: Meyer, Chris
Sent: Friday, December 15, 2006 6:33 PM
To: Billick, Nicole; Ghetti, Belinda
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

Ghetti...can you send her the link and instructions. Otherwise, I'll send when I log on from DC later tonight.

-----Original Message-----
From: Billick, Nicole
Sent: Friday, December 15, 2006 06:08 PM Eastern Standard Time
To: Meyer, Chris; Ghetti, Belinda
Subject: RE: Synthetic CDO^2 of ABS (both Cash and Synthetic)

Thanks Chris.

One Q: to use the recovery calc (I've never done before...& need to run Farooq's abacus pool now...) - where do you get the beta version of Evaluator from? thx! Nicole

Nicole J. Billick
Associate Director
Structured Finance Ratings
Standard & Poor's
55 Water Street, 41st Floor
New York, NY 10041-0003
phone: 212-438-3020
fax: 212-438-6021
nicole_billick@standardandpoors.com

-----Original Message-----
From: Meyer, Chris
Sent: Friday, December 15, 2006 5:27 PM
To: Ghetti, Belinda; Billick, Nicole
Subject: Synthetic CDO^2 of ABS (both Cash and Synthetic)

<< File: Synthetic CDO^2 of ABS.doc >>
R. Christopher Meyer
Associate Director
Global CDO Group
Structured Finance Ratings
Standard & Poor's
55 Water Street, 41st Floor
New York, NY 10041

PSI-SP-000046

From: Kennedy, Martin
Sent: Wednesday, January 17, 2007 11:00 PM
To: Perelmuter, Monica; Beauchamp, Kyle; Grow , Brian (S&P); Vonderhorst, Brian; Osterweil, Terry
Cc: Uppuluri, Sai
Subject: RE: Summary of Conference Call

Steinman is on your panel... Congrats. Sai, Ken Cheng and I can help you out on this. Actually some are currently part of the CDO talking pts.

-----Original Message-----
From: Perelmuter, Monica
Sent: Wednesday, January 17, 2007 07:26 PM Eastern Standard Time
To: Beauchamp, Kyle; Grow , Brian (S&P); Kennedy, Martin; Vonderhorst, Brian
Subject: FW: Summary of Conference Call

Can anyone give me a crash course on the "hidden risks in CDO's of RMBS"? This panel has evolved from non-agency primary deals (SS, SSOC, NIMs) to a much broader level (CDO's, agencies), and I'm not looking forward to hearing about Assured Guaranty's ability to effect "ratings arbitrage" or their take on net WAC caps in terms of CDO's.

Can you imagine the questions I'm going to receive? If anyone asks how SPIRE is handling net swap payments in terms of the net WAC cap, I'm doomed. Thank goodness we never released the results of the housing simulation study on CDO's. But I have a feeling that's where this guy is going.

I just wanted to talk broadly about our RMBS modeling stresses and documentation requirements. Sounds like I need to read up on Genesis and Evaluator, and fast. Ugh.

-----Original Message-----
From: Steinman, Mark [mailto:MSteinman@assuredguaranty.com]
Sent: Wednesday, January 17, 2007 7:02 PM
To: Schwartz, Jordan; monica_perelmuter@sandp.com; frank.serravalli@us.pwc.com; Crawford, Alec, GCM
Cc: Ross, Justin
Subject: RE: Summary of Conference Call

I prefer not to have slides rather a true panel discussion rather than presentation.

I am happy to participate in panel discussion on hidden risks in CDO's of RMBS (available funds cap prepayment, the ratings arbitrage, ect)

RMBS index trades (ABX1, ABX2 and ABX071). I am a seller of credit protection in these indices at a senior level. Probably one of the most active in the market today. So I am happy to talk about how investors use derivatives

I will put together a list of questions and send it to you.

Thanks,

Mark

From: Schwartz, Jordan [mailto:Jordan.Schwartz@cwt.com]
Sent: Wednesday, January 17, 2007 6:17 PM
To: monica_perelmuter@sandp.com; frank.serravalli@us.pwc.com; Crawford, Alec, GCM; Steinman, Mark
Cc: Ross, Justin
Subject: Summary of Conference Call

To summarize our call:

1. Since this presentation is part of the RMBS track, we will focus, in the first instance, on derivatives used in primary

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market non-agency RMBS deals. Other uses of derivatives, such as in CDOs of RMBS or agency securitizations, can be addressed in the interactive panel discussion.

2. We will try to use the format Alec suggested; ie. 5-10 minutes of formal presentation per panelist, with 5 PowerPoint slides, plus or minus, per person, to present an overview, followed by an interactive panel discussion and then audience Q & A.

3. I thought I might lead with 2 minutes or so of very general discussion of why and what kind of derivatives are used in RMBS, and then we would proceed to the individual topics. I will be glad to cover legal issues (ie. a pared-back version of the topics in item VI and VII of my outline), Monica will discuss rating agency analysis and Frank will discuss accounting implications to issuers and investors. Alec and Mark--please suggest what topics you would like to cover, but we could certainly use a more detailed discussion of the economic and investor-driven reasons for using different kinds or durations of derivatives in deals, the effect of their use on the deal's risk profile, pricing considerations etc.

4. The goal is for everyone to circulate drafts of their presentations to the group to look at by early next week so that we can avoid topical overlap and have a follow-up conversation to make sure we've covered everything we want to address in the overview. I will also knit the individual presentations together into a master PowerPoint for ASF's technical staff, which will load it on to a laptop for the conference once we've all signed off. We need to get something finalized by Wednesday/Thursday of next week.

5. In addition to the formal slides, if everyone could jot down and circulate some questions, I will compile those as well ,and from that can come up with the universe of topics for the interactive middle portion of the panel. To get the ball rolling, here are a few:

How have Reg AB requirements affected the availability or cost of derivatives?

How exactly does a swap desk calculate the "maximum probable exposure" of a derivative?

Is the SEC concern about counterparty financial disclosure well founded? From an investor viewpoint? From a rating agency viewpoint?

Monica, Frank and Justin--if I missed or misstated something from our call, please feel free to point it out.

Jordan M. Schwartz
Cadwalader, Wickersham & Taft LLP
One World Financial Center
34th Floor
New York, NY 10281
Phone: 212-504-6136
Fax: 212-504-6666

PSI-SP-000043

From: Wong, Calvin
Sent: Wednesday, March 14, 2007 6:45 PM
To: Gillis, Tom
Subject: RE: Proposed plan for review of criteria

Tom,

I'm ok with what you wrote, except that I would add a few sentences to the effect that while Cliff is not asking us to write new criteria, we believe, based in part on some feedback from the AMs, that writing the principles based pieces would save them time in the long run. This is because our published criteria as it currently stands is a bit too unwieldy and all over the map in terms of being current or comprehensive. It might be too much of a stretch to say that we're complying with it because our SF rating approach is inherently flexible and subjective, while much of our written criteria is detailed and prescriptive. Doing a complete inventory of our criteria and documenting all of the areas where it is out of date or inaccurate would appear to be a huge job - that would require far more man-hours than writing the principles-based articles.

Calvin

-----Original Message-----
From: Griep, Cliff
Sent: Wednesday, March 14, 2007 6:17 PM
To: Gillis, Tom; Wong, Calvin
Subject: RE: Proposed plan for review of criteria

I'm OK with sending out a request to your analytical managers to get this started, especially if you want them to create new material, which is likely to be necessary. I would insert the language that I used in the outline that I sent you about the criteria. See the edit in the attached.

I am OK attaching my prior e mail as you have but I have some concern about the use of certification, which was hypothetical.

I'd also like to put together a schedule as to who is doing what by when, with what deliverable. It might be helpful to do this prior to sending, but I defer to you on that.

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, March 14, 2007 9:38 AM
To: Griep, Cliff; Wong, Calvin
Subject: RE: Proposed plan for review of criteria

Ok but time is of the essence!

-----Original Message-----
From: Griep, Cliff
Sent: Wednesday, March 14, 2007 10:25 AM
To: Gillis, Tom; Wong, Calvin
Subject: RE: Proposed plan for review of criteria

Tom, please hold off sending it until after we have discussed at apb. I have drafted language that I will send but we should discuss first.

Sent from my GoodLink synchronized handheld (www.good.com)

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PSI-SP-000030

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, March 14, 2007 10:21 AM Eastern Standard Time
To: Wong, Calvin
Cc: Griep, Cliff
Subject: FW: Proposed plan for review of criteria

Calvin please make any improvements that help clarify or are grammatically necessary. Cliff, I included your memo - is that ok? Tom

As part of our preparation for our upcoming registration with the SEC, we will need to review all of our published criteria. This project lacks some specifics that should be forthcoming but my understanding is that we will need to certify to the SEC in May that all of our criteria that we have published on S&P.com is accurate. For the purposes of this exercise accurate should be interpreted to mean that the criteria is current, generally applicable, and generally applied in determining credit ratings.

For purposes of this exercise current should be interpreted as .....

Generally applicable means........

And generally applied means......

As you know, we have many volumes of printed material and such a review will vary from practice to practice. The two main questions will be is the criteria current and is it comprehensive.

I believe that we should consider publishing criteria articles that state the principals under which we rate a transaction. These articles would serve to provide both a comprehensive and flexible basis for all our ratings. Each practice will have to determine if they will need to do one or more depending on how varied the types of collateral covered. An example of a principal based criteria article is attached.

Cliff Griep is looking for a project plan detailing how we plan on conducting this review and when it will be complete (with milestones along the way). If you could let me know how I can help you and your staff accomplish this, I will be happy to assist in any way I can. If you could get back to me as soon as practicable, I would appreciate it.

One suggestion I have is to classify all of the articles in your practice by collateral code (or groups of collateral codes) and by broad categorization. The chart below provides a simple picture of what I am suggesting. We would also ask the groups to identify those articles that are misplaced in their web space. I think this will provide an easy to reference picture of the comprehensiveness of the criteria published in any area and the extent that it is current.

DRAFT for Example purposes

ABS

	Legal	Structure	Credit	Cash
AUTO		Article 7/21/04		
Credit Card		Fill in each		
Student Loan				
Manufactured Housing				
Trade Receivables				

Below is an earlier memo from Cliff providing additional background. Thanks! Tom

PSI-SP-000031

From: Griep, Cliff
Sent: Thursday, February 22, 2007 1:57 PM
To: Bachmann, Mark; Gillis, Tom; Ganguin, Blaise; Thompson, Ian; Feinland Katz, Laura; Hessol, Gail
Cc: Dawson, Petrina
Subject: Proposed plan for review of criteria

As part of the preparation for our forthcoming registration with the SEC, we need to determine the extent of criteria and methodology content that we will submit with, or reference, in our filing. There was a tentative conclusion in yesterday's discussion among Rita's task force on the comment and filing process that we would limit the submission documents to a general description of our ratings processes, but that we would reference our published criteria posted to our web site. To facilitate this process we will need to review the existing published and posted criteria, and our current analytical processes, to assure that the criteria and methodology accurate represents our current analytical processes. Given the timetable for filing, we will need to do this review quickly.

I am proposing that the CQO's of each practice review the published/posted criteria and methodology for their respective practices, and in conjunction with the relevant practice leader, and that the CCO's in conjunction with their relevant RPL's, provide information in the form of an assessment back to APB on the following issues:

Does the criteria and methodology that is published/posted accurately represents our current analytical processes?

Do the current RAMP's accurately and reasonably reflect the criteria/methodology issues covered in the published/posted criteria and methodology? If not, do the RAMP's need to be updated, expanded, revised to accurately and reasonable reflect the criteria/methodology?

In the absence of the use of a RAMP in the ratings process what are the processes by which the practice assures that the criteria/methodology is being consistently applied in the ratings process? Assuming the CQO and practice leader was asked to "certify" that the published/posted criteria and methodology were being consistently applied, how would you rate each of the following sources of protection:

Training of new staff regarding criteria and methodology?

Supervision of staff regarding the application of criteria and methodology?

Effectiveness of the committee process to assure that the criteria and methodology are being applied as posted?

Effectiveness of the committee chair to assure that the criteria and methodology are being consistently applied?

Effectiveness of the ORB, or other process (please describe) to assure that the criteria and methodology are being consistently applied?

What is the collective effectiveness of the processes in place to assure that the criteria and methodologies as posted are being reasonably consistently applied?

Scale for responding: Highly effective: The process provides very strong protection that the criteria and methodology is well understood and reasonably consistently applied. There should be no cases where the criteria and methodology are not applied.

Reasonably effective: The process provides strong protections that the criteria and methodology is well understood and reasonably consistently applied. There should only be rare exceptions when the criteria and methodology are not applied, and those exceptions would only occur with management approval.

PSI-SP-000032

Adequately effective: The process provides good protection that the criteria and methodology is well understood and reasonably consistently applied.

Not completely effective: The process provides protection, but should be strengthened to enhance it's effectiveness.

Again, assuming that the CQO and practice leader would be asked to certify that the published/posted criteria and methodology were being reasonably consistently applied, what additional protections would you consider to be needed and effective?

Expansion of the QRB to include random or risk based file reviews to assure that principal criteria and methodology are applied?

Establishment of a separate QR function to review the files with the above purpose?

Inclusion of an attestation by the lead analyst or by the committee chair that the criteria and methodology has been applied?

The implementation of a peer review process that assesses the application of criteria/methodology?

Some other protection?

Overall we expect that there will be few gaps between our existing published/posted criteria and methodology and current analytical process/practice. However, to the extent gaps are identified, please identify the nature of the gap, and make a specific recommendation as to how the gap should be closed. For example, some gaps may exist because the risk covered by the criteria is no longer considered material or relevant to our analysis, in which case the criteria should be retired. In other cases the criteria may be relevant, but there is some concern about the consistency of application, and the recommendation may include a remediation process.

Given the timetables, we need to conduct this review quickly. Assuming we want to be prepared to file in May, I am initially proposing that we schedule the reviews to occur over the month of March, with recommendations and feedback due to APB by the end of the first week in April. Decision making on the specific criteria /methodology recommendations would occur during the next four weeks up to the end of the first week in May. Decision process would include the practice criteria committees, and regional analytical governance committees, with APB acting as a screen to identify issues that may need to go to CMS EC. The end deliverable would be a recommendation regarding the extent of criteria/methodology to be referenced in our application filing.

As a separate but related matter we will need to identify all of the "qualitative and quantitative models used to determine ratings". We had established a standard that where we are substantially dependent upon a model to determine ratings, or where we have released the model for use by customers, we will have public documentation of the criteria and methodology embedded in the model. The end deliverable would be a list of models and verification that we have a corresponding criteria/methodology article. We need to establish criteria for what constitutes a quantitative or qualitative model used to determine ratings" and inventory these capabilities. I would propose here that we start by identifying models upon which we substantially rely to determine or surveil ratings. The shorter the list the more we can centralize this process. I'd like you suggestions on whether we centralize this process or make it part of the request to each of the practices.

We also need to identify any material third party data or capabilities dependencies we have in ratings process. I'd like your suggestions on the best way to inventory these.

Given that part of this process as proposed involves explicit quality related reporting on our existing ratings process, it would be helpful to have legal's guidance on the proposed process and reporting formats.

PSI-SP-000033

I have not copied the BU or region heads at this stage, only because I would like to gauge the level of agreement among ourselves before approaching them with a proposed plan. However, if you believe their feedback is necessary to build toward a project plan, please raise this with them and feel free to pass this e mail along to them. Just cc me when you forward.

Finally, the matrix could create the potential for duplication of effort, and I am open to recommendation on this. My sense was that the regional organization is best positioned to determine the gaps on a regional basis.

Please feel free to respond to this directly. I am looking for an opportunity to get us all together in the near future. Considering the short timetable, please let me know what you think of the feasibility of this, or alternative suggestions, as quickly as possible.

PSI-SP-000034

From: immanager@standardandpoors.com
Sent: Thursday, April 05, 2007 3:56 PM
To: Shah, Rahul Dilip (Structured Finance - New York); Mooney, Shannon
Subject: IMlogic IMManager conversation export: Thursday, April 05, 2007 3:55:44 PM EDT: haha

IM Network: MSN IM

IM Users:

participant=rahul_d_shah@standardandpoors.com "Shah, Rahul Dilip (Structured Finance - New York)" "rdsshah@hotmail.com"
participant=shannon_mooney@standardandpoors.com "Mooney, Shannon" "shannon.mooney@comcast.net"

IM Dialog:

Thursday, April 05, 2007 3:55:44 PM EDT Mooney, Shannon started conversation.
Thursday, April 05, 2007 3:55:44 PM EDT Shah, Rahul Dilip (Structured Finance - New York) has entered the conversation.
Thursday, April 05, 2007 3:55:44 PM EDT Mooney, Shannon: haha
Thursday, April 05, 2007 3:55:44 PM EDT Mooney, Shannon: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 3:55:44 PM EDT Mooney, Shannon: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 3:55:44 PM EDT Shah, Rahul Dilip (Structured Finance - New York): IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 3:55:44 PM EDT Shah, Rahul Dilip (Structured Finance - New York): IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 3:56:35 PM EDT Mooney, Shannon: i didn't really notice...but now that i think about it i kindof tune her out whes she talks
Thursday, April 05, 2007 3:57:39 PM EDT Shah, Rahul Dilip (Structured Finance - New York): well she just is too political...and she doesn't have anything of substance to say...but keeps thinking that she does.
Thursday, April 05, 2007 3:57:53 PM EDT Shah, Rahul Dilip (Structured Finance - New York): (I'm done venting now) :)
Thursday, April 05, 2007 3:58:15 PM EDT Mooney, Shannon: k go take a nap
Thursday, April 05, 2007 3:58:19 PM EDT Mooney, Shannon: see you later
Thursday, April 05, 2007 3:58:24 PM EDT Shah, Rahul Dilip (Structured Finance - New York): ok
Thursday, April 05, 2007 3:58:42 PM EDT Shah, Rahul Dilip (Structured Finance - New York): btw - that deal is ridiculous
Thursday, April 05, 2007 3:59:05 PM EDT Mooney, Shannon: i know right...model def does not capture half of the rish
Thursday, April 05, 2007 3:59:08 PM EDT Mooney, Shannon: risk
Thursday, April 05, 2007 3:59:09 PM EDT Shah, Rahul Dilip (Structured Finance - New York): we should not be rating it
Thursday, April 05, 2007 3:59:17 PM EDT Mooney, Shannon: we rate every deal
Thursday, April 05, 2007 3:59:30 PM EDT Mooney, Shannon: it could be structured by cows and we would rate it
Thursday, April 05, 2007 3:59:54 PM EDT Shah, Rahul Dilip (Structured Finance - New York): but there's a lot of risk associated with it - I personally don't feel comfy signing off as a committee member.

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EXHIBIT #30a

PSI-SP-000015

From: immanager@standardandpoors.com
Sent: Tuesday, May 08, 2007 7:27 PM
To: Mooney, Shannon; Loken, Andrew
Subject: IMlogic IMManager conversation export: Tuesday, May 08, 2007 7:27:19 PM EDT: food?

IM Network: MSN IM

IM Users:

participant=shannon_mooney@standardandpoors.com "Mooney, Shannon" "shannon.mooney@comcast.net"
participant=andrew_loken@standardandpoors.com "Loken, Andrew" "walchuk22@yahoo.com"

IM Dialog:

Tuesday, May 08, 2007 7:27:19 PM EDT Loken, Andrew started conversation.
Tuesday, May 08, 2007 7:27:19 PM EDT Mooney, Shannon has entered the conversation.
Tuesday, May 08, 2007 7:27:19 PM EDT Loken, Andrew: food?
Tuesday, May 08, 2007 7:27:19 PM EDT Mooney, Shannon: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Tuesday, May 08, 2007 7:27:19 PM EDT Loken, Andrew: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Tuesday, May 08, 2007 7:27:19 PM EDT Mooney, Shannon: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Tuesday, May 08, 2007 7:27:19 PM EDT Loken, Andrew: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Tuesday, May 08, 2007 7:27:48 PM EDT Loken, Andrew: just say the word and I'll go pick it up from Burger King
Tuesday, May 08, 2007 7:29:09 PM EDT Loken, Andrew: nah not really, I am hungry though
Tuesday, May 08, 2007 7:35:47 PM EDT Mooney, Shannon: i have a sandwich from lunch
Tuesday, May 08, 2007 7:36:04 PM EDT Mooney, Shannon: sorry bud
Tuesday, May 08, 2007 7:36:26 PM EDT Loken, Andrew: sorry for what?
Tuesday, May 08, 2007 7:36:30 PM EDT Loken, Andrew: I'm still going to eat
Tuesday, May 08, 2007 7:36:51 PM EDT Mooney, Shannon: have you ever run the PIK genesis>
Tuesday, May 08, 2007 7:37:06 PM EDT Loken, Andrew: I have
Tuesday, May 08, 2007 7:37:10 PM EDT Mooney, Shannon: do you know if it takes a long time...or if it works
Tuesday, May 08, 2007 7:37:28 PM EDT Loken, Andrew: I think it takes the same amount of time as normal
Tuesday, May 08, 2007 7:37:35 PM EDT Loken, Andrew: whether it works or not, I'm not quite sure
Tuesday, May 08, 2007 7:37:44 PM EDT Loken, Andrew: I need to talk with Eileen
Tuesday, May 08, 2007 7:37:45 PM EDT Mooney, Shannon: i have a deal closing tomorrow and failing PIK stress...
Tuesday, May 08, 2007 7:37:51 PM EDT Mooney, Shannon: is it worth a try?

Tuesday, May 08, 2007 7:38:01 PM EDT Mooney, Shannon: make that two deals
Tuesday, May 08, 2007 7:38:20 PM EDT Loken, Andrew: what good would it do if it's already failing?
Tuesday, May 08, 2007 7:38:35 PM EDT Mooney, Shannon: maybe percentile of pik bdrs will be better
Tuesday, May 08, 2007 7:39:16 PM EDT Loken, Andrew: you did what, tested only one scenario?
Tuesday, May 08, 2007 7:39:22 PM EDT Mooney, Shannon: yeah
Tuesday, May 08, 2007 7:39:26 PM EDT Mooney, Shannon: how else?
Tuesday, May 08, 2007 7:40:06 PM EDT Mooney, Shannon: you can test more than one, but how do you make the call?
Tuesday, May 08, 2007 7:40:25 PM EDT Mooney, Shannon: passing majortiy of the runs you chose?
Tuesday, May 08, 2007 7:40:53 PM EDT Loken, Andrew: well, based on the percentile, you know how many runs you're allowed to fail
Tuesday, May 08, 2007 7:41:03 PM EDT Mooney, Shannon: true
Tuesday, May 08, 2007 7:41:05 PM EDT Loken, Andrew: so keep running the worst runs until you fail that many
Tuesday, May 08, 2007 7:41:18 PM EDT Mooney, Shannon: huh?
Tuesday, May 08, 2007 7:42:08 PM EDT Loken, Andrew: if you can fail 5 runs, run the pik stress on the 5 worst and see if they all fail
Tuesday, May 08, 2007 7:42:23 PM EDT Loken, Andrew: and generally the worst runs all occur in a certain interest rate scenario
Tuesday, May 08, 2007 7:42:24 PM EDT Mooney, Shannon: dont you run the ones closest to percentile
Tuesday, May 08, 2007 7:42:51 PM EDT Loken, Andrew: well it is deal dependent
Tuesday, May 08, 2007 7:42:55 PM EDT Mooney, Shannon: and what if i can fail 35

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PSI-SP-000016

Tuesday, May 08, 2007 7:43:19 PM EDT Mooney, Shannon: i hate the pik stress so much it's rediculous
Tuesday, May 08, 2007 7:43:21 PM EDT Loken, Andrew: 35?
Tuesday, May 08, 2007 7:43:26 PM EDT Mooney, Shannon: or a million
Tuesday, May 08, 2007 7:43:32 PM EDT Loken, Andrew: what rating are you running?
Tuesday, May 08, 2007 7:43:40 PM EDT Mooney, Shannon: doesn't matter unrealistic amount to run manually
Tuesday, May 08, 2007 7:43:44 PM EDT Loken, Andrew: it rarely has a big effect on anything other than AAA from what I've seen
Tuesday, May 08, 2007 7:43:55 PM EDT Mooney, Shannon: not in this case
Tuesday, May 08, 2007 7:44:02 PM EDT Loken, Andrew: how high are you SDRs?
Tuesday, May 08, 2007 7:44:26 PM EDT Mooney, Shannon: 40s
Tuesday, May 08, 2007 7:44:35 PM EDT Mooney, Shannon: alright i need to run this
Tuesday, May 08, 2007 7:44:39 PM EDT Loken, Andrew: oh no wonder
Tuesday, May 08, 2007 7:44:40 PM EDT Mooney, Shannon: so
Tuesday, May 08, 2007 7:45:11 PM EDT Loken, Andrew: that hurts
Tuesday, May 08, 2007 7:45:16 PM EDT Mooney, Shannon: i run scenarios for percentile bdr and below
Tuesday, May 08, 2007 7:45:22 PM EDT Loken, Andrew: all the cdo sq. i've been seeing have 20%
Tuesday, May 08, 2007 7:45:52 PM EDT Loken, Andrew: how much cushion is there?
Tuesday, May 08, 2007 7:46:32 PM EDT Mooney, Shannon: too much talky not enough runny
Tuesday, May 08, 2007 7:46:51 PM EDT Loken, Andrew: then run it
Tuesday, May 08, 2007 7:46:53 PM EDT Mooney, Shannon: i am just going to wing it
Tuesday, May 08, 2007 7:46:56 PM EDT Mooney, Shannon: fuck
Tuesday, May 08, 2007 7:46:59 PM EDT Loken, Andrew: it fails probably
Tuesday, May 08, 2007 7:47:13 PM EDT Mooney, Shannon: no body gives a straight answer about anything around here anyway
Tuesday, May 08, 2007 7:47:42 PM EDT Loken, Andrew: I don't even know what that's supposed to mean
Tuesday, May 08, 2007 7:47:53 PM EDT Loken, Andrew: in this context
Tuesday, May 08, 2007 7:48:55 PM EDT Mooney, Shannon: how about we come out with new cirtieria or a new stress and acutally have clear cut parameters on what the hell we are supposed to do
Tuesday, May 08, 2007 7:49:13 PM EDT Mooney, Shannon: that'll be the day
Tuesday, May 08, 2007 7:49:22 PM EDT Loken, Andrew: what isn't clear?
Tuesday, May 08, 2007 7:49:37 PM EDT Loken, Andrew: running just one run is just a shortcut so you don't have to re-run everything
Tuesday, May 08, 2007 7:50:01 PM EDT Loken, Andrew: if you want to be more accurate, run more than one
Tuesday, May 08, 2007 7:50:06 PM EDT Loken, Andrew: use your judgement
Tuesday, May 08, 2007 7:50:11 PM EDT Mooney, Shannon: sending us a spread sheet and saying this is the pik stress is the farthest thing from clear
Tuesday, May 08, 2007 7:50:51 PM EDT Loken, Andrew: 2 years before a default occurs, the PIK collateral stops paying interest
Tuesday, May 08, 2007 7:50:58 PM EDT Loken, Andrew: clear enough?

PSI-SP-000017

From: De Diego Arozamena, Alfredo
Sent: Thursday, May 24, 2007 6:49 PM
To: Ghetti, Belinda; Guadagnuolo, Lapo; Robert, Claire
Cc: Tamburrano, Emanuele; Cecillon, Vanessa
Subject: RE: Modelling of some spread compression on Static CDOs

Yeap, we have not done it. I agree we should begin implementing the methodology and model outlined in Belinda's email – we should update the model and give the market some time to adjust...

Is this an easy model to update/use?

From: Ghetti, Belinda
Sent: Thursday, May 24, 2007 5:38 PM
To: Guadagnuolo, Lapo; Robert, Claire; De Diego Arozamena, Alfredo
Cc: Tamburrano, Emanuele; Cecillon, Vanessa
Subject: RE: Modelling of some spread compression on Static CDOs

ooops, we have not done it!

-----Original Message-----

From: Guadagnuolo, Lapo

Sent: Thursday, May 24, 2007 5:30 PM

To: Ghetti, Belinda; Robert, Claire; De Diego Arozamena, Alfredo

Cc: Tamburrano, Emanuele; Cecillon, Vanessa

Subject: RE: Modelling of some spread compression on Static CDOs

Belinda,

Actually, the cash-flow criteria from 2004 (see below), actually states that....in the usual vague S&P's way...but this is why we have been asking for it in the very few static deals we have done.

Still, consistency is key for me and if we decide we do not need that, fine but I would recommend we do something. Unless we have too many deals in US where this could hurt.

Cheers

Lapo

Because the "fixed" collateral portfolio is identified at the start of the

transaction, it is possible to scrutinize the expected payment

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PSI-SP-000021

characteristics of the asset pool more closely. Defaults are typically applied pro rata across asset pools in revolving CDO transactions, but we might bias defaults toward specific assets in a static portfolio when additional concerns are identified.

For example, concerns might be raised about a portfolio with some relatively low-rated assets that pay a significantly higher-than-average coupon. The default of these assets could result in inadequate interest cash flow from the remaining assets. This scenario is not tested by the standard application of pro rata defaults. In this situation, bias of defaults toward these assets could be warranted.

From: Ghetti, Belinda

Sent: 23 May 2007 14:33

To: Robert, Claire; De Diego Arozamena, Alfredo; Guadagnuolo, Lapo

Cc: Tamburrano, Emanuele; Cecillon, Vanessa

Subject: RE: Modelling of some spread compression on Static CDOs

Claire

We are currently not doing that for deals in the pipeline. What you are describing is actually what we used to do in retranching (crapped out deals that needed to be restructured).

We used to have an amortization biased spread schedule, basically we created a spread schedule based on amortization schedule. I have the model still, I hope I remember how it works. Also we had a default pattern generator which looked at the rating of the portfolio and created default patterns based on the assets probability of default. You can then create a spread matrix that way. The model though has 2.4.3 default probabilities in it as it has never been used since 3.2.

If we do it though we need to publish something as even the quant methodology published in 2004 does not distinguish between static or revolving deals

Let me know what you think

PSI-SP-000022

-----Original Message-----

From: Robert, Claire

Sent: Wednesday, May 23, 2007 9:26 AM

To: De Diego Arozamena, Alfredo; Ghetti, Belinda; Guadagnuolo, Lapo

Cc: Tamburrano, Emanuele; Cecillon, Vanessa

Subject: Modelling of some spread compression on Static CDOs

All,

You remember we discussed recently the possibility of stressing the actual spread to something lower, when modelling cash flows for static deals - on the assumption that if there is adverse selection when assets default, your spread may go down, esp. if they are even moderately barbelled.

We discussed this with Lehman here, who raised 2 concerns that I just wanted to run by you

- they claim that their competitor investment banks are currently doing loads of deals that are static in the US and where no such stress is applied. It is clear that we cannot appear to be penalising one bank compared to the others - so I was just wondering whether you have started mentioning that stress to investment banks or not and whether you would rather wait until we publish something ? It's clear we cannot use this for one bank and not others.

- the other thing is we'd initially calculated some way of coming up with the stresses, by assuming the lowest rated assets default first, and then among that lowest rating category, assuming the higher paying ones default first. You would do that at the time you are looking into the portfolio, but they claim that once they have priced the whole thing, it is possible that the spreads would change and hence if we ask to update our calculation based on pool at closing, it may be that the stress is completely different and hence they cannot close with the structure they have priced. We suggested that it was up to them to build up some cushion at the time they price, but they say this will always make their structures uneconomic and is basically unmanageable => I understand that to mean they would not take us on their deals.

I personally would not have a pb 'freezing' the extent of the stress on the basis of the figures we have at the time of presale, as this is only for the purpose of coming up with an acceptable yield compression stress, so doesn't need to be exactly scientific.

But your thoughts on this would be welcome - I have to say, I don't know the CDS market enough to know whether spreads would indeed move that much in the interim.

PSI-SP-000023

Please let us know what you think.

Regards, Claire.

PSI-SP-000024

From: Warner, Ernestine
Sent: Tuesday, July 03, 2007 4:32 PM
To: Pollsen, Robert
Subject: RE: Weekly RMBS/CDO Surveillance performance update - Cliff's questions...

Thanks Bob.

EW

-----Original Message-----
From: Pollsen, Robert
Sent: Tuesday, July 03, 2007 4:21 PM
To: Warner, Ernestine
Subject: RE: Weekly RMBS/CDO Surveillance performance update - Cliff's questions...
Importance: High

Ernestine,

I'll put my "responses" in red *under* each question.

See below.

-----Original Message-----
From: Warner, Ernestine
Sent: Tuesday, July 03, 2007 10:52 AM
To: Pollsen, Robert
Subject: FW: Weekly RMBS/CDO Surveillance performance update

Bob, would you please provide answers to the questions Cliff has below with regard to RMBS. I will answer the questions too then combine our responses for Peter's review.

Thanks

-----Original Message-----
From: Griep, Cliff
Sent: Tuesday, July 03, 2007 8:07 AM
To: Warner, Ernestine; Anderberg, Stephen
Cc: Barnes, Susan; Gillis, Tom; D'Erchia, Peter; Buendia, Rosario
Subject: RE: Weekly RMBS/CDO Surveillance performance update

Ernestine, thank you for sending this. Please try to address the following issues in the periodic updates. Overall, our ratings should be based on our *expectations* of performance, not solely the *month to month* performance record, which will only be backward looking. I cannot get a sense of the surveillance group's view of the overall market conditions and implications from this report. What is our macro view of the U.S. housing market, and particularly the sub prime market, how has this view changed or how is it changing regarding the relative risk factors, and what is the implication of that view for the universe of outstanding ratings and our current criteria. What

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does that view suggest about the way we are responding from a surveillance perspective?

RMBS Surveillance's macro view of the U.S. housing market and particularly the subprime market, are varied within the group. Several expect the U.S. housing market to continue to get *worse*, before it gets better. Subprime mortgage loans, in particular, continue to exhibit worsening performance, even in the 2007 vintage deals. New Issue Ratings group says that they have not yet seen any evidence of tighter underwriting standards in the subprime mortgage loans in the deals securitized so far in 2007. As delinquencies continue to increase, the risk of downgrades increases also. The big "unknown" is at what rate & severity will the high delinquencies translate into actual realized losses? And, when they do, will the monthly excess spread be sufficient to handle those losses? It may take 18 to 24 months before REO results in realized losses. Only then will we know how aggressive we need to be with our downgrades to subprime collateral deals.

To the extent that we are forecasting loss experience, what assumptions is this based on, and more importantly, what percentage of transactions/traunches do we have loss projections for?

We project losses for all transactions and tranches. Only those deals identified through our monthly exception report, already on CreditWatch, or with our normal annual Issuer "shelf" review have "cash flows" run. Only then can the loss projections be made with higher level of certainty, since monthly excess spread is an important percentage of total loss coverage. The rate at which losses are *realized* is one of the most important factors in determining whether or not a class' rating "survives" the stress of those losses. In running those "cash flows", we use the greater of the 12-month, six-month or most recent high monthly loss experience. In addition, for our "CreditWatch stress scenario", for those deals where we have limited or no realized losses, we ~~use the severe delinquencies to estimate future losses: 100% of the REO~~ delinquency bucket are assumed to be liquidated evenly over the next six months. 25% of the loans in Foreclosure are assumed to be liquidated in months one through six, with the remaining 75% liquidated in months seven through 12. 10% of the loans in the 90+ days delinquency bucket are also assumed to be liquidated in months one through six, 30% in months seven through 12, with the remaining 60% in months 13 through 18. We recently changed our assumptions beginning in month 13, to eliminate the drop-off in projected losses, by taking the calculated projected loss amount for month 12 and amortizing that amount down beginning in month 13. For *closed-end* second lien deals, we assume 100% loss severity, since those deals are charged-off after 180 days delinquency. For the 'B' & 'BB' rated classes, 33% loss severity is used, 34% for 'BBB' rated classes.

How does our current expecations about performance and the causes for it, relate to our criteria or other risk assumptions, or what does our surveillance activity in total tell us about historical or existing criteria. Basically, what are we learning through the surveillance process and what are the surveillance group's recommendations on what, if anything we should be doing about it

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regarding our criteria.

The one main thing that immediately jumps out at RMBS Surveillance is that having monthly excess spread be such an large % of the total overall credit support for the bottommost rated class is very risky! Classes default well before they hit the total original loss coverage amount associated with S&P 's original ratings. One month's excess spread is often not sufficient cover monthly realized losses, which then eats into the overcollateralization ("O/C") amount. Since monthly excess spread that is not needed to cover that month's realized losses is "released" from the deal once O/C has reached its "target" amount, months with large liquidations often result in erosion of O/C. It often doesn't take very long, once O/C has been significantly eroded, for the bottommost rated class to suffer a principal loss, resulting in default.

It is hard to know whether the surveillance process is being applied systematically or in a fragmented way. In other words, is it prioritized by breaking triggers, is it organized by issuer. If we list the issues affected of a specific issuer, does this mean that all the issues of that issuer were reviewed?

The surveillance process utilizes more than one approach. Each month, all 2006 and 2005 vintage subprime & closed-end 2nd lien deals are put through our "exception" report filtering process. Those deals are then further analyzed, having cash flow runs done for each deal, for those deals considered most "at risk", due to high delinquencies, losses, or erosion in credit support. Concurrently, surveillance works through a list of Issuers, such that all major issuers are reviewed within 12 - 18 months, where every deal reviewed, for that collateral type by that issuer In addition, each month all deals on external CreditWatch and internal watch are updated, with deals highlighted for each analyst to take action on classes, where necessary.

How does our view and experience with our rated book compare with that of the major players in the space upon which we have either ratings or servicing surveillance, and thus can collect and review the portfolio performance of? What are financial institution reserve levels or valuation telling us about our own loss assumptions?

[Don't know]

What is surveillance telling us about servicing and the implication of the failure/disappearance of many of the sub prime originators. I was a bit surprised to see that we have only recently added New Century transactions to our credit watch listing, when this entity was a significant focus point only a few months ago due to their insolvency and questions about their accounting. I thought that structured surveillance took a good look at them only a short time ago and determined their transactions were fine.

Deals are added to our CreditWatch lists when our cash flow analysis shows the ratings to be at risk. If delinquencies increase significantly or realized losses suddenly spike up, a deal not previously on CreditWatch may make its

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way onto our list. Surveillance does not categorically put deals on CreditWatch just because of the financial difficulties of the Issuer or Servicer. Only when those difficulties translate into poor performance do such deals get placed on CreditWatch.

What does it mean to say that there are an increasing number of deals with subordinate bonds "at higher risk of negative ratings adjustment". Should all these be on credit watch? If not, why not. Absent CW, why would we not implement outlooks, as was recommended on several past occasions, if we believe we have a view that would be helpful to differentiate transaction risk?

We have been putting deals on CreditWatch if we expect a rating action within three to six months. If we feel the rating on a particular class may need to be adjusted sometime *after* six months, then we put that deal on "internal watch" for monthly or quarterly review (depending upon the timing of the likelihood of rating action). I think "Outlook" would be a great idea for RMBS Surveillance to use, particularly in those cases where we know the deal to be "risky", but not yet at a point where we should CreditWatch or downgrade. (However, we have been told that Structured Finance does not use "Outlook".)

Could we provide more information on the severity of rating changes, and the severity of expected ratings changes. All CW press releases should be including a reference to what the potential rating is.

Almost all of our CreditWatch actions are expected to have a potential 3-notch rating change. We perhaps need to be more specific in our press releases, as we understand that is supposed to be included.

How do our CW actions get incorporated into our CDO analysis. My understanding is that the rule of thumb is a single notch. Is the implication for CDO's aligned with our actual expectations and if so how?

Single notch is the "rule of thumb" used by CDO for RMBS CreditWatch classes. Unfortunately, only time will tell if the implications for CDO's are sufficiently in line with RMBS Surveillance expectations.

Can our surveillance process tell us anything about potential for loss on the rated securities? Is this a potential way to differentiate. What is our dialogue with investors suggesting about the need for this information?

We generally do not disclose potential loss amounts, but we do utilize them when doing our surveillance analysis. Since so much of the potential for loss is an *estimate*, I don't think it is a good idea to quantify that for the investors.

What has been the level of inquiry/feedback from the market. What is it suggesting about our processes and the timeliness of our ratings actions, or about our ratings in the context of valuations.

As everyone has read by now, there has been much publicity about the

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apparent "fault" of the rating agencies for rating these deals in the first place, and for being "late" in taking appropriate rating actions. Up to this point, Surveillance has been "limited" in *when* we can downgrade a rating (only *after* it has experienced realized losses), how far we can adjust the rating (no more than 3 notches at a time is preferred), and how high up the capital structure we can go (not downgrading higher rated classes, if they "pass" our stressed cash flow runs).

For CDO's, every report for the last two months has cited the erosion of cushion. At what point in the erosion of cushion does a CW action typically occur. Are we forecasting our mezzanine RMBS or sub prime rating performance, compared to our BBB default assumption backed into the CDO's, and looking at the implication for our standing CDO's. I understand that the CDO's are adjusted when we make a change, but I don't see a proactive view being expressed by us with respect to this book of ratings, and many of the questions above are equally applicable to CDO's in general.

[Ask CDO Surveillance group to respond.]

It would also be helpful to understand how you view the impediments, to the extent they may exist, to responding on a timely basis to the erosion that's occurring. To what extent are our resources, infrastructure, forecasting abilities, criteria, policies, or culture, viewed by you and your team as needing attention to make sure we maintain a leadership position through the downturn.

Recently we received word that Joanne said she'd like us to place the ratings *today*, based upon where we expect the ratings to be *2 years* from now. This is a big departure from our previous process. It remains to be seen if S&P is really prepared to witness drastic rating actions, just to avoid the slower "notching" process and public criticism.

From: Warner, Ernestine

Sent: Monday, July 02, 2007 10:52 PM

To: *SFLT; Anderberg, Stephen; Barnes, Susan; Bryan, Andrea; Griep, Cliff; Kambeseles, Peter; Milano, Patrick; Pollsen, Robert; Stock, Michael; Tesher, David; Warrack, Thomas

Cc: Collingridge, Simon; Quinn, William; Smith, Belinda; South, Andrew; Giudici, Andrew

Subject: Weekly RMBS/CDO Surveillance performance update

Good evening. I have attached an executive summary of rating performance for the week of June 25, 2007 as well as detailed reports of the summarized activity.

At the request of several on the distribution, I have copied the executive summary into the e-mail for easier accessibility, especially if you are reading this via your Treo.

Please let us know if you have question or comments.
Thanks
Ernestine W

PSI-SP-000054

.**RMBS Surveillance:**

Executive Summary: There were relatively fewer rating actions taken during the week of June 25th. Performance data for the June distribution is still loading since the feeds from Intex began on June 25th. It is anticipated that the analysis of this data will begin on Tuesday July 3rd, the results of which will likely be additional CreditWatch and downgrades. During the prior week transactions backed by subprime collateral had 10 classes downgraded and 9 classes were placed CreditWatch with negative implications.

2006 CreditWatch and Rating Performance Update: There were no additional rating actions taken on bonds issued during 2006. All subprime and closed end second lien transactions issued during 2006 are being analyzed to ensure that the appropriate ratings are assigned. In addition, the subprime transactions issued during the fourth quarter 2005 and the first quarter 2007 are also included in this analysis. The focus of this analysis is the number of months to default for all rated classes subject to our conservative stress test. At the same time, we are reanalyzing the loss coverage to severely delinquent loan ratios.

Rating Performance for deals issued during 2005: Transaction issued during 2005 had three classes from two deals downgraded and two classes from two deals added to CreditWatch during the week of June 25th.

Vintage Rating and CreditWatch Performance to Date: The total number of deals with subordinate bonds at higher risk of negative rating adjustment increased to 1,252 or 19.05% of the total number of transactions outstanding (or 1,747 classes). There were seven downgrades and six CreditWatch placements during the prior week for transactions issued between 2000 and 2004.

Attachments:
RMBS CreditWatch Summary - and Rating performance summary details.

CDO Surveillance:

As in previous weeks, cushions continue to tighten on Mezz SF CDO of ABS tranches as a result of RMBS negative rating activity. The impact on the 2006 vintage Mezzanine SF CDOs of ABS is still nascent but increasing, with tranches from 6 of these deals getting close to failing current cash flow analysis. CDO Surveillance analysts are currently reviewing the deals for potential CreditWatch placement.

Most High grade SF CDOS of ABS are still maintaining a steady and reasonable cushion against downgrade, the result of relatively few Subprime RMBS rating actions being taken at the single-'A' or higher level, and also because these deals closed with a significant rating cushion as a result of having been rated with E3.X rather than E2.4.3.

We have been holding conference calls with collateral managers to proactively reach out to them and discuss their transactions, so that we won't first be calling them when we need to place the ratings assigned to their transactions on CreditWatch. During

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the week of June 25th we spoke with two CDO collateral managers:

> Gen Re/New England Asset Management - Ayresome CDO, a Mezz SF CDO that closed in December of 2005, has a tight cushion for two if its rated tranches. Additionally, the deal shows significant levels of stress when we aggregate Subprime delinquencies up to the CDO level. Senior managers (Chris Shane and Brendan Lynch) were on the call from the Gen Re side, but seemed somewhat defensive in discussing the transaction.

> American Capital Access (ACA) - we discussed ACA ABS 2002-1, ACA ABS 2003-1, ACA ABS 2003-2, ACA ABS 2004-1, ACA ABS 2005-1, ACA ABS 2005-2, ACA ABS 2006-1 and ACA ABS 2006-2. Two of these deals are showing a tight rating cushion on one or more tranche. Call went extremely well - we spoke with portfolio managers Laura Schwartz and Keith Gorman, who knew the portfolios backward and forward and were prepared to discuss the deals even though the call was set up with little notice. One concern: the deals each have approximately 10% exposure to Closed End second Lien deals of different vintages.

Attachments:

1. **RMBS Cash Hybrid CDO Exposure YTD.xls** - List of all U.S. Cash Flow and Hybrid CDO transactions with exposure to RMBS tranches downgraded in 2007 through last week, or currently on watch for downgrade. The "Total Exposure" column provides the % of the CDO's RMBS collateral (by par value) that has seen a negative rating action since January 1st; the "RMBS Downgrade Notches" column provides the cumulative number of RMBS downgrade notches across the CDO pool (with CreditWatched assets assumed to be downgraded by one notch); and, the "Rank" column combines both frequency and severity by normalizing the RMBS rating actions to give the equivalent of the CDO collateral pool that has seen a one notch downgrade.

2. **RMBS Synthetic CDO Exposure YTD.xls** - List of all U.S. Synthetic CDO transactions with exposure to RMBS tranches downgraded in 2007 through last week, or currently on watch for downgrade. Same as list above, but covers Synthetic CDOs.

<< File: Memo - RMBS CDO Weekly Update (070207).doc >> << File: RMBS CW-DG Summary 070207.doc >> << File: 062007 RMBS Cash Hybrid CDO Exposure YTD.xls >> << File: 062707 RMBS Synthetic CDO Exposure YTD.xls >>

PSI-SP-000056

From: Kambeseles, Peter
Sent: Sunday, September 30, 2007 10:39 PM
To: 'pkambeseles@gmail.com'
Subject: Fw: SIFMA Rating Agency Panel October 4

Attachments: RE: Priviledged and Confidential - Response to J Tavakoli's article; RE: Privileged and Confidential - Response to J Tavakoli's article

-Pete
(212) [redacted]
(917) [redacted]

= Redacted by the Permanent Subcommittee on Investigations

Sent from BlackBerry wireless handheld.

-----Original Message-----
From: Ghetti, Belinda <Belinda_Ghetti@standardandpoors.com>
To: Kambeseles, Peter <Peter_Kambeseles@standardandpoors.com>
Sent: Sun Sep 30 16:35:49 2007
Subject: FW: SIFMA Rating Agency Panel October 4

<<RE: Priviledged and Confidential - Response to J Tavakoli's article>>
<<RE: Privileged and Confidential - Response to J Tavakoli's article>> Left you out. Maybe should have kept it that way?

From: Ghetti, Belinda
Sent: Sunday, September 30, 2007 4:34 PM
To: Tesher, David; De Diego Arozamena, Alfredo; Khakee, Nik; Halprin, James; Jordan, Pat; O'Keefe, Brian; Guarnuccio, Keith; Bryan, Andrea

Subject: RE: SIFMA Rating Agency Panel October 4

Privileged and Confidential

David,

Below I have tried to answer the questions. I have also attached Alfredo's and my email for Vicky's testimony as it could be useful in case you will get some market value/liquidation questions and the other usual questions. I am keeping this email to CDO only peeps and not replying to everybody. You may want to vet it before it goes to legal or other parties.

I have tried to stay away from the underlying rating performance and place the issue more on the newness of the underwriting standards that defied

all common sense. With respect of what we should do, the suggestions I show below are more "my suggestions" so they need to be vetted out in case we think that we should not mention them.

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PSI-SP-000143

What went wrong?

CDO methodology is based on the well known idea that a diversified pool of risky assets tends to have a relatively predictable return pattern. As everybody knows, CDO takes a pool of risky credits and divide the credit risk up among different investors. So what went wrong?

It isn't that diversification of credit risk doesn't work. It is that the assumptions and the historical data used, NOT JUST BY THE RATING AGENCIES, BUT BY THE ENTIRE MARKET, never included the performance of these types of residential mortgage loans because they were the exception and not the rule. The data was gathered and computed during a time when loans with over 100% LTV or no stated income were rare.

Since a CDO works by then spreading the idiosyncratic risk of single securities among many assets, bankers and managers looked for higher risk/higher yielding residential mortgage deals. Given the current underwriting standards at the mortgage level, the higher yielding items were pools with a higher percentage of 100% (or higher) LTV and/or NO stated income loans. Generally the market, bankers and managers believed that the risk was limited and could have been diversified away. However, what the market did not predict was that pretty much every higher yielding asset was composed by bad mortgage loans. In fact, while CDOs always assume that a fairly high level of defaults will occur, and usually they can perform quite well at default levels a fair bit higher than the assumed level. But what they cannot withstand is a large number of defaults occurring over a short period of time.

From this it stems that the market always believed in a moderated level of correlation in the mortgage market. This is predicated on the fact that, in the past the default likelihood of 2 mortgage loans originated in different part of the country was quite low. Consequently, ABS portfolios had a commensurate level of correlation as data suggested that a portfolio's realized default level would be more likely to fall within a small band, and less likely that a large number of defaults would occur in a single year. However, given the new underwriting standards, historical data was no guide since almost half of the sub-prime loans made for home purchases in 2006 were either low or no doc loans (this is from Bear Stearns). This implies that a gigantic amount of fraud was being perpetrated which does defy common sense. This also implies not only that the default rates would be much higher than the historical data but correlation of mortgage defaults would be higher too as the entire market was underwriting with weaker credit standards.

Short of blaming the underlying ratings, I think this is the only other solution. The only thing is that the statement above will immediately lead to the question why didn't we do due diligence? But I think we have an answer for that. Also, it may back fire as some would say that we should have known it. The lack of underwriting standard, the speed at which the RMBS issuance increased and such should have tipped us that a higher level of defaults and correlation would follow. However, Wall street in its entirety did not forecast to what level.

* What do you need to do now? Do you need to change the way you do business in some fundamental manner? How are you changing your ratings and your methodologies?

In the short term:

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We need to quickly re-evaluate the RMBS and CDO ratings as we are already doing. Possibly, if we perceive additional volatility in the market, we will take the additional step of notching RMBS ratings to preempt future actions. I would say that although RMBS group is changing its rating criteria and downgrading at a faster speed, we may apply additional notching to make sure that CDO rating do not lag behind RMBS actions.

In the long term:

For once, wall street needs to stop playing the blame game and determine whether the underlying underwriting standards are here to stay or will they be brought back to a stronger credit worthy standards. If we believe that this is the way the underlying assets will behave going forward the current available historical data may not be the right source to derive information. However, considering that the real level of losses has not manifested itself yet, the only thing we could do is to

1) Revise methodology to derive our default assumptions (which we are with Anton)

2) Assume stochastic correlation and recoveries instead of relying on one number derived from historical data. Meaning that in high level of default scenarios, correlation increases and recovery decreases.

That is what the current data seems to be guiding us toward. Doug is implying that some BBB and As CDO paper will default. Considering that the market is targeting a 15% loss level at the RMBS level (BBB), his statement leads me to believe that he is assuming a level of recoveries which is far lower that our assumptions and that the correlation of bad assets the CDOs is quite high. Implicitly many CDOs will be untouched but many will be blown out.

* Do you want to challenge any of the assumptions underlying these questions? Does anyone want to argue the this isn't "the greatest failure of ratings ever?" Does anyone want me to ask "Is it really as bad as people think?"

I would answer this just like above ... general market failure in anticipating default and correlation behavior. Pretty much the entire market overemphasized historical performance just as I described above.

Belinda

From: Tesher, David
Sent: Friday, September 28, 2007 11:27 AM
To: Ghetti, Belinda; De Diego Arozamena, Alfredo; Khakee, Nik; Halprin, James; Guadagnuolo, Lapo; Tesher, David; Van Acoleyen, Katrien; Jordan, Pat

Cc: Dawson, Petrina; Coleman, Maureen; Manzi, Rosaleen; Rose, Joanne; Mahoney, Patrick
Subject: FW: SIFMA Rating Agency Panel October 4

PSI-SP-000145

Hello all;

Some additional insight regarding what Doug is planning on asking me next Thursday (FYI .. I have spoken to Doug about this panel two weeks ago in addition to earlier this morning e contrary to what his e-mail below indicates).

Thanks again for helping me prepare my thoughts/remarks for this conference.

David

From: douglas.lucas@ubs.com [mailto:douglas.lucas@ubs.com]
Sent: Friday, September 28, 2007 10:49 AM
To: eric.kolchinsky@moodys.com; david_tesher@sandp.com; john.schiavetta@fitchratings.com
Subject: RE: SIFMA Rating Agency Panel October 4

Gentlemen:

Our panel next week will be held against an unprecedented backdrop. I have never heard such steady disparagement of rating agencies as I have in the last few months. The accuracy and timeliness of your ratings is not being challenged so much as being called irrelevant. My colleagues and I are predicting subprime bond losses up to the A rated tranches, second lien mortgage bond losses up to the AAA tranches, and mezz ABS CDO losses up to the senior AAA tranches. You're being accused of being in the pocket of the bankers and not doing enough due diligence on issuers. The issuer pay business model is being attacked. Have I missed anything? Lawsuits? Congressional action? Oh yes, the Europeans are investigating you guys!

But I have not heard from any of you on this panel. Are you guys up to the task of mounting a spirited defense? Let's try to make people think a little better about rating agencies after this panel.

Here are some questions that I think are appropriate. What do you want me to ask you?

* What went wrong?
* What do you need to do now?
* Do you need to change the way you do business in some fundamental manner?
* How are you changing your ratings and your methodologies?
* Do you want to challenge any of the assumptions underlying these questions? Does anyone want to argue the this isn't "the greatest failure of ratings ever?" Does anyone want me to ask "Is it really as bad as people think?"

I'm assuming that no one want to present slides.

PSI-SP-000146

Please get back to me with better questions and/or the questions you want to answer.

For reference, here is the conference website: http://www.sifma.org/conferences/2007/cdo/Welcome.shtml <http://www.sifma.org/conferences/2007/cdo/Welcome.shtml>

Douglas

Douglas Lucas
Executive Director
Head, CDO Research
douglas.lucas@ubs.com
Office: +1 212-713-3440
Cell: +1 646[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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From: Tesher, David
Sent: Thursday, September 27, 2007 8:42 AM
To: Ghetti, Belinda; De Diego Arozamena, Alfredo; Khakee, Nik; Halprin, James; Guadagnuolo, Lapo; Tesher, David; Van Acoleyen, Katrien

Cc: Jordan, Pat
Subject: FW: SIFMA Rating Agency Panel October 4

Hello all;

I would appreciate if you could provide me with your respective perspectives as it pertains to the below questions that I will be asked on my panel discussion next week at the SIFMA conference.

I will use the feedback you respectively provide me with to construct an outline ......which I will then vet/discuss with internal senior management prior to next thursdays conference.

Given the high profiile next weeks conference has, it would be appreciated if you would provide me with any relevant thoughts and feedback by tomorrow (friday).

Thank you in advance for your support.

David

PSI-SP-000147

Sent by Good Messaging (www.good.com)

-----Original Message-----
From: douglas.lucas@ubs.com [mailto:douglas.lucas@ubs.com]
Sent: Tuesday, September 25, 2007 09:59 PM Eastern Standard Time
To: eric.kolchinsky@moodys.com; david_tesher@sandp.com; john.schiavetta@fitchratings.com
Subject: SIFMA Rating Agency Panel October 4

Dear Distinguished Rating Agency Panelists:

The agenda for the SIFMA CDO conference is attached. We are on at 11:40.

For reference, here is the conference website: http://www.sifma.org/conferences/2007/cdo/Welcome.shtml
<http://www.sifma.org/conferences/2007/cdo/Welcome.shtml>

Obviously, our panel will be of great interest to attendees. How do you want to handle this?

I think we should try to make the panel forward-looking by addressing such questions as:

How are the rating agencies re-measuring subprime and ABS CDO risk?
How can the rating agencies help differentiate credit quality? (On the premise that ABS CDOs are not uniformly bad.)

Is there really credit risk contagion to CLOs?
What have we learned about market value risks? (I'm thinking of SIVs, mainly.)

Please let me know your thoughts and what questions you think are relevant.

I am there to protect against unreasonable questions and keep the discussion constructive.

Douglas

Douglas Lucas
Executive Director
Head, CDO Research
douglas.lucas@ubs.com
Office: +1 212-713-3440
Cell: +1 646[redacted]
<<SIFMA CDO Conference Agenda 2007-09-20.doc>>

[redacted] = Redacted by the Permanent Subcommittee on Investigations

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PSI-SP-000148

From: Mackey, Robert
Sent: Thursday, November 15, 2007 5:48 PM
To: Gutierrez, Michael; Koch, Richard; Frie, Steven; Highland, Edward
Subject: RE: Resi Mortgage Operations - Conduit & Originator Reviews

We believe our analytical process and rating opinions will be enhanced by an increased focus on the role third parties can play in influencing loan default and loss performance. In a continued effort to better communicate and incorporate your (Financial Institutions, Servicer Evaluation & Surveillance) expertise in these areas we would like to propose closer on going dialogue between our groups; specifically we'd like to set up meetings where specific mortgage originators, investment banks and mortgage servicers are discussed. We would like to use these meetings to share ideas with a goal of determining whether loss estimates should be altered based upon your collective input.   Should have been doing this all along.

-----Original Message-----
From: Gutierrez, Michael
Sent: Thursday, November 15, 2007 5:41 PM
To: Koch, Richard; Frie, Steven; Highland, Edward; Mackey, Robert
Subject: FW: Resi Mortgage Operations - Conduit & Originator Reviews

FYI

Michael Gutierrez
Managing Director
Standard & Poor's
Structured Finance
Practice Leader
U.S.Servicer Evaluations
55 Water Street, 42nd Floor
New York, NY 10041-0003
Tel (212) 438-2476
Fax (212) 438-2662

From: Warrack, Thomas
Sent: Thursday, November 15, 2007 5:24 PM
To: Wagner, Victoria; Napier, Ernie; Warner, Ernestine; Gutierrez, Michael; Koch, Richard
Cc: Gillis, Tom; Dhru, Jayan; Albergo, Leslie; Arne, Errol; Bergey, Kent; Fitter, Jenine; Watson, Jeff; Barnes, Susan; Losice, Abe; Mcdermott, Gail; Stock, Michael
Subject: Resi Mortgage Operations - Conduit & Originator Reviews

All,

Permanent Subcommittee on Investigations
EXHIBIT #34

PSI-SP-000141

We believe our analytical process and rating opinions will be enhanced by an increased focus on the role third parties can play in influencing loan default and loss performance. In a continued effort to better communicate and incorporate your (Financial Institutions, Servicer Evaluation & Surveillance) expertise in these areas we would like to propose closer on going dialogue between our groups; specifically we'd like to set up meetings where specific mortgage originators, investment banks and mortgage servicers are discussed. We would like to use these meetings to share ideas with a goal of determining whether loss estimates should be altered based upon your collective input.

To this end, we are in the process of re-invigorating our own emphasis around originator and conduit operational capability reviews as a complement to the reviews conducted by the servicer evaluations group.

Attached is a Strategic Plan developed by our newly formed Conduit & Originator Review team. The team will be lead by Leslie Albergo and Jenine Fitter with contributions by Errol Arne, Kent Bergey and Jeff Watson. The Plan lays out the vision and goals of the team as well as the importance of the involvement that all within the Residential Mortgage Group will play in helping to understand and incorporate the influence that third parties can have on ultimate performance.

The plan encompasses more than simply doing more onsite underwriting reviews and includes responsibility to be shared with (a) Analysts (PACs) in terms of performance data and issuer specific knowledge and (b) the AMs and Criteria & Modeling team in terms of potentially helping to develop originator, issuer and/or servicer level adjustments to loss coverage requirements. Important third party vendors to our market, i.e. Fraud tool providers and Risk management firms, etc. are included as well.

Please share any views and comments as we'd like to begin to set up some institution specific meetings.
Also please share with others in your groups as you see fit.

<< File: RMBS MOR Strategic Plan - Vision & Goals for C&O ReviewsFINAL.doc >>

Thanks, Tom

PSI-SP-000142

DATE: Thu, 19 Jan 2006
TIME: 11:21:52
AUTHOR: Siegel, Jay
RECEIPIENT: Stein, Roger; Kornfeld, Warren; DiRienz, Mark
CC:
SUBJECT: RE: 2006 Priorities for M3 team

Absolutely not. It is presumed that M3 for Prime will continue to work and that M3 for Subprime works when it's rolled out. 'Revision of the simulations' and 'recalibrating Prime' are in roughly the same prioritization as you proposed, not sure why you see our list as de-prioritizing the correction of any problems.

Also, I don't know of many complaints that are linked to not-recalibrating the Prime model, but I think none of us will really know that until we see what actually changes when the simulations are fixed.

-----Original Message-----
From: Stein, Roger
Sent: Thursday, January 19, 2006 10:20 AM
To: Kornfeld, Warren; Kanef, Michael
Cc: Siegel, Jay; DiRienz, Mark
Subject: RE: 2006 Priorities for M3 team

By way of disclosure: Not recalibrating the Prime model and not fixing the simulation will create a growing number of inconsistencies (problems) in the existing models as was the case through most of 2004. These typically manifest themselves in complaints from analysts and external users. Addressing these in an ad-hoc manner will likely become a significant part of the team's work and could take significant time away from other initiatives. Is your intent that this ad-hoc work should also be deprioritized?

-----Original Message-----
From: Kornfeld, Warren
Sent: Thursday, January 19, 2006 9:31 AM
To: Kanef, Michael; Stein, Roger
Cc: Siegel, Jay; DiRienz, Mark
Subject: FW: 2006 Priorities for M3 team

Mike/Roger,

Jay, Mark, and I had the chance to get together, yesterday to discuss. The 3 of us believe the priority should be as follows:

Subprime M3
Finish models
Rollout to internal users
Approval by internal users
Rollout out to external beta users
Approval by external beta users
Begin external sales
While completing the items above, develop documentation (Jody/Earl) and marketing material (Berrak)
M3 should include a 2nd lien analysis. Can look to some analyses short of developing a 2nd lien model, if there are time and resource constraints

Maintain Prime/Alt-A M3 product

Support external clients of M3

Develop separate internal database for rating purposes (RMBS, SQ, and monitoring) - build on loan-by-loan data already received when rating transactions plus data the servicer ratings group receives

Complete excess spread model interface

Permanent Subcommittee on Investigations
EXHIBIT #35

PSI-MOODYS-000001

Develop a Prime data set for possible recalibration of Prime M3 as well as eventual product development

Revise simulation methodology for Prime and Subprime M3

Integrate excess spread model directly into simulations (we need to keep in mind that bankers always push the structures to stay ahead of what we can currently model, so we'll need flexibility to be able to react well)

Expansion of Subprime data set for Subprime M3 as well as eventual product development

-----Original Message-----
From: Stein, Roger
Sent: Wednesday, January 11, 2006 8:24 PM
To: Siegel, Jay; DiRienz, Mark; Kornfeld, Warren
Cc: Kanef, Michael; Rasch, Jody
Subject: 2006 Priorities for M3 team

Per Michael's request, I'm sending attaching a brief list of development priorities for 2006, in the order (priority) I think we should attack them. Please feel free to weigh in on either the content or the ordering of these.
Maintain current M3 product and generate data updates as needed
Support clients of current M3 product
Develop of second lien models for M3-Sub Prime by 4/06
Develop documentation and marketing material for M3
Conditional on resource (likely to come through) revise of simulation methodology for M3 by 12/06
Conditional on resource (very likely to come through), develop a Prime data consortium and consider recalibrating Prime models, to start by 9/06
EITHER sort out legal issues to permit a single pooled data set for product development and monitoring/analysis OR begin beta development of a separate database for monitoring/analysis
Integrate excess spread model directly into simulations (reducing the need for multiple committees and providing m

PSI-MOODYS-000002

DATE: 04/11/2006
TIME: 16:20:27 GMT
AUTHOR: Ramallo, Karen
RECEIPIENT: Huang, Sarah; Shin, Sang; Frankowicz, Wioletta
CC:
SUBJECT: Goldman CES Deal: Building OC with Cap

When: Tuesday, April 11, 2006 12:45 PM-1:00 PM (GMT-05:00) Eastern Time (US & Canada).

~~*~*~*~*~*~*~*

I am getting serious pushback from Goldman on a deal that they want to go to market with today. The structure is coming out worse when compared to the last CES deal that Wioletta worked, and much of that has to do with the lower benefit that we are now giving to caps since in the past we were incorrectly modeling that the cap proceeds were building initial OC to target OC.

I already communicated that we refined the way we are assigning benefit with caps without getting into detail but Goldman needs more of an explanation (I do not know how to get around this without telling them we were wrong in the past).

Please let me know if you are available to quickly discuss - and Wioletta, hopefully you can join them and call them with me since they asked for your input as you worked on the last deal.

Thanks.

DATE: Thu, 19 Oct 2006 09:01:17
AUTHOR: Jones, Graham (FID)
RECEIPIENT: Yoshizawa, Yuri
CC: Miteva, Elena (FID); Rizk, Sergio(FID); Laheja, Ashwin (FID); Fu, Yvonne
SUBJECT: RE: Pro-rata modeling criteria

Yuri

That will fit with the timing of deal that we have historically done pro-rata. We closed TABS in January and Bayberry in February. Everything since then has been sequential until Wadsworth which closed in September. On the Wadsworth deal we were told a few days before the close (after pricing) that we must switch methodology. I only found out about this change in methodology because an MS person from Wadsworth told us about what had happened. At that point we had already launched this deal with a pro-rata element to it.

Our problem here is that nobody has told us about the changes that we are later expected to adhere to. Since there is no published criteria outlining the change in methodology how are we supposed to find out about it? Could there be some way of disseminating this information to all banking teams on the street when the decision is made to change methodology?

Thanks

Graham Jones - Vice President

Morgan Stanley | Fixed Income

1585 Broadway | Floor 02

New York, NY 10036

Phone: +1 212 761-2061

Fax: +1 212 507-4891

Graham.Jones@morganstanley.com <mailto:Graham.Jones@morganstanley.com>

From: Yoshizawa, Yuri [mailto:Yuri.Yoshizawa@moodys.com]
Sent: Wednesday, October 18, 2006 11:44 PM
To: Jones, Graham (FID)
Cc: Miteva, Elena (FID); Rizk, Sergio (FID); Laheja, Ashwin (FID); Fu, Yvonne
Subject: Re: Pro-rata modeling criteria

Graham,

I'm very surprised by this as we've been using the hurdles that Michael told you about for quite a while now - since spring of this year.

As you may remember our original methodology was to use the zero default hurdle for all deals, which automatically took into account the way the deals worked when there were no defaults (i.e., pro rata for pro rata deals and sequential when pro rata did not apply).

The break even concept was a temporary concession that we made for some deals to account for the argument that pro rata amortization is meant to help the junior tranches and that we shouldn't "penalize" those tranches by applying a tighter hurdle. The break even results were looked at in committee in addition to the zero default hurdle as we discussed the results for the junior tranches - it was not meant to be an official change to our methodology, but more information to look at in the committee. However, as more people learned that we were willing to look to the break even results, we found that too many people were creating amortization schedules that were purposely designed to extend hurdles and game the break even results.

It should be noted that even when we looked to the break even, the policy was that it could only be for the junior tranches (i.e., Baa and below).

As of earlier this year, for the reasons above, we decided to remove the break even concession and give credit to the junior tranches in another way. Essentially, since the pro rata feature helps the tranches from a cash flow perspective, but hurts them in terms of the hurdle, we decided to look at the junior tranches without using the pro rata feature. As always, we still ask to see the zero default (with pro rata) as well.

As I said earlier, this is not new. We have consistently asked for the sequential results for junior tranches along with the pro rata results for all other tranches for all deals for many months now. You must have had many deals that we've looked at since we stopped looking to the break even.

If you've been using the break even all long for your ABS CDOs please let me know which deals these have been on and Yvonne and I will look into what's been going on.

Thanks.

Yuri

Yuri Yoshizawa
Moody's Investors Service
(212) 553-1939

Sent From My Blackberry

-----Original Message-----
From: Jones, Graham (FID) <Graham.Jones@morganstanley.com>
To: Yoshizawa, Yuri
CC: Miteva, Elena (FID) <Elena.Miteva@morganstanley.com>; Rizk, Sergio (FID) <Sergio.Rizk@morganstanley.com>; Laheja, Ashwin (FID) <Ashwin.Laheja@morganstanley.com>
Sent: Wed Oct 18 18:53:19 2006
Subject: Pro-rata modeling criteria

Yuri

I tried leaving a voice mail but your VM was full. I am having concerns with the roll out of the revised

PSI-MOODYS-000020

methodology for modeling deals with pro-rata pay downs as a part of the principal waterfall. The deal that I am working on right now is STACK 2006-2. I was informed by a colleague that the calculation of WAL for the loss hurdles on pro-rata deals has changed. Incidentally he found out about this the week of closing after his Moody's analyst had previously signed off, but that is a separate concern. When I called Michael he explained that the new methodology is that the expected loss hurdle WAL calculation is using zero default sequential for Baa and Ba liabilities and zero default pro-rata for the higher rated tranches. Previously we have used the break-even WAL on each of the liability expected loss hurdles. My concern here is that this is a material change to the Moody's methodology and nobody has been telling us. We are already out in the market with this deal and have been so for some time. It looks really bad to have to change the capital structure after the fact and gives investors who have provided an IOI the right to put their commitments back to us. I don't think that this is the fault of any particular analyst because nobody has been telling us on any of our deals and I am not sure that every Moodys analyst has been told the same thing. We are also not sure how even handedly this approach is being adopted across the street. Elena looked at some competitor deals and given that our deal with triggers is about as delevered as some of the no triggers deals that we are seeing we would be surprised to hear that this standard is being applied consistently across the street.

I am in the office all this week so please feel free to call me.

Thanks

Graham Jones - Vice President

Morgan Stanley | Fixed Income

1585 Broadway | Floor 02

New York, NY 10036

Phone: +1 212 761-2061

Fax: +1 212 507-4891

Graham.Jones@morganstanley.com

PSI-MOODYS-000021

communication is directed in the UK to those persons who are market counterparties or intermediate customers (as defined in the UK Financial Services Authority's rules).

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PSI-MOODYS-000022

DATE: 04/26/2007
TIME: 06:05:57 GMT
AUTHOR: Harris, Gus
RECEIPIENT: Kimon, Noel; Clarkson, Brian; Cantor, Richard
CC:
SUBJECT: Re:

Pretty much the same. As the non-rated bucket grows, taking others' ratings at face value could result in inaccurate ratings. In some deals, such as high grade abs deals, the margin for error is very low. If in our opinion 15% of the ratings are inflated, the impact to the cdo note ratings would be significant. I also refer to the Jerry Gluck study issued a couple years back. That study analyzed the impact on our cdo ratings as the non-rated bucket grows.

DATE: 06/28/2007
TIME: 18:17:43 GMT
AUTHOR: Zhang, Yi
RECEIPIENT: Kornfeld, Warren; Deshetler, Anthony; Agarwal, Navneet; Teicher, David
CC:
SUBJECT: RE: Please READ M-1 sign off

Over time, different chairs have been giving different guidelines at different point of time on how much over-enhancement we need for a bond to be notched up to Aaa, the numbers vary from 10% to 1/3 of bond size.

The main reason I sent Tony to you is to get some general guidance on the notching practice, so that people can follow without having to run by you every time the issue comes up.

This is what I understand for all asset types (though we see notching mostly happen in option ARM deals), and correct me, if I am wrong

1. to notch up to Aaa, the bond at Aaa stress needs to be over-enhanced by 30% of bond size
2. the max number of notching up we do is 2
3. no restriction on the number of notching down.

Please confirm.
Thanks.

Yvonne

-----Original Message-----
From: Kornfeld, Warren
Sent: Thursday, June 28, 2007 2:10 PM
To: Deshetler, Anthony; Agarwal, Navneet
Cc: Zhang, Yi
Subject: RE: Please READ M-1 sign off

Y. Yvonne, why would we not?

-----Original Message-----
From: Deshetler, Anthony
Sent: Thursday, June 28, 2007 2:05 PM
To: Kornfeld, Warren; Agarwal, Navneet
Cc: Zhang, Yi
Subject: Please READ M-1 sign off
Importance: High

Yvonne asked me to run this by you. I am working on an option arm deal for Lehman. When we run the M-1 using a Aaa stress the bond is still over enhanced by about 31%. Would we rate this Aaa?

Final levels for the pool were 6.45/1.00. The primary originators are Indy Mac (76%) and Bank of America (17%). The average FICO is 710 with an LTV of 73%. NOO (8.3%) and 2-4 family (4.2%) were fairly strong. Docs were weak with approximately 70% at C7-C9.

<< OLE Object: Picture (Metafile) >>

Anthony DeShetler
AVP - Analyst

DATE: 08/09/2007
TIME: 19:31:55 GMT
AUTHOR: Swanson, Todd
RECEIPIENT: Shrivastava, Amita
CC:
SUBJECT: Re: Seasoning benefit in Alt-A model is fully functional now

I guess what my larger concern is whether or not we are sacrificing what we considered a legitimate method of differentiating between the relative risk in loans for ease of implementation. Maybe making things easier for the short term, but sacrificing accuracy long term. Or, maybe this is more like rearranging the deck chairs on the Titanic - as in the belief is that the differentiation is immaterial in the grand scheme of things. Actually, my boss from my Texas days had a great analogy for this, but it would take forever to type out on this thing.

-----Original Message-----
From: Shrivastava, Amita
To: Swanson, Todd
Sent: Thu Aug 09 15:24:51 2007
Subject: RE: Seasoning benefit in Alt-A model is fully functional now

Oh that we have concluded that we are fine with the higher levels.

-----Original Message-----
From: Swanson, Todd
Sent: Thursday, August 09, 2007 3:23 PM
To: Shrivastava, Amita
Subject: Re: Seasoning benefit in Alt-A model is fully functional now

Oh the issue of not using doc type to adjust BQ adjustment.

-----Original Message-----
From: Shrivastava, Amita
To: Swanson, Todd
Sent: Thu Aug 09 15:22:14 2007
Subject: RE: Seasoning benefit in Alt-A model is fully functional now

Didn't understand.

-----Original Message-----
From: Swanson, Todd
Sent: Thursday, August 09, 2007 3:22 PM
To: Shrivastava, Amita
Subject: Re: Seasoning benefit in Alt-A model is fully functional now

What about differentiating between means of qualifying borrowers? Not to be a pain........

-----Original Message-----
From: Shrivastava, Amita
To: Swanson, Todd
Sent: Thu Aug 09 15:16:31 2007
Subject: FW: Seasoning benefit in Alt-A model is fully functional now

Permanent Subcommittee on Investigations
EXHIBIT #40

PSI-MOODYS-000023

We might need to change our model as well for this. For now I am asking analysts to do the seasoning benefit themselves outside the model. Also there was something wrong with the way the model was splitting the pools as the sum of the alt-a and subprime was not adding up to the entire pool.

Regarding the doc coding and related hits we are ok with the higher hits as per a recent conversation I had with Warren. Will update you when we speak next.

-----Original Message-----
From: Shi, Shuisheng (Jason)
Sent: Thursday, August 09, 2007 3:14 PM
To: Moody's - SFG/Mortgage Pass Through
Subject: Seasoning benefit in Alt-A model is fully functional now

The seasoning benefit in the Alt-A model is fully functional now. If the FirstPayDue date is populated in the tape, select "Y" in cell F1 on "Summary" tab. Otherwise select "N". When FirstPayDue is missing, the model will pick up the origination date as a proxy and haircut seasoning by 15 days.

The delinquency hit will be automated in the model some time early next week.

Please let me know if you have any questions.

Thanks,

Jason Shi
Asset Backed Securities
Moody's Investors Service
Tel: 212.553.1709
Fax: 212.553.7811

PSI-MOODYS-000024

DATE: 08/10/2007
TIME: 19:26:56 GMT
AUTHOR: Witt, Gary
RECEIPIENT: May, William
CC:
SUBJECT: RE: UBS CDO Research

Thanks Bill.

Decent of Doug to include footnote 4 asking readers to delay the massacre of the rating agency analysts.

-----Original Message-----
From: May, William
Sent: Friday, August 10, 2007 2:20 PM
To: Witt, Gary
Subject: FW: UBS CDO Research

Enjoy. Check out Eric's bolded sentence from the article below.

-----Original Message-----
From: Kolchinsky, Eric
Sent: Thursday, August 09, 2007 12:35 PM
To: Fu, Yvonne; Polansky, Jonathan; May, William
Subject: FW: UBS CDO Research

This is depressing:

"In our skewed sample of 111 mezzanine ABS CDOs, collateral losses extend into senior AAA tranches. We predict that 10% of senior AAA tranches we examined will default. Overall, the expected loss of senior AAA tranches is 1%. For BBB tranches, 55% will default and expected losses are 65%. This is horrible from a ratings and risk management point of view; perhaps the biggest credit risk management failure ever."

-----Original Message-----
From: Surana, Sunil
Sent: Thursday, August 09, 2007 12:02 PM
To: Yoshizawa, Yuri; Amador, Luis; Bharwani, Pooja; Cheng, Xiaolin; Chitra, Max; Clarke, Ray; Colby, Emily; Das, Ashish; DiCristino, Michael; Furman, Alicia; Grotta, Jacob; Harris, Gus; Hu, Jian; Huber, Linda; Joffe, Marc; Kim, JiYeon (Clara); Kolchinsky, Eric; Leahy, Jim; May, William; Michalek, Richard; Moody's - SFG/Derivatives - Surveillance US; Mui, Nina; Park, John; Ramachandran, Ramani; Rasch, Jody; Rodriguez, Mirna; Roy, Nawal; Stein, Roger; sushmita_10@yahoo.com; Westlake, Lisa
Subject: FW: UBS CDO Research

-----Original Message-----
From: douglas.lucas@ubs.com [mailto:douglas.lucas@ubs.com]
Sent: Thursday, August 09, 2007 11:54 AM
To: undisclosed-recipients
Subject: UBS CDO Research

Permanent Subcommittee on Investigations
EXHIBIT #41

PSI-MOODYS-000025

The attached article updates our predictions of ABS CDO collateral losses. Our most startling conclusion is that 10% of the mezzanine ABS CDOs we study will suffer default on their senior AAA tranches. But despite this horrible result, the dislocations in the ABS CDO market are such that many CDOs are being marked and traded at much harsher levels than is warranted.

PSI-MOODYS-000026

DATE: 08/22/2007
TIME: 10:33:55
AUTHOR: Kolchinsky, Eric
RECEIPIENT: Moody's - SFG/Derivatives - US
CC:
SUBJECT: Deal Management

Dear colleagues,

While the number of deals that are currently active is smaller than what we had in the first quarter, each of our current deals is in crisis mode. This is compounded by the fact that we have introduced new criteria for ABS CDOs. Our changes are a response to the fact that we are already putting deals closed in the spring on watch for downgrade. This is unacceptable and we cannot rate the new deals in the same away we have done before. Given the rating volatility that we anticipate in RMBS, these deals must be better protected, since they are using very similar ref obs. On the other hand, the bankers are under enormous pressure to turn their warehouses into CDO notes

While I understand that bankers are putting a great amount of pressure on you to respond, the other committee chairs and I are not able to sign off on every new change, spreadsheet or mark. We need to try to manage the deals a little better. Here is what I think we need to do:

1. **Don't feel rushed by the bankers** -- we MUST get the ratings right and closings these days just mean the movement of risk from one book to another at the bank. "No" is a remarkably powerful word -- feel free to use it generously.

2. Use the committee process -- the committee process is designed just for situations like this. It allows us to speak with one voice and to reasonably assess the risks. Understand that there will be scheduling conflicts for committees and bankers will pressure you to get a response quickly -- please see 1 above (we need to get the ratings right).

3. If you need help, let me know -- I can staff more people to the deal. One of the ML team's experiences was that having more than one voice on a phone call shifted the power dynamics of the discussion.

4. Use your fellow analysts -- ask them what theory would do or ask them to jump on a call with you even if they are at all not familiar with the deal. When approaching a chair or an MD with an issue, please try to have a potential solution ready.

5. Market prices -- we are seeing some actual prices from the recent liquidations. You can get some good color from Cesar, however, please try to not to overwhelm him and use the committee process instead.

I do understand that you being put under a lot of pressure at this time. Please use the procedures which we have in place to alleviate the pressure from yourself and from the team leaders.

Thank you very much
Eric

Permanent Subcommittee on Investigations
EXHIBIT #42

PSI-MOODYS-000032

DATE: 11/09/2007
TIME: 15:38:53
AUTHOR: Kimball, Andrew
RECEIPIENT: Stein, Roger
CC:
SUBJECT: RE: Fitting a default model on 2006 Alt-A data

Have the discussion, but tell him that to dop it right you will have to check with me on prioritization.

-----Original Message-----
From: Stein, Roger
Sent: Friday, November 09, 2007 3:30 PM
To: Kimball, Andrew
Subject: Re: Fitting a default model on 2006 Alt-A data

Warren and I worked out a solution that he feels will be useful and that my staff feels can be reasonably done in the short time allocated..

My staff is sensitive to both priorities and the risks associates with demands to do somerthing "quick and dirty" that then becomes part of a rating process. The reason Ahish pushed back was that the proposed use of the data would quite likely lead to false conclusions that might be used for rating decisions. In the future, if you would prefer, we can just hand the data over without opining. Our view tends to be, "its not just what you don't know, but what you know that is wrong that is dangerous.". In the past RMBS has published research which we did not review, but that seemed counter to our own.

Let me know if you'd like us to stay out of these discussions.

-----Original Message-----
From: Kimball, Andrew
To: Stein, Roger
Sent: Fri Nov 09 15:14:31 2007
Subject: RE: Fitting a default model on 2006 Alt-A data

I was told by warren that he asked for a low level data dump and Ashish pushed back, apparently arguing that they needed something more sophisticated to draw credible conclusions. regardless of who did what, i think warren and David are sensitive to the use of your staff's time. You should in turn have a discussion with your staff and ensure that they also understand the prioritization issue.

-----Original Message-----
From: Stein, Roger
Sent: Friday, November 09, 2007 2:57 PM
To: Kimball, Andrew
Subject: Fw: Fitting a default model on 2006 Alt-A data

-----Original Message-----
From: Stein, Roger
To: Das, Ashish; King, Thom; Kornfeld, Warren; Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael; Gildner, Timothy; Qian, Xufeng (Norah); Ding, Yufeng; Cheng, Xiaolin; Liu, Qingyu (Maggie); Chatterjee, Debashish; Agarwal, Navneet; Thomas, Ajit

Permanent Subcommittee on Investigations
EXHIBIT #43

PSI-MOODYS-000033

Sent: Fri Nov 09 13:49:36 2007
Subject: Re: Fitting a default model on 2006 Alt-A data

A few questions:

1) What is the intended use of this estimate? It seems to me, given the timing and the large number of data, econometric and testing issues, that the quality of the estimates will be approximately the same whether we do the work or not, ie, the quality will be poor. Nobody seems to feel that this research willl yield useful results by Monday.

2) Is the objective in doing this to develop a rating approach? Why is the timing so short?

3) How will this estimate be incorporated into whatever analysis it is being done as part of? This is important for us to know in considering a modeling strategy.

4) Should this be th R&A's highest priority? My conversations w Jody and Ashish suggest that given the relatively large number of staff involved, it is likely that this work will delay work on Andy Kimball's priorities by a!out a week or so after considering disruptions and lost computing time. Is this acceptable? Has Andy agreed?

Sorry for these questions, but we have been asked to focus on a specific set of objectives and to get them done in very short order. To the extent we drop current work to do this new project, this will impact our promised deliverables. We very much want to work with you all to do this type of work, but we probably need to discuss how to do so in the interim, with our current staff and budget.

Thanks..

-roger

-----Original Message-----
From: Das, Ashish
To: King, Thom; Kornfeld, Warren; Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael; Gildner, Timothy; Qian, Xufeng (Norah); Ding, Yufeng; Cheng, Xiaolin; Liu, Qingyu (Maggie); Chatterjee, Debashish; Agarwal, Navneet; Thomas, Ajit
CC: Stein, Roger
Sent: Fri Nov 09 12:30:56 2007
Subject: Fitting a default model on 2006 Alt-A data

Debash, Maggie, Jody, Tim, Xiaolin, Thom, Ajit, Yufeng, and I met today to discuss a new request from Debash and Maggie about determining (in a quick and dirty way) what some of the important determinants of defaults were specific to Alt-A type loans pertaining to 2006 data. One of the triggers leading to this request is some preliminary analysis done by Debash shows that (after controlling for FICO) a 100% CLTV loan loses about five times as much as (say) 80 CLTV loan does. Currently, Prime M3 would show the increase in losses attributed to the corresponding increase in CLTV to be about 30%. Simply put, CLTV seems to be much more important to losses than Prime M3 tends to show.

Clearly, determining the biggest contributors of default is important. In this case, we need to determine this relationship by Monday morning, which effectively gives us less than a full working day. The reason I am pointing this out is that the analysis (determining the important determinants of default) we will do will, at best, be rather coarse. I understand that, going forward, there may be revisions to the analysis. Debash mentioned that, at this point, he is not so much concerned about using this analysis to calculate expected loss, Aaa, or similar statistic. Should we decide to estimate expected loss, etc we would need to have a model for prepayment and severity in addition to the default model.

We need to set up a panel regression to do a survival analysis using Alt-A data from 2006. 60+ day, and 90+ day delinquencies will be used as proxies for default. We need to download some macro data,

PSI-MOODYS-000034

including HPI, unemployment rate, etc at the state level from MEDC. This whole exercise is premised on our ability to pull sufficient non-option ARM, Alt-A 2006 data from our CTS link data sources.

As a result of the rushed priority on this, the work Tim requested us to do (i.e. determine whether there is a variable missing that could explain the categorization of Jumbo vs. Alt-A loans based on GMAC data) will be deferred to early next week.

Regards,

Ashish

-----Original Message-----
From: King, Thom
Sent: Thursday, November 08, 2007 6:36 PM
To: Kornfeld, Warren
Cc: Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael; Gildner, Timothy; Qian, Xufeng (Norah); Das, Ashish; Ding, Yufeng
Subject: FW: Extracting loan level data from the database

Warren,

* Allocated a SAS cruncher machine with significant storage to house, manipulate and analyze the file requested by Tim.
* Created the file of GMAC-RFC Jumbo and ALT-A deals and the loan attributes as per Tim's instruction.
* Introduced Tim to Yufeng Ding (resident Quant and SAS guru): they will begin the analysis tomorrow morning.

BTW,

Just got a call from Debash: he wants to perform a regression analysis on ALT-A deals....and he needs it by Monday. I told him we might be able to leverage Tim's dataset and platform. Briefly, the significant benefit of centralizing these similar efforts means:
* Dataset re-use is maximized;
* Dataset redundancy is minimized;
* the same team is already familiar with the dataset;
* the datasets are synchronized across various efforts
* Similar results result across various teams by using the same formulae for common data items, e.g., WAFICO
* Results can be replicated, stored, archived in a central place for others to use

Tim will provide you an update on JumbAlta drivers tomorrow.

--Thom

-----Original Message-----
From: King, Thom
Sent: Thursday, November 08, 2007 9:29 AM
To: Kornfeld, Warren
Cc: Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael; Gildner, Timothy; Qian, Xufeng (Norah); Das, Ashish

PSI-MOODYS-000035

Subject: RE: Info Request Details

Warren,

Met with Tim, Norah, Ashish, Jody and Felipe regarding the drivers of the performance difference between Jumbo and Alt-A loans. Tim explained his goals, his constraints, his theories and proposals. The team offered suggestions and steps to a solution, albeit intermediary. I will provide a specific data sample recommended by Tim for initial analysis. In addition a comprehensive regression analysis will be performed and overseen by Norah and Ashish. The meeting concluded that this was a non-trivial exercise and care must be taken for an accurate conclusion.

--Thom

-----Original Message-----
From: King, Thom
Sent: Wednesday, November 07, 2007 1:58 PM
To: Gildner, Timothy
Cc: Kornfeld, Warren; Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael
Subject: RE: Info Request Details

Tim,

This is an excellent start. Back to you in an hour.

Thom

-----Original Message-----
From: Gildner, Timothy
Sent: Wednesday, November 07, 2007 1:48 PM
To: King, Thom
Cc: Kornfeld, Warren; Weill, Nicolas; Rasch, Jody; Shrivastava, Amita; Kanef, Michael
Subject: Info Request Details

Thom,

To start the conversation, these are loan subsets and variables that we would like to initally analyze. Could you provide some feedback on how large a file this would be and any other information that my be relevant.

Time Period: 2006-2007 originations
Asset Class: Jumbo, Alt-A
Lien: 1st
Negam: No

Variables
Origination Date
Loan ID
Deal ID/Name
Asset Class
Loan Type
Product Type
Index
IO
IO Term

PSI-MOODYS-000036

FICO
LTV
CLTV
Documentation
Purpose
Occupancy
Property
Origination Amount
Appraisal
Maturity Date
Term
Servicing Fee
Property Location (State, ZIPCode??)
DTI
Months PITI
PI Payment
FTHB
And, performance information, 30+, 60+, etc, if possible

Timothy Gildner

-----Original Message-----
From: Gildner, Timothy
Sent: Wednesday, November 07, 2007 1:15 PM
To: King, Thom; Weill, Nicolas; Rasch, Jody; Kornfeld, Warren; Shrivastava, Amita
Cc: Kanef, Michael; Stein, Roger; Das, Ashish; Qian, Xufeng (Norah)
Subject: FW: Extracting loan level data from the database

Thom,

Thank you for the assistance.

Could we set up a time to discuss in further detail the data that Moodys has and the data that you sent. What we currently have will not help us with the necessary research.

Specifically, we are looking at variables like DTI, which I am unable to locate in the file. I also understand your concern with the size of the file, and there is information such as balloondate, capincrease, etc. which could be removed. More importantly, the file does not appear to be delimited in a way that I can readily parse or upload.

I think if we better understood all the options available to us, we could provide your team with better instructions and more effectively work together to get our arms around the jumbo space.

Let me know,
tim

-----Original Message-----
From: King, Thom
To: Weill, Nicolas; Rasch, Jody; Kornfeld, Warren; Shrivastava, Amita
CC: Stein, Roger; Gildner, Timothy; Das, Ashish; Qian, Xufeng (Norah); Kanef, Michael
Sent: Tue Nov 06 18:58:51 2007

PSI-MOODYS-000037

Subject: RE: Extracting loan level data from the database

Tim,

Here ya go: \\mdynycnetapp01\sfgmonitor\gildner

Thom

-----Original Message-----
From: Weill, Nicolas
Sent: Tuesday, November 06, 2007 5:47 PM
To: Rasch, Jody; Kornfeld, Warren; Shrivastava, Amita; King, Thom
Cc: Stein, Roger; Gildner, Timothy; Das, Ashish; Qian, Xufeng (Norah); Kanef, Michael
Subject: RE: Extracting loan level data from the database

Why not give the raw data to Warren's team and let them do whatever they want with the data?

Jody: can we do that?

Nicolas

-----Original Message-----
From: Rasch, Jody
Sent: Tuesday, November 06, 2007 5:45 PM
To: Kornfeld, Warren; Shrivastava, Amita; King, Thom
Cc: Stein, Roger; Gildner, Timothy; Das, Ashish; Qian, Xufeng (Norah); Kanef, Michael; Weill, Nicolas
Subject: Re: Extracting loan level data from the database

Warren,

In addition to the analysis issue typically the amount of data needed to be transfered is difficult for other systems to handle. It is preferable and I think it has worked better if you let Thom run whatever queries you want. In addition that makes it easier to do similar queries in the future.

We have found that this is more efficient for us and for the analysts.

Jody

-----Original Message-----
From: Kornfeld, Warren
To: Rasch, Jody; Shrivastava, Amita; King, Thom
CC: Stein, Roger; Gildner, Timothy; Das, Ashish; Qian, Xufeng (Norah); Kanef, Michael; Weill, Nicolas
Sent: Tue Nov 06 17:10:52 2007
Subject: RE: Extracting loan level data from the database

Jody,

PSI-MOODYS-000038

We appreciate your help, however, in light of how busy your team is and in light of time, let's have Thom provide the loan level data to Amita that she is requesting. Then, to the extent that your group has time, we would welcome your input.

The first cut of loan level data would be Jumbo and Alt A loans originated in 2005 and 2006. The loan level info would include key origination characteristics (FICO, loan size, type characteristics, purpose, DTI, LTV, CLTV, . . .), plus key performance characteristics (current status, amount of loss if any, date of loss, prepayment date, . . .). I will have Amita and Tim follow up with you on the specific fields that they are looking for

Thanks for the help

Warren

-----Original Message-----
From: Rasch, Jody
Sent: Tuesday, November 06, 2007 4:11 PM
To: Shrivastava, Amita; King, Thom
Cc: Stein, Roger; Kornfeld, Warren; Gildner, Timothy; Das, Ashish; Qian, Xufeng (Norah)
Subject: RE: Extracting loan level data from the database

Amita,

Rather than just doing a data dump what has worked successfully in the past is to develop a research plan where we not only search the data but also help define what the relevant variables are and how to filter for non-relevant factors. As we have the quantitative resources to help with this process, it would be helpful to work together on this project.

If you would like to move ahead in this manner, lets set up a meeting and develop a research plan and timetable that meets your objectives.

Jody

-----Original Message-----
From: Shrivastava, Amita
Sent: Tuesday, November 06, 2007 3:31 PM
To: King, Thom
Cc: Rasch, Jody; Stein, Roger; Kornfeld, Warren; Gildner, Timothy
Subject: Extracting loan level data from the database

Thom,

As per our discussion earlier today we need to extract loan level data from the 2006 closing tapes database to do different analyses at our end (See Tim's email below for details on the kind of analysis we are looking to do). We are looking for loan attributes that are available in the tapes as well as performance information for the subsets that we will identify. We want to be able to extract the information and dump it into another software which will be used for analysis. Please let us know what is the best way of going about this. We need to get started on the analysis right away so we are hoping to expedite the data extraction process. Please advise.

Thanks.

Amita

PSI-MOODYS-000039

x8730

-----Original Message-----
From: Gildner, Timothy
Sent: Tuesday, November 06, 2007 2:21 PM
To: Shrivastava, Amita
Subject:

Goal.

To determine the attributes that distinguish Alt-A from Jumbo loans.

Initial process:
To group by common attributes, such as FICO, LTV, documentation, purpose, etc, and see if loans coming from traditional jumbo and alt-a shelves have different DTI, MSA, or other variables that could result in the performance difference.

Then,
Look at actual performance and with stat tools and regression analysis determine what variables are driving the difference in performance.

Data that we need.
All jumbo alt-a originations to date.
Specifically, we would initally only look at 720+ FICO, full documentation, 70-80 LTV, primary residence. Then, we would expand and contract the data depending on our findings

Tools,
We thought using rapid SQL (moody's standard) to retreive the data, and then our own tools (MySQL, SAS, etc.) to house and analyze the data.

Also amita, I used to use SAS if that helps, I know someone here asked for it before.

Timothy Gildner
Moody's Investors Service
7 World Trade Center at 250 Greenwich Street
Asset Finance Group - 24th Floor
New York, NY 10007
Tel: 212.553.2919
Fax: 212.298.6909
timothy.gildner@moodys.com

PSI-MOODYS-000040

DATE: 11/28/2007
TIME: 16:51:33 GMT
AUTHOR: Stein, Roger
RECEIPIENT: Kimball, Andrew; Kanef, Michael; Weill, Nicolas
CC:
SUBJECT: Re: Moody's Follow Up

Perhaps we can chat for a few minutes?

-----Original Message-----
From: Kimball, Andrew
To: Stein, Roger; Kanef, Michael; Weill, Nicolas
Sent: Wed Nov 28 10:34:56 2007
Subject: RE: Moody's Follow Up

We should avoid ad hoc rules.
Can you mention an instance?

-----Original Message-----
From: Stein, Roger
Sent: Wednesday, November 28, 2007 10:19 AM
To: Kimball, Andrew; Kanef, Michael
Subject: Re: Moody's Follow Up

It seems, though, that the more of the ad hoc rules we add, the further away from the data and models we move and the closer we move to building models that ape analysts expectations, no?

-----Original Message-----
From: Kimball, Andrew
To: Stein, Roger; Kanef, Michael
Sent: Wed Nov 28 10:00:08 2007
Subject: RE: Moody's Follow Up

Clearly the latter. That said, any usual rules and adjustments should be in the model.

-----Original Message-----
From: Stein, Roger
Sent: Wednesday, November 28, 2007 9:58 AM
To: Kimball, Andrew; Kanef, Michael
Subject: Fw: Moody's Follow Up
Importance: High

Is the goal for analysts results to be the same as M3 or for M3 to be an input into an informed decision?

-----Original Message-----
From: Slicklein, Kelly
To: Stein, Roger; Rasch, Jody; McKenna, Mark; Little, David
Sent: Wed Nov 28 09:51:05 2007
Subject: FW: Moody's Follow Up

I have removed Ariel from this email as I would like to provide a few marketing related details. Accredited is currently trialing the M3 Subprime model. I have been working with them for over a year to get them to take a look at the tool. I'm sure you can understand that with current market conditions it is extremely difficult to have companies commit to a subscription of M3. I have been trying to sell against these horrible market conditions and have had some success. Unfortunately when we add the fact that M3 does not provide much value to a client when they are primarily looking for transparency in the rating process it makes the sale of the model virtually impossible.

Permanent Subcommittee on Investigations
EXHIBIT #44

PSI-MOODYS-000015

-----Original Message-----
From: Slicklein, Kelly
Sent: Wednesday, November 28, 2007 9:34 AM
To: Weil, Ariel; Rasch, Jody; Fishenfeld, Lisa
Cc: McKenna, Mark; Little, David; Stein, Roger; Lacouture, Isabelle
Subject: FW: Moody's Follow Up
Importance: High

Can you please take a look at the results attached? These levels have been provided to us from Accredited who is currently utilizing M3. The difference between the levels produced by M3 Subprime and what our analysts are reporting ranges from 33%-37%. As per Accredited: 'Our primary concern is the relevance of the model when the model results vary widely from those provided by Moody's post committee. It loses a lot of value as a decision making tool when you can't rely on the results with any confidence.'

Should the levels provided by the model be this far off from what our analysts are reporting? This is a concrete example of why we need to incorporate as many of the qualitative pieces of the rating process as possible into the calculations of the model regardless of whether they may change over time. A prime example would be the 10% increase in loss projections for newly originated loans. If this 10% hit is consistently applied to the results provided by M3 then it should be incorporated into the model. Companies are not looking to make adjustments outside of the tool. They are utilizing the model first and foremost to increase transparency in the rating process. When the levels provided by the model are vastly different than what our analysts are reporting then the tool's value greatly diminishes.

Any insight you can provide to the results attached would be extremely helpful.

Thank you,

Kelly

PSI-MOODYS-000016

From: Barnes, Susan
Sent: Friday, July 22, 2005 1:50 PM
To: Byrnes, Bernard
Subject: FW: Washington Mutual

-----Original Message-----
From: Michael Blomquist [mailto:michael@resourcerealty.com]
Sent: Monday, June 27, 2005 4:12 PM
To: Barnes, Susan
Subject: Washington Mutual

Hello Susan,

I saw you today on CNBC and the reason for my email is that I am extremely afraid of the seeds of destruction the financial markets have planted. I have contacted the OTS, FDIC and others and my concerns are not addressed. I have been a mortgage broker for the past 13 years and I have never seen such a lack of attention to loan risk. I am confident our present housing bubble is not from supply and demand of housing, but from money supply. In my professional opinion the biggest perpetrator is Washington Mutual.

1) No income documentation loans.
2) Option ARMS (negative amortization). on over-leveraged collateral.
2b) Interest income on negative amortization is not taxed, but booked as revenue. Increase in loan balance shows as an increase on balance sheet and loan losses are not increased. Looks great for financials, but terrible for bank depositors.
2c) Option ARMS are funded and held from depositors. (huge risk to FDIC)
3) Option ARMS make up 90% of Bay Area loans in CA.
4) WAMUs recent bid for Providian is the purchase of another highly leveraged/securitized bank.
5) 100% financing loans.

I have seen instances where WAMU approved buyers for purchase loans; where the fully indexed interest only payments represented 100% of borrower's gross monthly income. We need to put a stop to this madness!!!

Best wishes,

Michael Blomquist
408[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Permanent Subcommittee on Investigations
EXHIBIT #45

PSI-SP-000395

From: Richard Koch [rwkoch@operamail.com]
Sent: Saturday, September 02, 2006 4:30 PM
To: Mackey, Robert; Gutierrez, Michael
Cc: michael_Gutierrez@sandp.com
Subject: RE: Nightmare Mortgages

Saw a long t.v. advertisement this morning from Freedom Financial on reverse mortgages . . . their pitch man is James Garner. Must of cost some bucks . . . it was well-produced.

> ----- Original Message -----
> From: "Mackey, Robert" <robert_mackey@standardandpoors.com>
> To: "Richard Koch" <rwkoch@operamail.com>, Michael_Gutierrez@standardandpoors.com
> Subject: RE: Nightmare Mortgages
> Date: Sat, 2 Sep 2006 10:01:04 -0400
>
>
> This is frightening. It wreaks of greed, unregulated brokers, and
> "not so prudent" lenders. However, some borrowers are at fault as
> well. When I first heard of this product, just two years ago, I
> thought it might work for a small niche of the housing market.
> That's where it should have remained:
>
> Option ARMs were created in 1981 and for years were marketed to
> well-heeled home buyers who wanted the option of making low
> payments most months and then paying off a big chunk all at once.
> For them, option ARMs offered flexibility.
>
> Hope our friends with large portfolios of these mortgages are
> preparing for the inevitable.
>
>
>
> -----Original Message-----
> From: Richard Koch [mailto:rwkoch@operamail.com]
> Sent: Friday, September 01, 2006 10:17 PM
> To: Michael_Gutierrez@sandp.com
> Cc: Robert_Mackey@sandp.com
> Subject: Nightmare Mortgages
>
>
> Interesting Business Week article on Option ARMs, quoting anecdotes
> involving some of our favorite servicers (It's no wonder
> Homecomings is under FTC scrutiny; could WAMU be next?). Also
> includes a brief quote from Tom Marano.
>
>
> Nightmare Mortgages
> They promise the American Dream: A home of your own -- with
> ultra-low rates and payments anyone can afford. Now, the trap has
> sprung
>
>
> For cash-strapped homeowners, it was a pitch they couldn't refuse:
> Refinance your mortgage at a bargain rate and cut your payments in
> half. New home buyers, stretching to afford something in a
> super-heated market, didn't even need to produce documentation,
> much less a downpayment.
>
> Those who took the bait are in for a nasty surprise. While many

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EXHIBIT #46a

PSI-SP-000116

> Americans have started to worry about falling home prices,
> borrowers who jumped into so-called option ARM loans have another,
> more urgent problem: payments that are about to skyrocket.
>
> Slide Show >>
> The option adjustable rate mortgage (ARM) might be the riskiest and
> most complicated home loan product ever created. With its
> temptingly low minimum payments, the option ARM brought a whole new
> group of buyers into the housing market, extending the boom longer
> than it could have otherwise lasted, especially in the hottest
> markets. Suddenly, almost anyone could afford a home -- or so they
> thought. The option ARM's low payments are only temporary. And the
> less a borrower chooses to pay now, the more is tacked onto the
> balance.
>
> The bill is coming due. Many of the option ARMs taken out in 2004
> and 2005 are resetting at much higher payment schedules -- often to
> the astonishment of people who thought the low installments were
> fixed for at least five years. And because home prices have leveled
> off, borrowers can't count on rising equity to bail them out.
> What's more, steep penalties prevent them from refinancing. The
> most diligent home buyers asked enough questions to know that
> option ARMs can be fraught with risk. But others, caught up in real
> estate mania, ignored or failed to appreciate the risk.
>
> There was plenty more going on behind the scenes they didn't know
> about, either: that their broker was paid more to sell option ARMs
> than other mortgages; that their lender is allowed to claim the
> full monthly payment as revenue on its books even when borrowers
> choose to pay much less; that the loan's interest rates and
> up-front fees might not have been set by their bank but rather by a
> hedge fund; and that they'll soon be confronted with the choice of
> coughing up higher payments or coughing up their home. The option
> ARM is "like the neutron bomb," says George McCarthy, a housing
> economist at New York's Ford Foundation. "It's going to kill all
> the people but leave the houses standing."
>
> Because banks don't have to report how many option ARMs they
> underwrite, few choose to do so. But the best available estimates
> show that option ARMs have soared in popularity. They accounted for
> as little as 0.5% of all mortgages written in 2003, but that shot
> up to at least 12.3% through the first five months of this year,
> according to FirstAmerican LoanPerformance, an industry tracker.
> And while they made up at least 40% of mortgages in Salinas,
> Calif., and 26% in Naples, Fla., they're not just found in
> overheated coastal markets: Through Mar. 31 of this year, at least
> 51% of mortgages in West Virginia and 26% in Wyoming were option
> ARMs. Stock and bond analysts estimate that as many as 1.3 million
> borrowers took out as much as $389 billion in option ARMs in 2004
> and 2005. And it's not letting up. Despite the housing slump,
> option ARMs totaling $77.2 billion were written in the second
> quarter of this year, according to investment bank Keefe, Bruyette
> & Woods Inc.
>
> The First Wave
> After prolonging the boom, these exotic mortgages could worsen the
> bust. They also betray such a lack of due diligence on the part of
> lenders and borrowers that it raises questions of what other
> problems may be lurking. And most of the pain will be borne by
> ordinary people, not the lenders, brokers, or financiers who
> created the problem.

PSI-SP-000117

>
> Gordon Burger is among the first wave of option ARM casualties. The
> 42-year-old police officer from a suburb of Sacramento, Calif., is
> stuck in a new mortgage that's making him poorer by the month.
> Burger, a solid earner with clean credit, has bought and sold
> several houses in the past. In February he got a flyer from a
> broker advertising an interest rate of 2.2%. It was an unbeatable
> opportunity, he thought. If he refinanced the mortgage on his
> $500,000 home into an option ARM, he could save $14,000 in interest
> payments over three years. Burger quickly pulled the trigger,
> switching out of his 5.1% fixed-rate loan. "The payment schedule
> looked like what we talked about, so I just started signing away,"
> says Burger. He didn't read the fine print.
>
> After two months Burger noticed that the minimum payment of $1,697
> was actually adding $1,000 to his balance every month. "I'm not
> making any ground on this house; it's a loss every month," he says.
> He says he was told by his lender, Minneapolis-based Homecoming
> Financial, a unit of Residential Capital, the nation's
> fifth-largest mortgage shop, that he'd have to pay more than
> $10,000 in prepayment penalties to refinance out of the loan. If
> he's unhappy, he should take it up with his broker, the bank said.
> "They know they're selling crap, and they're doing it in a way
> that's very deceiving," he says. "Unfortunately, I got sucked into
> it." In a written statement, Residential said it couldn't comment
> on Burger's loan but that "each mortgage is designed to meet the
> specific financial needs of a consumer."
>
> The loans certainly meet the needs of banks. Option ARMs offer
> several payment choices each month. Among Burger's alternatives
> were one for $2,524, about what a standard fixed-rate mortgage
> would be on the new amount, and the $1,697 he pays. Why would his
> bank make the minimum so low? Thanks to a perfectly legal
> accounting practice, no matter how little Burger pays each month,
> the bank gets to record the full amount.
>
> Option ARMs were created in 1981 and for years were marketed to
> well-heeled home buyers who wanted the option of making low
> payments most months and then paying off a big chunk all at once.
> For them, option ARMs offered flexibility.
>
> So how did these unusual loans get into the hands of so many
> ordinary folks? The sequence of events was orderly and even
> rational, at least within a flawed system. In the early years of
> the housing boom, falling interest rates made safe fixed-rate loans
> attractive to borrowers. As home prices soared, banks pushed
> adjustable-rate loans with lower initial payments. When those got
> too pricey, banks hawked loans that required only interest payments
> for the first few years. And then they flogged option ARMs -- not
> as financial-planning tools for the wealthy but as affordability
> tools for the masses. Banks tapped an army of unregulated mortgage
> brokers to do what needed to be done to keep the money flowing,
> even if it meant putting dangerous loans in the hands of people who
> couldn't handle or didn't understand the risk. And Wall Street
> greased the skids by taking on much of the new risk banks were
> creating.
>
> Now the signs of excess are crystal clear. Up to 80% of all option
> ARM borrowers make only the minimum payment each month, according
> to Fitch Ratings. The rest of the money gets added to the balance
> of the mortgage, a situation known as negative amortization. And

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> once balances grow to a certain amount, the loans automatically
> reset at far higher payments. Most of these borrowers aren't paying
> down their loans; they're underpaying them up.
>
> Yet the banking system has insulated itself reasonably well from
> the thousands of personal catastrophes to come. For one thing,
> banks can sell some of their option ARMs off to Wall Street, where
> they're packaged with other, better loans and re-sold in chunks to
> investors. Some $182 billion of the option ARMs written in 2004 and
> 2005 and an additional $83 billion this year have been sold,
> repackaged, rated by debt-rating agencies, and marketed to
> investors as mortgage-backed securities, says Bear, Stearns & Co.
> (BSC)Banks also sell an unknown amount of them directly to hedge
> funds and other big investors with appetites for risk.
>
> The rest of the option ARMs remain on lenders' books, where for now
> they're generating huge phantom profits for some lenders. That's
> because, according to generally accepted accounting principles, or
> GAAP, banks can count as revenue the highest amount of an option
> ARM payment -- the so-called fully amortized amount -- even when
> borrowers make only the minimum payment. In other words, banks can
> claim future revenue now, inflating earnings per share.
>
> For many industries, so-called accrual accounting, which lets
> companies book sales when they contract for them rather than when
> they receive the cash, makes sense. The revenues will eventually
> come. But accrual accounting doesn't apply well to option ARMs,
> since it's more difficult to know if unpaid interest will ever
> cross a banker's desk. "This is basically an IOU that may never get
> paid," says Robert Lacoursiere, an analyst at Banc of America
> Securities. James Grant of Grant's Interest Rate Observer recently
> wrote that negative-amortization accounting is "frankly a
> fraudulent gambit. But what it lacks in morality, it compensates
> for in ingenuity." The Financial Accounting Standards Board, which
> is responsible for keeping GAAP up to date, stands by its standard
> but told BusinessWeek in a written statement that it is "concerned
> that the disclosures associated with these types of loans [are] not
> providing enough transparency relative to their associated risks."
>
> Camouflaged Losses
> Risks or not, the accounting treatment is boosting reported profits
> sharply. At Santa Monica (Calif.)-based FirstFed Financial Corp.
> (FED), "deferred interest" -- what an outsider might call phantom
> income -- made up 67% of second-quarter pretax profits. FirstFed
> did not respond to requests for comment. At Oakland (Calif.)-based
> Golden West Financial Corp. (GDW), which has been selling option
> ARMs for two decades, deferred interest made up about 59.6% of the
> bank's earnings in the first half of 2006. "It's not the loan
> that's the problem," says Herbert M. Sandler, CEO of World Savings
> Bank, parent of Golden West. "The problem is with the quality of
> the underwriting."
>
> In the middle of one of the hottest U.S. markets, Coral Gables
> (Fla.)-based BankUnited Financial Corp. (BKUNA) posted a $14.8
> million loss for the quarter ended June, 2005. Yet it reported
> record profits of $23.8 million for the quarter ended in June of
> this year -- $20.9 million of which was earned in deferred
> interest. Some 92% of its new loans were option ARMs. Humberto L.
> Lopez, chief financial officer, insists the bank underwrites
> carefully. "The option ARMs have gotten a bit of a raised eyebrow
> because we generate and book noncash earnings. But...it's our

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> money, and we do feel comfortable we'll get it back."
>
> Even the loans that blow up can be hidden with fancy bookkeeping.
> David Hendler of New York-based CreditSights, a bond research shop,
> predicts that banks in coming quarters will increasingly move weak
> loans into so-called held-for-sale accounts. There the loans will
> sit, sequestered from the rest of the portfolio, until they're sold
> to collection agencies or to investors. In the latter case, a
> transaction on an ailing loan registers on the books as a trading
> loss, gets mixed up with other trading activities and -- presto! --
> it vanishes from shareholders' sight. "There are a lot of ways to
> camouflage the actual experience," says Hendler.
>
> There's no way to camouflage what Harold, a former computer
> technician who asked BusinessWeek not to publish his last name, is
> about to face. He's disabled and has one source of income: the
> $1,600 per month he receives in Social Security disability
> payments. In September, 2005, Harold refinanced out of a fixed-rate
> mortgage and into an option ARM for his $150,000 home in Chicago.
> The minimum monthly payment for the first year is $899, which he
> can afford. The interest-only payment is $1,329, which he can't.
> The fully amortized payment is $1,454, which his lender, Washington
> Mutual (WM), gets to count on its books. WaMu, no fly-by-night
> operation, said it couldn't comment on Harold's case, citing
> confidentiality issues. A spokesman says the bank "accounts for its
> option ARM product in accordance with generally accepted accounting
> principles." WaMu has about $12 billion in loans negatively
> amortizing right now, up from $2.5 billion in 2005, estimates
> CreditSights' Hendler. In a written statement, WaMu said "borrowers
> who request an adjustable loan with payment options should
> understand those options and potential adjustments throughout the
> life of the loan. We make detailed disclosures to customers that
> are designed to develop a more informed consumer of mortgage
> products and ensure that our customers are comfortable with the
> loan products they select."
>
> Hard Sell
> To get the deals done, banks have turned increasingly to
> unregulated mortgage brokers, who now account for 80% of all
> mortgage originations, double what it was 10 years ago, according
> to the National Association of Mortgage Brokers. In 2004 banks
> began offering fatter sales commissions on option ARMs to encourage
> brokers to push them, says Gail McKenzie, assistant U.S. attorney
> in Atlanta, who is investigating mortgage brokers for improper
> practices.
>
> The problem, of course, is that many brokers care more about
> commissions than customers. They use aggressive sales tactics,
> harping on the minimum payment on an option ARM and neglecting to
> mention the future implications. Some even imply verbally that
> temporary teaser rates of 1% to 2% are permanent, even though the
> fine print says otherwise. It's easy to confuse borrowers with
> option ARM numbers. A recent Federal Reserve study showed that one
> in four homeowners is mystified by basic adjustable-rate loans. Add
> multiple payment options into the mix, and the mortgage game can be
> utterly baffling.
>
> Billy and Carolyn Shaw are among the growing ranks of borrowers who
> have taken out loans they say they didn't understand. The retired
> couple from the Salinas (Calif.) area needed to tap about $50,000
> in equity from their $385,000 home to cover mounting expenses.

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> Billy, 66, a retired mechanic, has diabetes. Carolyn, 61, has been
> caring for her grandchildren, 10-year-old twins, since her
> daughter's death in 2000. The Shaws have a fixed income of $3,000 a
> month that will fall by about $1,000 in November after Billy's
> disability benefits run out. Their new loan's minimum payment of
> about $1,413 is manageable so far, but the fully amortized amount
> of about $3,329 is out of the question. In a little over a year,
> they've added some $8,500 to their loan balance and now face a big
> reset if they continue to pay only the minimum. "We didn't totally
> understand what was taking place," says Carolyn. "You have to pay
> attention. We didn't, and we're really stuck here." The Shaws'
> lender, Golden West, says it routinely calls customers to ask them
> if they are happy and understand their mortgage loan.
>
> Then there's the illegal stuff. Mortgage fraud is one of the
> fastest-growing white-collar crimes in the nation, costing $1
> billion in 2005, double the year before. A slower housing market
> could foster more wrongdoing. "With a tighter market, you are going
> to find there is more incentive to manipulate," says Tim Irvin of
> Irvin Investigations & Research Services in Spring, Texas. "Brokers
> are having a harder time getting business, so they're getting
> creative."
>
> Concerns like these haven't curbed Wall Street's hunger for option
> ARMS. "At a price, you can originate or sell anything," says Thomas
> F. Marano, global head of mortgage and asset-backed securities at
> Bear Stearns. Hedge funds have been particularly active, buying
> risky loans directly from banks and cutting out the bundlers in the
> middle. Kathleen C. Engel, an associate professor of law at
> Cleveland-Marshall College of Law at Cleveland State University,
> says Wall Street and hedge fund money has helped to finance
> widespread lending abuses, particularly among the most vulnerable
> borrowers.
>
> Pros Go Unscathed
> Why are hedge funds willing to buy risky loans directly? Because
> they can demand terms that help insulate them from losses. And
> banks, knowing what the hedge funds want in advance, simply take it
> out of the hides of borrowers, many of whom qualify for lower rates
> based on their credit histories. "Even if the loan goes bad, [the
> hedge funds are] still making money hand over fist," says Engel.
>
> Eventually, some of it will go sour. But the Wall Street pros who
> buy option ARMs are in the business of managing risk, and no one
> expects widespread losses. They've taken on billons in iffy option
> ARMs, but the loans are no shakier than the billions in emerging
> market debt or derivatives they buy and sell all the time. Blowups
> are factored into the investing decision.
>
> Banks that hold lots of option ARMs on their books will surely be
> hit by loan defaults in coming years. "It's certainly reasonable to
> expect to see some excesses wrung out," says Brad A. Morrice,
> president and CEO of New Century Financial Corp. But even here the
> damage will likely be limited. Banks use insurance and other
> financial instruments to protect their portfolios, and they hold
> real assets -- homes -- as collateral. Christopher L. Cagan,
> director of research and analytics at First American Real Estate
> Solutions, a researcher and unit of title insurer First American,
> forecasts total defaults of $300 billion across all types of loans,
> not just option ARMs, over the next five years -- less than 1% of
> total homeowner equity. (In comparison, JPMorgan Chase & Co. alone

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> has a mortgage portfolio of $182.8 billion.) Cagan estimates that
> banks will end up losing only $100 billion of it all told.
>
> Most of the pain will be born by ordinary people. And it's already
> happening. More than a fifth of option ARM loans in 2004 and 2005
> are upside down -- meaning borrowers' homes are worth less than
> their debt. If home prices fall 10%, that number would double. "The
> number of houses for sale is tripling in some markets, so people
> are not going to get out of their debt," says the Ford Foundation's
> McCarthy. "A lot are going to walk."
>
> Jennifer and Eric Hinz of Somerset, Wis., are feeling the squeeze.
> They refinanced out of a 5.25% fixed-rate, 30-year loan in June,
> 2005, and into an option ARM with a 1% teaser rate from Indymac
> Bank. The $1,483 payment for their original mortgage dropped to as
> low as $747 with the new option ARM. They say they had no idea when
> they signed up, however, that the low payment adds $600 in deferred
> interest to their balance every month. Worse, they thought the 1%
> would last three years, but they're already paying 7.68%. "What
> reasonable human being would ever knowingly give up a 5.25%
> fixed-rate for what we're getting now?" says Eric, 36, who works in
> commercial construction. Refinancing is out because they can't
> afford the $15,000 or so in fees. "I'm paying more, and the
> interest is just going up and up and up," says Jennifer, 34, a
> stay-at-home mom. "I feel like we got totally screwed." They say
> their mortgage broker has stopped returning their phone calls.
> Indymac declined to comment on the loan's specifics.
>
> Stories like these can be found across the socioeconomic spectrum,
> says Allen J. Fishbein, director of Housing & Credit Policy for the
> Consumer Federation of America. In a May focus group, the CFA found
> that option ARM customers at all income levels said the loans were
> the only way they could afford their homes. While many recognized
> that their mortgages could increase, "they professed complete
> surprise that they could increase as much as they could," says
> Fishbein. That lack of diligence will cost them over time.
>
> Not that all option ARM holders go in blindly. While the loans are
> marketed aggressively, plenty of holders know exactly what they're
> getting into. Jon and Meghan Bachman of Portland, Ore., consider
> them wealth-building tools. "We want to own a bunch of houses,"
> says Meghan. "We're hoping for early retirement."
>
> So far they have stayed out of the fire. The couple, who are in
> their 30s, bought their first home, a 100-year-old farm house in
> Portland, Ore., in October, 2005, with a no-money-down loan for
> $200,000 from GreenPoint Mortgage, a unit of NorthFork
> Bancorporation Inc. By May, the value of the house had soared to
> $275,000. Rather than sit tight as their grandparents might have,
> the Bachmans, with an annual household income of $70,000, took out
> a home equity loan to put a $30,000 downpayment on an investment
> property in an up-and-coming neighborhood nearby. They pay a
> minimum of just $825 on their new $191,000 mortgage, and rent the
> house out for $100 more than that. Sooner or later, the payment
> will rise. Then they'll have to raise the rent to stay in the
> black. If the still-strong Portland housing market tanks, they
> could find themselves in deep trouble. It's a risk they say they're
> willing to take.
>
> Public policy has yet to catch up with the new complexities of the
> lending industry. Comptroller of the Currency John C. Dugan, the

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> banking industry's main regulator, wants banks to clean up their
> act. A source inside the federal Office of the Comptroller says
> Dugan intends to raise lending standards, as he did last year on
> credit cards, where super-low minimum payments made it improbable
> that cardholders would ever pay down debts. New guidelines are
> expected this fall.
>
> Fair-housing pundits suggest that mortgage lenders follow the lead
> of the securities industry and require that mortgage borrowers be
> not only eligible for a product but also suitable -- meaning the
> loan won't impose hardship. Says Consumer Federation of America's
> Fishbein: Buyers have to have a "reasonable prospect of being able
> to handle the payments, not at the initial rate, but [assuming] the
> worst-case scenario."
>
> So far, banks have shown little desire to raise their standards. In
> February, Golden West announced it would raise its minimum option
> ARM payment to 2.6% of the loan. In March, Golden West's Sandler
> wrote a nine-page letter to the Office of Thrift Supervision
> decrying the lax lending standards he was seeing. "Foolish lenders
> who eventually stumble under the weight of their missteps will
> bring down innocent borrowers with them and leave the rest of us to
> clean up the mess," he wrote. But on May 7, Golden West announced
> it was selling out to Charlotte (N.C.)-based Wachovia Corp. (WB).
> By June it had dropped its option ARM rate back down to 1.50%.
> Sandler says the rates were changed according to the bank's
> interest rate outlook.
>
> Analyst Frederick Cannon of Keefe Bruyette & Woods says most banks
> don't apologize for their option ARM businesses. "Almost without
> exception everyone says [the option ARM] is a great loan, it's
> plenty regulated, and don't bug us," he says. In an April letter to
> regulators, Cindy Manzettie, chief credit officer for Fifth Third
> Bank in Cincinnati, said it's not the "lender's responsibility to
> help the consumer determine the appropriate payment option each
> month.... Paternalistic regulations that underestimate the
> intelligence of the American public do not work."
>
> --
>

> --

>

From: Highland, Edward
Sent: Tuesday, September 05, 2006 8:21 PM
To: Gutierrez, Michael; Richard Koch
Cc: Mackey, Robert
Subject: RE: Nightmare Mortgages

Had the same feeling. This is deja vu 1980's without the goodwill asset.

Edward B. Highland, Jr.
Director
Standard and Poor's
55 Water Street
42nd Floor
New York, NY 10041-0003

Tel 212-438-1287
Fax 212-438-2662

Edward_Highland@sandp.com
www.stardardandpoors.com

-----Original Message-----
From: Gutierrez, Michael
Sent: Tuesday, September 05, 2006 6:53 PM
To: Highland, Edward; Richard Koch
Cc: Mackey, Robert
Subject: RE: Nightmare Mortgages

Good grief -I had no idea about how GAAP allows the lenders to book the income - I'm surprised the OCC and FDIC doesn't come downharder on these guys- this is like another banking crisis potentially looming!!

-----Original Message-----
From: Highland, Edward
Sent: Tuesday, September 05, 2006 12:28 PM
To: Richard Koch; Gutierrez, Michael
Cc: Mackey, Robert
Subject: RE: Nightmare Mortgages

I smell class-action!

Edward B. Highland, Jr
Director
Structured Finance Ratings
Standard & Poor's
55 Water Street, 42nd Floor
New York, NY 10041-0003
Tel 212-438-1287
Fax 212-438-2662

Permanent Subcommittee on Investigations
EXHIBIT #46b

PSI-SP-000110

From: Gutierrez, Michael
Sent: Friday, October 20, 2006 9:41 AM
To: Koch, Richard; Mackey, Robert; Frie, Steven; Highland, Edward

Pretty grim news as we suspected - note also the "mailing in the keys and walking away" epidemic has begun - I think things are going to get mighty ugly next year!

More Home Loans Go Sour --- Though New Data Show Rising Delinquencies, Lenders Continue to Loosen Mortgage Standards

By Ruth Simon
1,155 words
19 October 2006
The Wall Street Journal
D1
English

MORTGAGE lenders are making it easier to get loans even as the housing market cools -- and as the number of borrowers struggling to make their payments continues to rise, new studies show.

In the latest sign that a cooling housing market and weaker credit standards are beginning to take their toll on borrowers and lenders, the number of past-due mortgages continued to rise in the three months ended Sept. 30, according to data from Equifax Inc. and Moody's Economy.com Inc.

The increase is particularly notable because bad loans normally climb when the economy weakens and job losses rise, leaving more borrowers unable to make their monthly payments. By contrast, the latest increase appears to be more closely tied to looser lending standards, borrowers tapping their equity and slowing home-price growth.

"We're seeing rises in delinquencies and loan losses that are unrelated to what's going on in the job market," says Mark Zandi, chief economist of Moody's Economy.com. "It's very unusual."

Some 2.33% of mortgages were delinquent at the end of the third quarter, the highest level since 2003, according to Equifax and Moody's Economy.com. Among the areas that saw the biggest jump in the delinquency rate since the end of last year were Stockton and Merced, Calif., and Las Vegas-Paradise, Nev. Delinquency rates were highest in McAllen-Edinburg-Mission, Texas; Brownsville-Harlingen, Texas; and Detroit-Livonia-Dearborn, Mich.

A separate report released yesterday by the federal Office of the Comptroller of the Currency found that lenders continued to ease credit standards over the past year.

To be sure, mortgage delinquencies have been at low levels in recent years, and the recent uptick only brings them closer to historical averages. The seasonally adjusted mortgage-delinquency rate reached its most-recent peak of 2.53% in the first quarter of 2002, according to Equifax and Moody's Economy.com.

The latest news comes amid increasing concerns that lenders have been loosening their standards in an

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effort to boost loan volume as refinancings and home purchases wane. In a speech to the American Bankers Association this week, Comptroller of the Currency John Dugan noted that bank regulators have seen a "significant easing" of mortgage lending standards this year, even though banks normally tighten standards when the housing market cools. "We don't want to see the lending decisions bankers make today result in excessive foreclosures -- and reduced affordable housing credit -- tomorrow," he said.

The Comptroller's report found that competitive pressures are driving many banks to further loosen their credit standards. More than one-third of the lenders relaxed their standards for home-equity loans in the 12 months ended this March, according to bank examiners, while less than 5% tightened their standards.

Over the same period, 26% eased their mortgage-lending standards, most often by increasing the use of nontraditional mortgage products. These include loans that allow borrowers to pay interest and no principal in the early years or make a minimum payment that can lead to a rising loan balance. Yesterday, regulators released a booklet designed to help consumers understand these exotic mortgage products.

"We have reason to believe that the amount of easing we saw back in March is continuing," says Kathryn Dick, deputy comptroller for credit and market risk at the OCC. Federal bank regulators have been stepping up their scrutiny of residential mortgage lending by large banks, she says, with a particular focus on banks that lend heavily in cooling housing markets.

There are signs that some lenders are beginning to pull back. Last week, New Century Financial Corp. said it would begin tightening lending guidelines for adjustable-rate mortgages sold to "at-risk" borrowers. The company also said it would offer the option of refinancing into a low-fee 30-year or 40-year fixed-rate mortgage to certain borrowers with adjustable-rate or interest-only loans held by the company.

Agencies that counsel homeowners with mortgage problems say that many borrowers are running into problems because of the terms of their loans, not their personal circumstances. "It's mostly people with adjustables" who are having trouble paying their loans, says Pam Canada, executive director of the NeighborWorks HomeOwnership Center in Sacramento, Calif.

David M. Crosby, a Las Vegas bankruptcy attorney, says he has seen a "surge" in borrowers with mortgage problems. "Most of it is [tied to] the end of the housing boom, but I do see a good percentage of clients who got caught by a change in their mortgage rates." In addition, some clients "bought a number of speculative homes," he says. "The market turned on them, and now they are in a real financial mess."

Some homeowners are calling it quits. "A surprising number of people are walking away from their homes rather than trying to save them," says Mr. Crosby, either because the rate on their loan has jumped or because they owe more than the home is worth.

While the number of bad loans remains manageable, higher loan losses could force lenders to cut back on credit, making it more difficult for some borrowers to get a loan. A spike in foreclosures could also help push home prices downward in some markets if lenders were forced to sell significant numbers of homes at a loss.

Absent a recession and job losses, the rise in delinquencies is unlikely to have an impact on the national economy, says Doug Duncan, chief economist of the Mortgage Bankers Association. But an increase in

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bad loans could hurt some local housing markets, "especially if you see home price declines," he says.

An analysis by Moody's Economy.com found that a weak economy -- as measured by payroll growth -- was the driving factor in less than one-quarter of the metro areas with large increases in delinquencies. Instead, the rise in bad loans was more closely correlated with "mortgage equity withdrawal," a measure of how much cash homeowners have pulled out by refinancing, taking out home-equity loans or selling their homes and pocketing some of the profits, the study found.

Other factors included slowing home-price growth and a high proportion of loans given to borrowers with scuffed credit. The study was based on an analysis of credit records and included late payments on mortgages and home-equity loans and lines of credit.

Michael Gutierrez
Director
Standard & Poor's
Structured Finance
Servicer Evaluations
55 Water Street, 41st Floor
New York, NY 10041-0003
Tel (212) 438-2476
Fax (212) 438-2664

PSI-SP-000133

From: Warner, Ernestine
Sent: Thursday, October 26, 2006 1:30 PM
To: Pollsen, Robert
Subject: RE: Home Prices Keep Sliding; Buyers Sit Tight - Wall Street Journal - 10/26/2006
bob, just curious...are there ever any positive repots on the housing market? I think this information need to be balanced with other view points (my general feeling).

Ernestine

-----Original Message-----
From: Pollsen, Robert
Sent: Thursday, October 26, 2006 10:11 AM
To: Agbabiaka, Taoheed; Avant-Koger, Paula; Clarke, Lisa; Consul, Manish; Davey, Scott; Giudici, Andrew; Graffeo, Michael; Joyce, Kristymarie; Kim, Min; Mahabir, Lal; Rao, Asha; Ren, Chuye; Rivera, Jessica; Rivera, John; Warner, Ernestine; Young, Steven
Cc: Albergo, Leslie; Kostiw, Karen; Mcdermott, Gail; Osterweil, Terry; Stock, Michael; Tencer, Steve; Warrack, Thomas
Subject: Home Prices Keep Sliding; Buyers Sit Tight - Wall Street Journal - 10/26/2006

Home Prices Keep Sliding; Buyers Sit Tight

August and September Declines Were Largest in at Least 38 Years; Yanking a Listing in Naples, Fla.

By JAMES R. HAGERTY
October 26, 2006; Page D1

The air continues to seep out of the U.S. housing market, according to the latest data, and some economists are warning that prices will keep declining through much of 2007.

The National Association of Realtors yesterday reported the biggest drop in home prices since the trade group began compiling price data in 1968. Specifically, the association said the median price for home sales completed in September was $220,000, down 2.2% from a year earlier. That matched a revised 2.2% decline in August. In addition to being the largest price drops in at least 38 years, the back-to-back declines are the first time median home prices have fallen since 1995.

Other data gathered by The Wall Street Journal show large inventories of unsold homes and declining price trends in most major metropolitan areas.

BUYER'S MARKET

* National median home price falls 2.2%.
* Prices fall 7.7% in Massachusetts and 4.8% in Phoenix.
* Inventories decline less than usual in September.
* Seattle shows signs of losing steam.

See details on where 27 major housing markets are headed.

Permanent Subcommittee on Investigations
EXHIBIT #48

PSI-SP-000078

"Housing is still contracting," says Gregory Miller, chief economist at SunTrust Banks Inc. in Atlanta. "We haven't yet found the bottom." Mr. Miller doesn't expect house prices to resume their usual rising trend until 2008.

The latest report is likely to encourage many potential buyers to hold off in the hope of further price declines. "There's no rush," says Robert Cook, a procurement manager living in Whitehall, Pa., who is looking to buy a larger home for his family in Pennsylvania's Lehigh Valley.

Rather than slash their prices, some sellers are taking homes off the market until they see stronger demand. Audrey Heckaman, a pharmaceutical sales representative in Cleveland, bought a new condo in a golfing community in Naples, Fla., in 2004 for $221,000. Early this year, she put it on the market for $429,000. But she found that too many other units in the same development were on the market. After cutting her price to $384,000, she yanked the home from the market in June and found renters for part of the year. In the long run, she figures, demand from retiring baby boomers will drive prices back up.

For those who want to buy now, sellers are dangling lots of incentives. A developer in Dadeland, Fla., near Miami, is offering $5,000 of furniture as an inducement for buyers of new condominiums, says Ronald A. Shuffield, president of the brokerage firm Esslinger-Wooten-Maxwell Inc. Other developers offer to pay some of the fees and other costs usually borne by home purchasers.

Some people who are forced to sell quickly are suffering huge losses. At an auction in Naples last weekend, the highest bid for a three-bedroom lakefront house was $440,000, including commissions and auction fees. The house had sold in July 2005 for $690,000.

Despite the recent drop-off, house prices remain far above the levels of five years ago, and they continue to rise in some areas, including Seattle, Houston and Raleigh, N.C. But they are falling sharply in other places. In Massachusetts, the median price for single-family homes in September was down 8.3% from a year before, according to Warren Group Inc., a publisher and data collector in Boston. In Phoenix, the median price dropped 4.8% in September, the local Realtors association reported.

In some areas, prices are only just beginning to fall back toward realistic levels, says Thomas Lawler, a housing economist in Vienna, Va. He believes that prices could fall more than 10% from their peak levels in markets such as Sacramento, Calif.; San Diego; Las Vegas; Reno, Nev.; Phoenix and parts of northern Virginia and Florida.

Nationwide, sales of previously occupied homes in September were at a seasonally adjusted annual rate of 6.2 million, down 1.9% from August and 14% from a year earlier, the Realtors group reported.

In a mildly positive sign for home sellers, the number of homes listed for sale at the end of September declined 2.4% from a month earlier to 3.75 million. But that was smaller than the usual decline in September, when the resumption of school and the approach of the holidays typically begin to reduce the number of for-sale signs. Over the past decade, inventories of home sales have declined an average of 3.6% in September from the previous month.

Inventories in September were up about 35% from a year earlier. A surge in inventories, fueled partly by investors rushing for the exits, began chilling the housing market in mid-2005 after a five-year boom that more than doubled prices in many areas.

PSI-SP-000079

Despite the spreading weakness in house prices, few experts expect anything approaching a collapse. The economy continues to expand, though at a slower rate, and a recent drop in interest rates helps make mortgage costs more affordable.

To gauge residential real-estate prospects for 27 major metro areas, The Wall Street Journal gathered data on inventories of homes for sale at the end of the second quarter from a variety of local sources; pricing trends based on surveys of real-estate agents by Daniel Oppenheim, an analyst at Banc of America Securities in New York, a unit of Bank of America Corp.; and data on late mortgage payments and job-creation prospects from Moody's Economy.com, a research firm in West Chester, Pa. Employment trends tend to drive demand for housing.

Metropolitan areas with large increases in homes on the market and weak job-growth projections include Detroit, New York and Los Angeles. Inventories have more than doubled from a year earlier in the Miami, Orlando, Tampa and Phoenix metro areas, but strong job and population growth should help to soak up excess supply in the next few years.

Even within metro areas, price trends vary considerably depending on neighborhoods and types of housing. In northern New Jersey, for instance, prices for homes below about $400,000 may start rising again slightly by next spring if interest rates remain around current levels, says Jeffrey Otteau, president of Otteau Valuation Group Inc., an appraisal and research firm in East Brunswick, N.J. At that price level, "there's virtually zero construction," he says. But he says there is such a glut of luxury housing in the area that prices of such homes won't recover before 2008.

Tom Doyle, an agent at Naples Realty Services who compiles market data on his Web site (www.naplesinsider.com), estimates that prices for typical homes in the area are down 15% to 20% from their peak a year ago. Inventory has doubled during that time, but many of the homes on the market are priced so high that they have "only a lottery's chance of selling," he says. Looking ahead to this winter's selling season, Mr. Doyle says he expects prices to be flat to lower because of the large supply of homes for sale.

Where Housing Is Headed

A look at fundamental indicators in 27 major real-estate markets.

METRO AREA/RECENT PRICE TREND[1]		RISE IN HOUSING INVENTORY[2]	EMPLOYMENT OUTLOOK[3]	LOAN PAYMENTS OVERDUE[4]	METRO AREA/RECENT PRICE TREND[1]		RISE IN HOUSING INVENTORY[2]	EMPLOYMENT OUTLOOK[3]	LOAN PAYMENTS OVERDUE[4]
Atlanta	▼	19%	Average	3.83%	**New York**	▼	47%	Weak	2.22%
Boston	NA	22	Weak	2.20	**Orange Cty., Calif.**	NA	134	Average	1.36
Charlotte	▲	NA	Strong	3.36	**Orlando**	▼	133	Very strong	2.20
Chicago	▼	51	Average	2.30	**Philadephia**	▼	34	Weak	2.19
Dallas	▼	13	Very strong	3.90	**Phoenix**	▼	146	Very strong	1.48
Denver	▼	16	Strong	2.74	**Raleigh-Durham**	▲	9	Strong	2.16
Detroit	▼	38	Very weak	3.94	**Sacramento**	▼	47	Average	2.03
Houston	▲	5	Very strong	2.92	**St. Louis**	NA	31	Weak	2.83
Jacksonville	▼	96	Strong	2.43	**San Diego**	▼	52	Average	1.88
Las Vegas	▼	66	Very strong	3.15	**San Francisco**	▼	63	Average	1.11
Los Angeles	▼	121	Weak	1.61	**Seattle**	—	37	Strong	1.36
Miami	▼	177	Strong	2.38	**Tampa**	▼	219	Strong	2.28
Minneapolis	▼	27	Average	2.33	**Washington, D.C.**	▼	69	Average	1.56
Nashville	—	29	Average	3.23					

Note: NA=not available

[1] Price trend compared with prior month, based on a September survey of real estate agents by Banc of America Securities

PSI-SP-000080

Seattle has been one of the strongest markets in recent months but is showing signs of losing s steam as inventories of unsold homes rise. In 17 counties of western and central Washington St covered by the Northwest Multiple Listing Service, the median price in September was up 9.4% a year earlier, the first single-digit increase in two years.

Mike Skahen, owner of real-estate brokerage Lake & Co. in Seattle, says inventory is still lean ir good neighborhoods near the area's biggest employers. But the overall market is slowing to a m normal pace as "buyers are feeling they can be more selective."

Houston's market is benefiting from job growth at energy and technology companies and draws newcomers because of its low home prices. The median price in the second quarter was $152,7 compared with a national median of $227,500, according to the National Association of Realtors

In North Carolina, Charlotte, Raleigh and some other areas have been strong lately as moderate weather and relatively low housing costs attract employers and retirees. Pat Riley, president of / Tate Realtors in Charlotte, has noticed increasing numbers of people moving to North Carolina f Florida to flee congestion and high housing and insurance costs. One hitch: Some people movir Charlotte are having trouble selling their homes elsewhere and so are delaying purchases.

The median price of new and previously occupied homes sold in the eight-county Charlotte regi was $182,000 in the third quarter, up 6% from a year earlier, according to Market Opportunity Research Enterprises, a research firm in Rocky Mount, N.C. But the Charlotte market may be starting to cool a bit. The Charlotte Regional Realtors Association reported that home sales in September slipped 2% from a year earlier, while the average price edged down 0.2%.

The California Association of Realtors last week forecast that the median home price in the state slip 2% to $550,000 in 2007, after rising 7% in 2006 and 16% in 2005. That would mark the first California-wide decline since 1996. California's last house-price slump lasted from 1992 through 1996.

Leslie Appleton-Young, the California Realtors' chief economist, says she doesn't expect the cu downturn to be as severe as the one in the 1990s because she thinks the job market will be hea this time. Many people don't need to sell and will withdraw their homes from the market until der recovers, she says. Still, she adds, some investors who bought near the top and took on too mu debt "are going to get into trouble."

---- Michael Corkery contributed to this

Write to James R. Hagerty at bob.hagerty@wsj.com

PSI-SP-000081

From: Highland, Edward
Sent: Tuesday, February 27, 2007 4:52 PM
To: Gutierrez, Michael; Koch, Richard
Cc: Frie, Steven; Mackey, Robert
Subject: RE: Data sharing between surveillance and servicer evaluations

Agree. Also remember, our data is the aggregrate and most of the deals alledgely have better (cough, cough) subprime loans. Therefore, would the cure rate for the "better loans" be greater? Hummm. Something to dr/th-ink about or both.

From: Gutierrez, Michael
Sent: Tuesday, February 27, 2007 4:45 PM
To: Highland, Edward; Koch, Richard
Cc: Frie, Steven; Mackey, Robert
Subject: RE: Data sharing between surveillance and servicer evaluations

Ed:

I'm just thinking if they are assuming 100% of foreclosures go REO and we know from SEAM data that 40% foreclosures on average cure and go back to performing it seems odd that S&P would still use the incorrect assumptions in running cashflows - I would scratch my head as an investor

-----Original Message-----
From: Highland, Edward
Sent: Tuesday, February 27, 2007 2:11 PM
To: Koch, Richard; Gutierrez, Michael
Cc: Frie, Steven; Mackey, Robert
Subject: RE: Data sharing between surveillance and servicer evaluations

Ern, I believe, is looking for seasoned and transaction data. I agree that they can obtain aggregate trending; however, I don't believe that will help them with deal projections.

Ed

From: Koch, Richard
Sent: Tuesday, February 27, 2007 2:06 PM
To: Gutierrez, Michael
Cc: Frie, Steven; Highland, Edward; Mackey, Robert
Subject: RE: Data sharing between surveillance and servicer evaluations

Perhaps we should give Bob and Ern a general user password for web-SEAM and a tutorial. I think the problem with web-SEAM for them is that the data is aggregate, as Ern pointed out in an earlier e-mail, but as Mike points out they can use the data for trending; I don't mind giving them access to the system...your thoughts....

-----Original Message-----

Permanent Subcommittee on Investigations
EXHIBIT #49

PSI-SP-000067

From: Highland, Edward
Sent: Tuesday, February 27, 2007 1:22 PM
To: Mackey, Robert; Gutierrez, Michael
Cc: Koch, Richard; Frie, Steven
Subject: RE: Data sharing between surveillance and servicer evaluations

I believe the deal docs should disclose the loan level data Surveillance is to receive for each securitization transaction. Surveillance should provide the protocol and data element format as well as timelines so that servicers know what they need to do. With the number different servicing systems used and non-standard transaction codes attempting to compile and correlate data files is daunting.

Ed

From: Mackey, Robert
Sent: Tuesday, February 27, 2007 11:13 AM
To: Gutierrez, Michael
Cc: Koch, Richard; Highland, Edward; Frie, Steven
Subject: RE: Data sharing between surveillance and servicer evaluations

Mike - as I have previously mentioned I think it's important for us to make sure relevant data we receive from our servicers is shared with rmbs surveillance. In particular, the data operational/practical data we receive that should be applied to their analyses, like delinquency trends, forbearance cures, recidivism rates, foreclosure cures, foreclosure timelines, REO liquidation data and timelines, and overall loss rates. I would invite rmbs staff to learn what SEAM is and how they can apply what we get directly from the servicers. It wouldn't be good if rendered opinions/assumptions issued by surveillance differ from data we collect.

-----Original Message-----
From: Gutierrez, Michael
Sent: Tuesday, February 27, 2007 10:34 AM
To: Warner, Ernestine; Chun, Roy; Anderberg, Stephen; Coyne, Patrick; D'Erchia, Peter; Hobbs, Rodney; Thompson, Eric

Cc: Koch, Richard; Frie, Steven; Mackey, Robert; Highland, Edward
Subject: RE: Data sharing between surveillance and servicer evaluations

Yes Ern we will continue working with you and Andrew to see if we have any success getting the LEVELS format data from servicers on your deals -I believe we tried with an initial number of companies with little or no success - we can meet on this again and determine nest steps.

In addition however you may be able to use some of the info we get from SEAM to incorporate in some of your

PSI-SP-000068

assumptions - for instance if our subprime average marketing time is 120 days you can adjust your liquidation time estimate of 180 days accordingly. Also if we know the average foreclosure cure rate for all suborime and prime servicers we can adjust the assumption that all foreclosures go into REO - unless these assumptions are absolute worst possible case scenarios and not meant to reflect industry activity per se

Mike

-----Original Message-----
From: Warner, Ernestine
Sent: Monday, February 26, 2007 6:04 PM
To: Chun, Roy; Anderberg, Stephen; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael; Hobbs, Rodney; Thompson, Eric

Subject: RE: Data sharing between surveillance and servicer evaluations

There are a few items I would like to see reported by the servicers. Since SEAM data is report in the aggregate it is not very useful to me. I need data at the individual pool level (if not loan level). Mike the data fields are in the Levels File Format for RMBS Surveillance that I sent to you and Steve Frie in the past. I will convert the data fields to bullets and share them with the group. Receiving this data would make it possible for us to more accurately project losses on these appreciating assets (well let's hope this continues to be the case).

Ernestine

-----Original Message-----
From: Chun, Roy
Sent: Wednesday, February 21, 2007 5:01 PM
To: Anderberg, Stephen; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael; Hobbs, Rodney; Thompson, Eric; Warner, Ernestine

Subject: Data sharing between surveillance and servicer evaluations

Dear all, as part of the requirements gathering let me know if you have any data needs between surveillance and servicer evaluations.

These can be some bullet point thoughts about what information you want from the other. If some reports already exists please provide a copy.

Mike, when reviewing a servicer what info would

PSI-SP-000069

you like from surveillance to help in your assessment.

For Ernestine, Patrick and Eric, when reviewing a deal what info would you like from SE? What other info would you like or need from SE for any research report? We already have alert requirements captured for when SE takes a action that impacts a servicer on SF deals.

Stephen, anything you want from CDO manager focus group and they want from you?

Please provide feedback by March 1st.

Thank you

Roy

Roy L. Chun
Managing Director
Standard & Poor's
55 Water Street
New York, NY 10041
tel: 212-438-2430
fax: 212-438-2662
e-mail: roy_chun@sandp.com

PSI-SP-000070

From: Giudici, Andrew
Sent: Monday, March 05, 2007 9:31 AM
To: Quinn, William
Cc: Mason, Scott; Warner, Ernestine
Subject: RE: Subprime Vintage Comparison

Bill, We need to make a change to the paragraph below.

2006 Deals May Be Worst Performing In Recent History
The number of~~T~~total and serious delinquencies for the 2006 vintage~~are~~ is consistently higher than the more recent vintages. However, ~~the serious delinquencies (90-plus-days, foreclosure, and REO)2006 deals nearly equal to the 6.0% delinquencies reported for the 2000 vintage after just 12 months of performance~~ the loans in the transactions issued in 2006 have nearly the same level of serious delinquencies after just 12 months of performance as those in the 2000 vintage, which had 6% in serious delinquencies after one year of performance. (Bill, The statement above is no longer true. I think we should take it out and combine the first sentence with the paragraph below.)

Chart 1 contains delinquency information for~~each~~ the 2000-2006 vintages~~in~~ at six- and 12-month intervals. After 12 months of seasoning, the 2006 vintage had approximately 13% in total delinquencies, with 6.65% categorized as seriously delinquent. Comparatively, after one year of performance, ~~D~~delinquencies for the 2006 vintage~~have increased by~~were approximately 13%, 14%, 59%, 94%, 95%, and 41% higher~~when compared with~~ than those~~e~~ for the 2000-2005 vintages, respectively. In addition, serious delinquencies in the 2006 transactions have increased~~by~~ approximately 11%, 22%, 73%, 105%, 113%, and 43% faster than those~~when compared with~~in the 2000-2005 vintages, respectively (see chart 2).

Please let me know if you have any questions.

Thanks,

Andrew

-----Original Message-----
From: Mason, Scott
Sent: Monday, March 05, 2007 7:56 AM
To: Giudici, Andrew
Subject: FW: Subprime Vintage Comparison

FYI

-----Original Message-----
From: Quinn, William
Sent: Friday, March 02, 2007 6:51 PM
To: Mason, Scott
Cc: Bessenoff, Arlene; Warner, Ernestine
Subject: RE: Subprime Vintage Comparison

Scott -

Permanent Subcommittee on Investigations
EXHIBIT #50

PSI-SP-000163

I'm sending you my edits for the 2000 vs. 2006 subprime article.
I've attached 2 versions {1 is tracked, and the other is clean, which is easier to read}

The reason for this: This is a huge topic and your research will get a ton of market exposure/coverage. Given the topic and market relevance, we, as editors, have been asked to raise the bar a little in terms of how material flows and reads. I don't believe I did anything that changed any meaning, but I did try to enhance with some clearer language and added transitions. I also tried to provide more information in your sub-heads and headlines.

We can certainly discuss, and I certainly am only trying to help. Feel free to reject anything I've done that damages/changes meaning or you don't feel is appropriate. {I've cc'd Ernestine Warner because she is working on a separate article on subprime.}

Hope this helps.

Best,

Bill Quinn
SF Editorial
Ext. 37504

<< File: Subprime vintage comparison--BQ1.doc >> << File: Subprime vintage comparison--BQ1clean.doc >>

From: Bessenoff, Arlene
Sent: Friday, March 02, 2007 10:42 AM
To: Quinn, William; Mason, Scott
Cc: Schneider, Michael
Subject: FW: Subprime Vintage Comparison
Importance: High

I am out of the office, but did check in to see e-mails. With this message, I am asking Bill Quinn to assign this article, if it has not already been assigned. Scott, I am concerned that, to my knowledge, we had no advance notice of a piece this size (and priority), especially since we were all in contact with you about the LEVELS article during the week. Going forward, we need advance notice.

Once we assign, we will let you know a reasonable time for editing and publishing, keeping in mind that you would like to get this out soon.

Thank you!

PSI-SP-000164

Arlene

From: Mason, Scott
Sent: Friday, March 02, 2007 7:24 AM
To: Bessenoff, Arlene; Schneider, Michael
Subject: Subprime Vintage Comparison

Hi Arlene and Michael:

Here is another article we would like to have published ASAP. It is a comparison of the 2006 vintage of subprime loans with prior vintages. Please let me know what we can do to help. Thanks.

<< File: 2000 and 2006 Subprime Vintage Comparison 3-2-07 v1.doc >>

M. Scott Mason
Director
Structured Finance Ratings, RMBS
Standard & Poor's
55 Water Street, 40th Floor
New York, NY 10041-0003

212-438-2539 ph
212-438-2661 fx
scott_mason@sandp.com

PSI-SP-000165

From: Rajan, KP
Sent: Friday, March 09, 2007 11:37 AM
To: Kobylinski, Jimmy; Anderberg, Stephen; Muthukrishnan, Ramki
Subject: RE: The Mortgage Mess Spreads; The subprime lending industry is getting hammered, and hedge funds and investment banks are feeling the pain

Thanks Jimmy.

This is like watching a hurricane from FL moving up the coast slowly towards us.

Not sure if we will get hit in full or get trounced a bit or escape without severe damage...

-----Original Message-----
From: Kobylinski, Jimmy
Sent: Friday, March 09, 2007 11:04 AM
To: Anderberg, Stephen; Carrington, Chwan-Jye; Cullen, Brian; Davis, Chris; Hu, Daniel; Joy, Samson; Lewison, Martin; Muthukrishnan, Ramki; Rajan, KP; Scanlin, Kate; Shah, Niyati; Stewart, Ian; Subramanian, Jayashree; Walsh, Tim; Zhang, Jennifer (Lei)

Subject: The Mortgage Mess Spreads; The subprime lending industry is getting hammered, and hedge funds and investment banks are feeling the pain

The Mortgage Mess Spreads; The subprime lending industry is getting hammered, and hedge funds and investment banks are feeling the pain

Mara Der Hovanesian and Matthew Goldstein
1,211 words
8 March 2007
BusinessWeek Online
English

The canaries in the coal mine are keeling over fast. After years of easy profits, the $1.3 trillion subprime mortgage industry has taken a violent turn: At least 25 subprime lenders, which issue mortgages to borrowers with poor credit histories, have exited the business, declared bankruptcy, announced significant losses, or put themselves up for sale. And that's just in the past few months.

Now there's evidence that the pain is spreading to a broad swath of hedge funds, commercial banks, and investment banks that buy, sell, repackage, and invest in risky subprime loans. According to Jim Grant of Grant's Interest Rate Observer, the market is starting to wake up to the magnitude of the problem, entering what he calls the "recognition stage." Says Terry Wakefield, head of the Wakefield Co., a mortgage industry consulting firm: "This is going to be a meltdown of unparalleled proportions. Billions will be lost."

Permanent Subcommittee on Investigations
EXHIBIT #51

PSI-SP-000166

Hedge funds, those freewheeling, lightly regulated investment pools, seem particularly vulnerable. BusinessWeek has learned that $700 million Carrington Capital and $3 billion Greenlight Capital may have gotten badly burned because of their intricate dealings with New Century Financial, a major subprime lender whose stock has plunged 84% in four weeks amid a Justice Dept. investigations into its accounting. Magnetar Capital, a $4 billion fund formed two years ago, may be on shaky ground, too. The question is, how many others may be suffering? "This is a very opaque industry, so no one really knows," says Mark M. Zandi, chief economist and co-founder of Moody's Economy.com (MCO) "My guess is that if you look at the top hedge funds, they're bearing most of the risk."

Bigger Losses
Not that big commercial and investment banks will go unscathed. Citigroup (C), HSBC (HBC), and Countrywide Financial (CFC) have boosted their estimates of losses and warned of credit troubles. Sanford C. Bernstein analyst Brad Hintz predicts that the subprime meltdown will result in earnings reductions for Bear Stearns (BSC), Lehman Brothers (LEH), Goldman Sachs (GS), Merrill Lynch (MER), and Morgan Stanley (MS).

Among hedge funds, Greenwich [Conn.]'s Carrington seems particularly vulnerable. Managed by ex-Citigroup banker Bruce M. Rose, the fund was launched in 2003 with $25 million in seed money from New Century, which owns about a 35% equity stake. Such an intimate tie between a lender and a hedge fund is highly unusual, say analysts. Carrington specializes in turning subprime mortgages into sophisticated bonds called collateralized debt obligations [CDOs] and selling them to other investors. Not surprisingly, New Century is one of Carrington's biggest suppliers, providing 17% of the loans in a recent deal. Another major supplier is Fremont General (FMT), which says it plans to exit the subprime business.

With Carrington on the verge of losing loans from two major providers, the fund, which counts Citigroup as an investor, seems to be in a bind. Rose says he expects the market for subprime loans to pick up again and is in talks with several lenders to buy mortgages. "We have no exposure to New Century as a corporate entity," he says. "Our deals have outperformed just about everything out there."

"Stress Scenario"
One clear loser is David Einhorn, manager of hedge fund Greenlight Capital, who made a big, ill-timed gamble on the subprime sector when he fought his way onto New Century's board last March. Greenlight, which regularly posts double-digit annual gains, is down about 2.5% on the year; its stake in New Century, valued at $109 million at the start of the year, has shrunk to $21 million. Einhorn's seat on New Century's board prohibited him from selling even as the lender warned that it would restate most of its 2006 earnings results and said federal prosecutors are investigating its accounting. Einhorn, through a spokeswoman, declined to comment.

Some on Wall Street point out that Magnetar showed bad timing, too, by entering the subprime arena last year just as the underwriting quality of subprime loans began to deteriorate rapidly [table]. For now, Magnetar isn't showing any outward signs of trouble. A person familiar with the fund says it took steps to minimize its exposure to the subprime market, and a Magnetar spokesman says the fund is doing well.

Other hedge funds that have feasted on mortgage-backed securities will be hit hard if rating agencies start downgrading them, as is widely expected. That would be likely to send their values plummeting. "This is indeed a stress scenario," says Glenn T. Costello, co-head of the residential MBS Group at Fitch Ratings. Kevin J. Kanouff, who heads bond surveillance for Clayton

PSI-SP-000167

Holdings (CLAY), a consulting firm for institutional investors, adds that "hedge funds are getting very nervous about their investments."

But those downgrades likely won't come right away. Observers say ratings agencies may rely on some models that don't fully account for the recent explosion in exotic mortgages, such as interest-only loans. Says Susan Barnes, managing director in the U.S. residential mortgage-backed securities group of Standard & Poor's, which, like BusinessWeek, is a unit of The McGraw-Hill Companies (MHP): "Our models are continually adjusted and enhanced." Adds Fitch's Costello: "There's a clear trend that we've expected higher and higher losses."

Commercial and investment banks have many tendrils in the mortgage business, too. They earned fat fees during the housing boom by packaging loans into pools and selling them to investors. That market is shrinking as subprime lenders and investors pull in their horns, leaving banks holding risky loans.

Up the Food Chain

There's also growing talk that many firms, in particular Goldman Sachs, incurred steep losses in trades based on the ABX subprime index. As market makers, the big banks were forced to take the other side of clients' short trades, or bets that the index would fall. When the index plunged 34% in the first 10 weeks of the year, the banks lost. Goldman, which reports first-quarter earnings on Mar. 13 and is a big player in the ABX market, declined to comment.

In another case of dreadful timing, Citigroup disclosed on Feb. 28 that it recently upped its stake in New Century to over 5%, adding some 1 million shares just weeks before New Century revealed the investigation by federal prosecutors. Citigroup declined to comment.

The biggest fear is that the trouble will move up the food chain. The same questionable lending practices that were used for subprime mortgages during the boom were also used for regular, or "prime," mortgages -- among them low or zero downpayments, loose loan-to-value ratios, and exotic mortgages with low up-front payments that balloon later.

While subprime loans accounted for 20% of mortgages originated last year, David Liu of UBS estimates that fully 40% of last year's loans are "showing a lot of signs of stress." Says Nouriel Roubini, economics professor at New York University's Stern School of Business: "The risk that prime borrowers will start to feel financial stress in 2007 cannot be underestimated."

PSI-SP-000168

From: wleroy [wleroy@e-afn.org]
Sent: Monday, March 19, 2007 4:53 PM
To: Gutierrez, Michael
Cc: 'wleroy'
Subject: RE: member firms reaction to troubled servicers
Give me few days and I will ring you...great idea! And Congrats!!

Best regards,

William M. LeRoy, CEO
American Legal and Financial Network
Office: 480.575.8194
Cell: 480[redacted]
e-mail: wleroy@e-afn.org
Website: e-afn.org

[redacted] = Redacted by the Permanent Subcommittee on Investigations

"And God took a handful of southerly wind, blew his breath upon it, and created the horse." Bedouin legend.

From: Gutierrez, Michael [mailto:michael_gutierrez@standardandpoors.com]
Sent: Sunday, March 18, 2007 4:02 PM
To: wleroy@e-afn.org
Subject: member firms reaction to troubled servicers

William:

I was thinking about the New Century scenario where they may be short of funds and falling behind on paying service providers. Do you have any sense if your member firms, especially after the Mortgage Lenders Network fiasco, are taking a harder line on their policies regarding accounts receivable. What I 'm thinking about is the real possibility that (using them as an example only) attorney firms representing New Century start getting late payments or no payments on their billings and withdraw their representation of the company. This scenario would really disrupt servicing and increase loss severity for the mortgage backed securities in a previously unforeseen way. I recall during our last teleconference you mentioned that the firms burned by MLN had allowed accounts receivable to go beyond 60 days - I'm sure many of them will be doubly conservative this time (I trust you noted the Ohio Attorney general getting a TRO against initiating foreclosures, getting appraisals, proceeding with foreclosures, holding foreclosure sales or conducting eviction on foreclosed homes in the state of Ohio for any loans originated by New Century. He is supposedly seeking an injunction this coming week. Five other states are reported to be taking action this next week as well)

Permanent Subcommittee on Investigations
EXHIBIT #52a

PSI-SP-000094

Any thoughts you have would be helpful. To give you a confidential tidbit among friends the subprime brou haha is reaching serious levels - tomorrow morning key members of the RMBS rating division are scheduled to make a presentation to Terry McGraw CEO of McGraw-Hill Companies and his executive committee on the entire subprime situation and how we rated the deals and are preparing to deal with the fallout (downgrades) Yours truly is not among the anointed for that dubious 15 minutes of fame.

PS: S&P finally realized servicing matters - I am officially a Managing Director as of April 1st

Hope you are feeling better and hope to hear from you soon

regards

Mike

Michael Gutierrez
Director
Standard & Poor's
Structured Finance
Servicer Evaluations
55 Water Street, 41st Floor
New York, NY 10041-0003
Tel (212) 438-2476
Fax (212) 438-2664

PSI-SP-000095

STANDARD
&POOR'S

Structured Finance Ratings

Overview and Impact of the Residential Subprime Market

Monthly Review Meeting
March 19, 2007

The McGraw-Hill Companies

Permanent Subcommittee on Investigations
EXHIBIT #52b

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S&P SEN-PSI 0001465

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Agenda

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Presentation Overview

- The Subprime residential mortgage market is attracting considerable attention amid mounting delinquencies and defaults. In particular, Subprime originated in 2006 that has been out there for a year is experiencing more financial difficulties than loans from previous vintage years.
- Subprime issuance has been a significant and increasing component of mortgage lending in the last two to three years.
- Numerous Subprime lenders, such as New Century, are facing financial difficulties, while larger, more diversified firms, such as HSBC Holdings, have also been negatively impacted.
- S&P has been proactive in anticipating potential credit quality issues arising from the loosening in lending standards by increasing loss expectation and required credit support.
- It is still early, but there have been some 2006 vintage ratings put on CreditWatch... We expect losses to be only slightly worse than 2000 vintage ratings - the worst performing in recent history.
- In the 2007 Plan, we anticipated and continue to project a RMBS decline of 10% to 15% in 2007.
- S&P has an integrated surveillance process to ensure the ratings on rated RMBS bonds and CDO transactions reflect our most current credit view.
- There will be some impact to CDOs as RMBS has been a growing source of collateral. RMBS CreditWatch placements and downgrades undertaken during 2007 year to date have not yet led to any downgrades or CreditWatch placements on our CDO ratings. In the Plan, we forecast a slowdown in the rate of growth in CDO issuance vs. the very significant rate of growth experienced last year.

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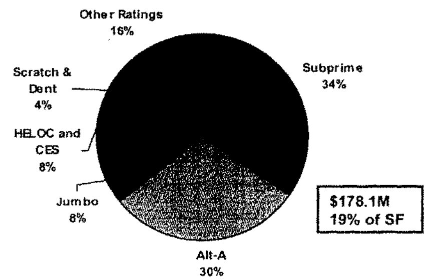
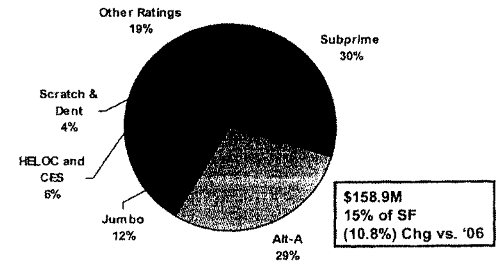
Market Overview: U.S. RMBS Gross Revenue and Issuance Profile

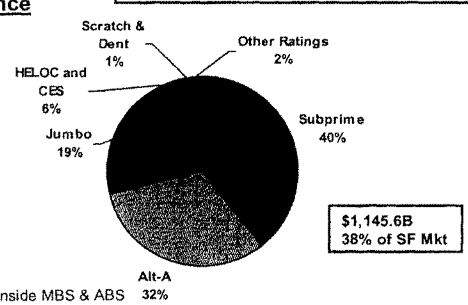
Gross Revenues **2006** **2007**

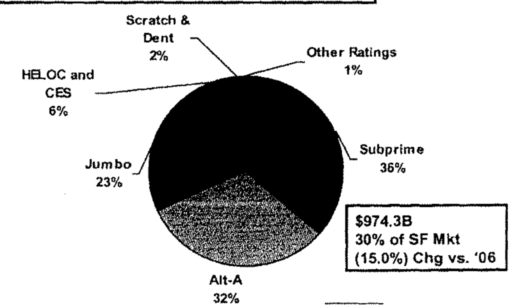




■ Subprime ■ Alt-A ■ Jumbo ■ HELOC and CES ■ Scratch & Dent ■ Other Ratings

Issuance





Source: Inside MBS & ABS

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Market Overview: 2006 Originations and RMBS Issuance

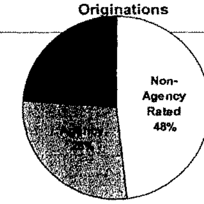
- **Mortgage Originations - $2.5 Trillion**
  - Subprime Originations - $600 Billion

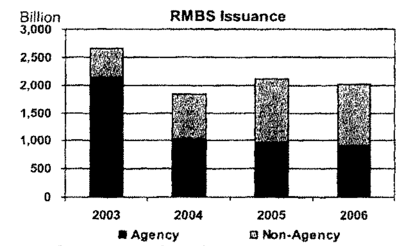
    (70-75% of which is securitized and rated)

- **RMBS Issuance - $1.9 Trillion**
  - Non-Agency (Rated) Market - $1.2 Trillion
    - Subprime Issuance - $435 Billion or 36%
  - Agency (Freddie, Fannie and GNMA) Market - $0.7 Trillion

- **Other Non-Securitized Outstandings - $0.6 Trillion**
  - Held on balance sheet or in portfolio by financial institutions and privately financed generally through a base of retail deposits

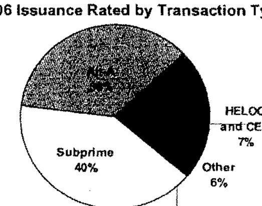
Originations





Source: Inside MBS & ABS

2006 Issuance Rated by Transaction Type *



* $1.1 trillion

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Market Overview: Top RMBS Subprime Issuers by S&P Revenue

Rank	Issuer	Issuance ($)	Revenue ($)	% of S&P RMBS Revenue
1	Lehman Brothers	41,466,271,000	4,953,000	2.8%
2	Merrill Lynch	25,299,551,323	4,514,900	2.6%
3	Countrywide	31,443,723,000	4,354,500	2.5%
4	Residential Funding	21,154,328,000	4,282,300	2.4%
5	Morgan Stanley	30,974,753,000	3,072,000	1.7%
6	JP Morgan Chase	19,007,026,000	2,800,000	1.6%
7	Washington Mutual	24,134,373,100	2,601,150	1.5%
8	Citigroup	16,152,194,000	2,459,000	1.4%
9	UBS Warburg	12,494,335,000	2,422,060	1.4%
10	RBS Greenwich Capital	19,726,766,000	2,397,000	1.4%

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Current Subprime Market Conditions

Challenging landscape for the residential Subprime mortgage market

- Lenders underwriting guidelines stretched too far
- Slowing home price appreciation ("HPA") rates
- Adjustable Rate Mortgage (ARM) Loans reset risk
  - Credit Component: Will borrowers be able to make larger payments?
  - Refinance activity may bolster origination volume
- Buyback of early payment defaults ("EPD") strain lenders' profitability
- Financial distress for some smaller players leads to consolidation; large lenders also grappling with loss reserves
- Underperformance of 2006 vintage loans
- Increased ratings transitions
  - CreditWatch, downgrade actions as a result of defaults.
- Steps being taken by S&P to help quantify risk

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Current Subprime Market Conditions (cont'd)

2006 Underperformance and Lenders' Financial Strain

- **Primary reasons for early payment defaults**
  - Speculative buying behavior
  - Fraud
  - Predatory Lending?
  - First time homebuyers
  - Stated Income
  - High Combined Loan To Value (100%) – "Piggyback loans"
  - Limited Documentation

Conduits put back delinquent loans to their seller-originators … and cause financial hardship of originators

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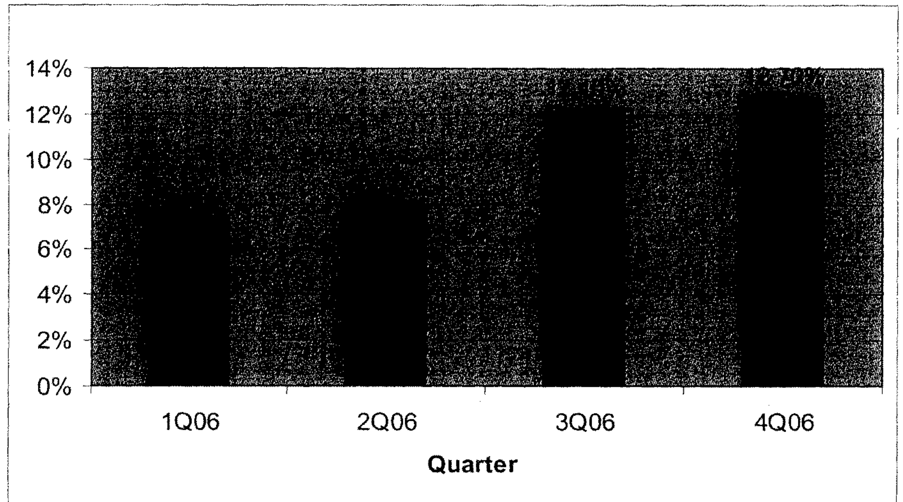
S&P Responds: Increasing Loss Expectation and Credit Support

'BBB' Subprime Loss Coverage Quarterly Averages 2006

In April 2006, S&P changed its credit support requirements which effectively increases the loss amount that transactions can experience prior to bond investors absorbing a shortfall in payments.



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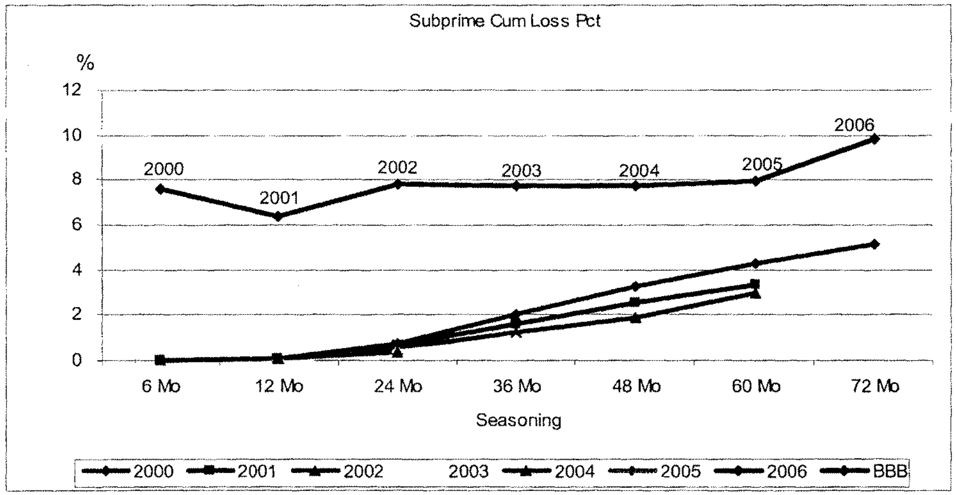
S&P Responds: Increasing Loss Expectation and Credit Support

Subprime loan performance declines but Subprime transactions have the benefit of higher enhancement levels. The black line represents forecasted losses modeled into BBB rated deals. The chart shows the average gap between losses experienced and losses forecasted.



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Ratings Process Overview

- Loan level collateral analysis (LEVELS Model)
  - Anticipating turn of credit cycle S&P enhances criteria
    - LEVELS 5.7 in May 2006.
    - LEVELS 6.0 in March 2007.
- Cashflow modeling the structure (SPIRE Model)
- Establishing credit support requirements
- Review of originator and servicer
- Legal and document review
- Fundamental Structured Finance analysis assumes originator bankruptcy
- Ongoing surveillance

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RMBS Surveillance Process

- Heightened sensitivity around surveillance
  - Deals with high risk profiles are being flagged and scrutinized shortly after issuance.
- Constant dialogue with the marketplace
  - New ratings, servicer evaluation, and surveillance teams are working in close coordination with servicers and investors.
- Automated surveillance processes used to flag deals for increased scrutiny with out of the norm performance profiles.
- Isolating deals with collateral most identified with EPD in our surveillance analysis
  - First time homebuyers.
  - Stated income.
  - High CLTV piggyback loans.
- Increased analysis in cashflow modeling around alternative default curves
  - Front-loaded.
  - Back-ended, etc.

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Integrated Process for CDO and RMBS Surveillance

- Standard & Poor's has an integrated surveillance process to ensure the ratings on our rated RMBS bonds and CDO transactions reflect our most current credit view.
- CDO Surveillance is informed of RMBS Surveillance's current credit opinion and outlook for rated transactions.
- RMBS Surveillance is aware of RMBS exposure within Standard & Poor's rated CDO transactions.
- Prior to the release of RMBS rating action we are fully aware of any implications to our outstanding CDO ratings.

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View on Exposure – Potential Losses to 2006 Subprime Vintage

- Using current loss projection of 5.25% - 7.75% for 2006 vintage deals; categorize transactions rated in the first half of 2006 into low, medium and high probability of default buckets.
- Medium risk tranches could be susceptible to rating transitions given a mild economic downturn.
- In comparison, the experience was 4.75% - 5.50% for 2000 vintage transactions.

Risk Profile of Subprime Deals from first half 2006	BBB-	BBB
Low Risk	73.25%	91.00%
Medium Risk	24.00%	7.50%
High Risk	2.75%	1.50%

Impact of Subprime on CDOs

- RMBS has grown as a source of collateral for CDOs; 33% of U.S. CDOs of ABS rated by S&P in 2006 had either Subprime RMBS or CDOs of Subprime RMBS as their largest single category of collateral held.
- Of CDOs collateralized primarily by Subprime RMBS (including CDO^2 transactions collateralized by CDOs of RMBS), 32% of the transactions rated in 2006 held primarily senior ('AAA' through 'A' rated) Subprime RMBS tranche collateral and 68% held primarily mezzanine ('A' through 'BB' rated) collateral.
- Across different types of CDOs of ABS, Subprime RMBS far outranks all other types of SF as a collateral type, comprising 43% of total CDO of ABS assets by par value held (Q4 2006).
- RMBS CreditWatch placements and downgrades undertaken during 2007 year to date have not yet led to any downgrades or CreditWatch placements on our CDO ratings.
- However, earlier (2002 - 2004 vintage) RMBS transactions are seeing increased downgrade activity, and the notes from these RMBS transactions appear in the collateral pools of CDOs of ABS issued in 2005 and before.
- Currently, 35 U.S. CDOs have seen 1% or more of their RMBS collateral placed on CreditWatch negative or downgraded since January 1st, 2007.

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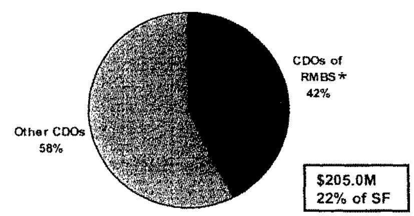
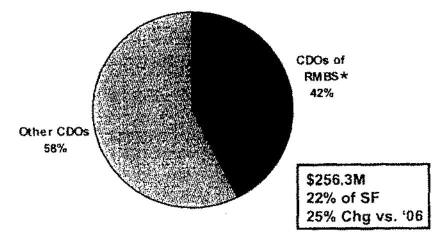
Market Overview: U.S. CDO Revenue and Issuance Profile

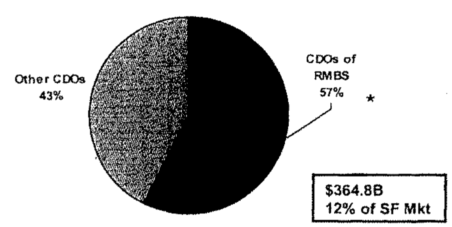
Revenue — **2006** — **2007 Plan**

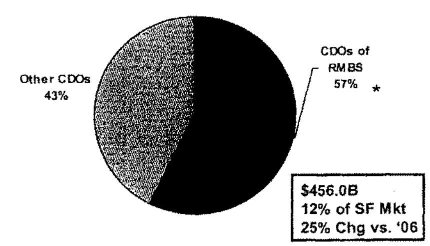




■ CDOs of RMBS ░ Other CDOs

Issuance





* *Estimate*

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2007 through 2008 Outlook

- Subprime downgrades will continue to increase moderately.
- Rate of future losses and ratings actions will be a function of macro-economy.
  - Home values, unemployment and interest rates.
- Interest rates will moderate.
- Loan originations and issuance will continue to decline.
- Credit spreads are widening due to Subprime and Alt-A concerns.
- Slower home appreciation will adversely impact home equity activity.
- Credit quality will deteriorate and defaults will rise – potential impact upon CDO market.
- CDO issuance of ABS will depend upon investor demand, and will most likely be lower than 2006.
- CDO issuance of corporate risk should remain strong, unless corporate credits experience problems.
- With the unemployment rate holding below the 5.0% mark and interest rates holding steady, RMBS should not decline sharply, despite the slowdown in housing.

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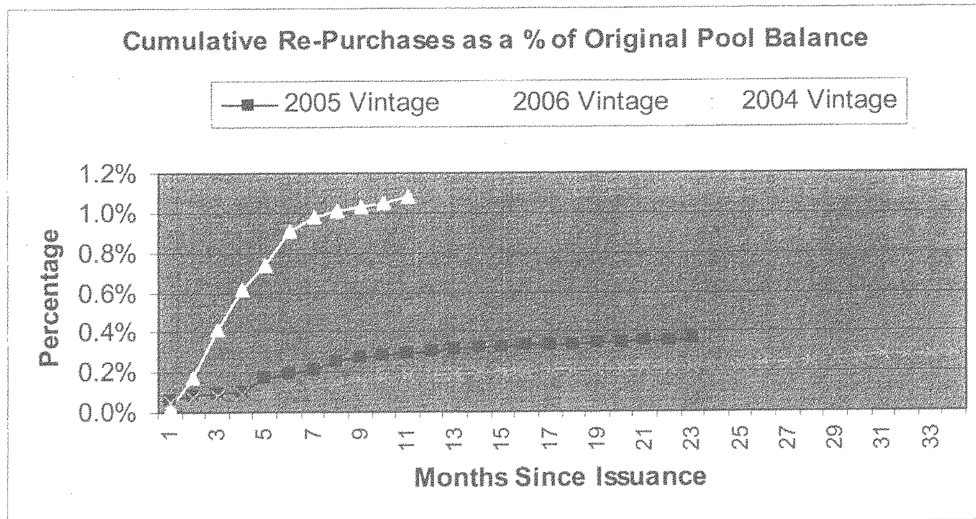
EPD on the 2006 vintage are substantially above recent vintages



Source: Standard & Poor's

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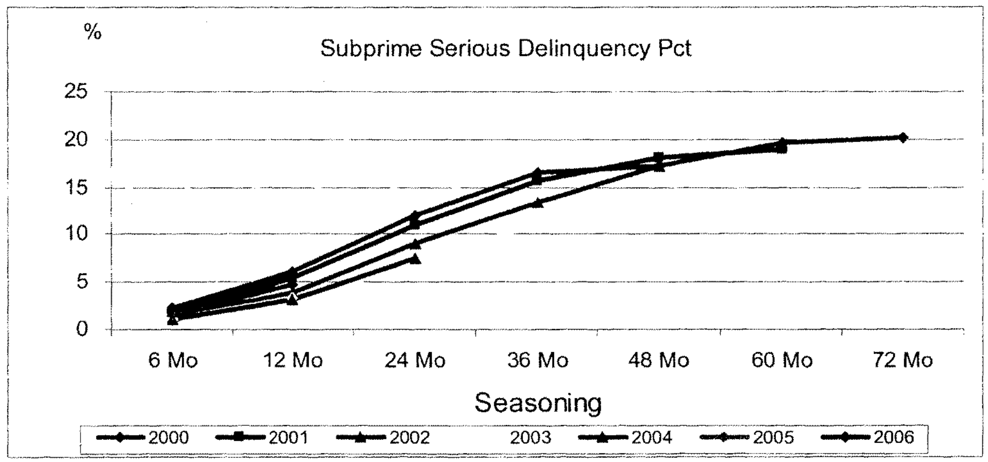
Subprime Delinquencies are rising fast



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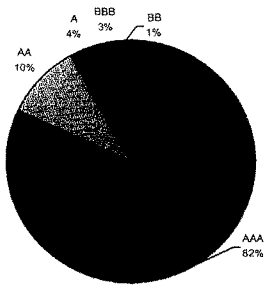
Record 2006 Ratings Volume

SECTOR	DEALS RATED	% Of Deals	ISSUANCE RATED ($B)	% of Par
Subprime	446	26.6	$435.6	40.8
Alternative A	461	27.5	$384.4	36.0
Net Interest Margin	306	18.2	$10.8	1.0
Prime-Jumbo	162	9.7	$116.4	10.9
2nd Liens	118	7.0	$70.4	6.6
Other	185	11.0	$49.2	4.6
Total	1,678	100.0	$1,066.8	100.0

Subprime and Total RMBS Initial Ratings by $ Issuance

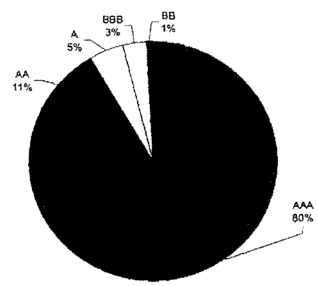
Subprime RMBS

2006 Vintage



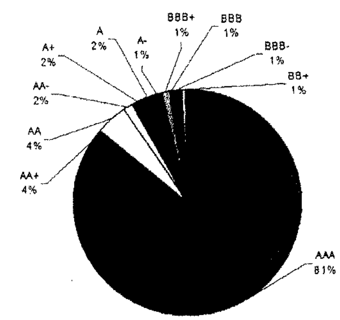
IG: 99.24%
NIG: 0.76%
Total: 4,480 Ratings

2005 Vintage



IG: 99.25%
NIG: 0.75%
Total: 4,736 Ratings

All 1978-2006 RMBS Ratings



IG: 99.24%
NIG: 0.76%
Total: 46,912 Ratings

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Summary of Recent Ratings Actions

	Collateral	Ratings Lowered	CreditWatch Placements
Terwin 2006-1	2nd Lien	1	0
Terwin 2006-HF1	2nd Lien	1	2
Terwin Mortgage Trust 2006-2HGS	2nd Lien	3	2
GSAMP Trust 2006-S3	2nd Lien	3	4
SG Mortgage Securities Trust 2006-FRE1	Subprime	0	2
MASTR Asset Backed Securities Trust 2006-FRE1	Subprime	0	1
MASTR Second Lien Trust 2006-1	2nd Lien	4	5
Terwin Mortgage Trust 2006-4SL	2nd Lien	1	1
Asset-Backed Certificates Trust 2006-IM1	Alt-A	0	1
Structured Asset Investment Loan Trust 2006-1	Subprime	0	2
Structured Asset Securities Corp 2006-BC1	Subprime	0	1
Structured Asset Investment Loan Trust 2006-2	Subprime	0	1
Structured Asset Investment Loan Trust 2006-BNC1	Subprime	0	1
Securitized Asset Backed Receivbles LLC Trust 2006-NC1	Subprime	0	1
Structured Asset Investment Loan Trust 2006-BNC2	Subprime	0	1
Terwin 2006-6	2nd Lien	3	4
Terwin 2006-8	2nd Lien	3	3
GSAMP Trust 2006-S5	2nd Lien	0	3
New Century 2006-S1	2nd Lien	0	2
GSAMP Trust 2006-S2	2nd Lien	0	0
SASCO 2006-OW1	Subprime	0	0
Fremont 2006-B	Subprime	0	0
Terwin Securitization Trust 2006-R2 (CONFIDENTIAL)	ReREMIC	1	0
Total		**20**	**37**

Source: Standard & Poor's RMBS Surveillance

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Subprime RMBS Is the Largest Collateral Type Found in CDOs of ABS

Top 10 Collateral Types Found in U.S. Cash Flow & Hybrid CDOs of ABS (Q4 2006)		
#	Collateral Type	% of Total Assets
1	RMBS Subprime	43.1%
2	RMBS Alt-A	12.1%
3	CMBS Diversified	11.1%
4	Cash Flow CDOs	10.8%
5	RMBS Prime Jumbo	7.0%
6	RMBS Prime 2nd Lien	2.2%
7	Synthetic CDOs	3.1%
8	RMBS Outside Guidelines	1.5%
9	RMBS Re-performing Loan	1.4%
10	ABS Manufactured Housing	1.0%
	TOTAL	93.2%

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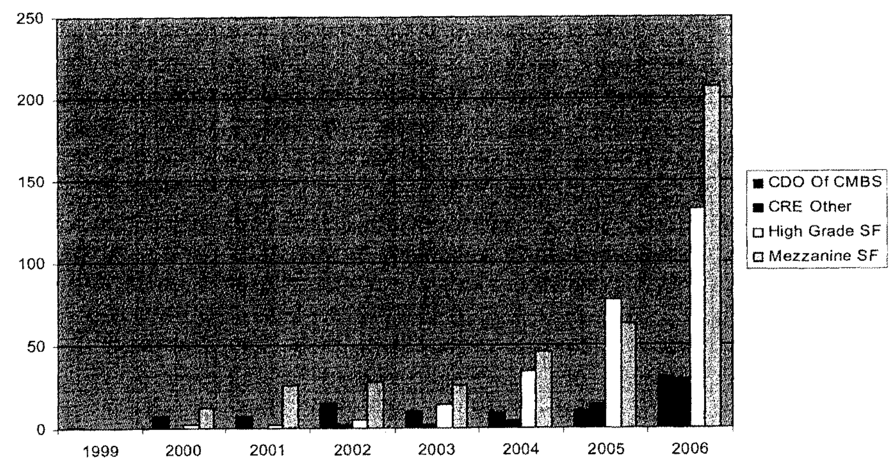
U.S. Cash, Hybrid & Synthetic CDOs of ABS by Sub-Type, 1999 - 2006

- **Mezzanine SF CDOs:** Collateralized primarily by mezzanine tranches of SF transactions; earlier vintage collateral pools were typically multi-sector ABS, but from 2002 onward these deals have been increasingly collateralized by RMBS securities
- **High-Grade SF CDOs:** Collateralized by senior tranches of SF transactions (i.e., tranches rated "AAA" through "A")
- **CDOs of CMBS:** Collateralized primarily by securitized CMBS assets (i.e., "CUSIP CMBS")
- **CRE CDOs:** Collateralized primarily by unsecuritized commercial real estate (whole loans, B-pieces, etc.)



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CDOs Have Increasingly Been Collateralized by RMBS Subprime

- Earlier vintage Mezzanine SF CDOs were collateralized by a wide variety of Structured Finance assets, but have become increasingly collateralized by Subprime RMBS
- For the 2006 vintage Mezzanine SF CDO transactions, more than 70% of the total collateral consists of mezzanine ('A' and 'BBB' rated) tranches of Subprime RMBS transactions
- Majority of Cash Flow and Hybrid CDO transactions are actively managed and typically incorporate a three year reinvestment period, so asset concentrations can migrate over time in deals that have already closed

Cash Flow & Hybrid Mezzanine SF CDOs of ABS: Exposure to Subprime RMBS Collateral by Cohort

CDO Year of Origination	Subprime RMBS Exposure
2000 Mezz SF CDOs	**9.9%**
2001 Mezz SF CDOs	**11.3%**
2002 Mezz SF CDOs	**24.4%**
2003 Mezz SF CDOs	**41.2%**
2004 Mezz SF CDOs	**44.5%**
2005 Mezz SF CDOs	**52.4%**
2006 Mezz SF CDOs*	**70.6%**

* Data for 2006 vintage deals includes deals having gone effective and started reporting by the end of February 2007

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From: Gutierrez, Michael
Sent: Tuesday, March 20, 2007 5:49 PM
To: D'Erchia, Peter
Subject: FW: Pre-empting bad press on the subprime situation

Here is the email about the Subprime Marketing Campaign

-----Original Message-----
From: Warrack, Thomas
Sent: Tuesday, March 20, 2007 1:57 PM
To: Barnes, Susan; Losice, Abe; Mcdermott, Gail; Stock, Michael
Cc: Jordan, Pat; Buendia, Rosario; Gillis, Tom; Perelmuter, Monica; Warner, Ernestine; Pollsen, Robert; Koch, Richard; Gutierrez, Michael
Subject: FW: Pre-empting bad press on the subprime situation

FYI- This is the background that lead to the meeting tomorrow.
Thanks, Tom

-----Original Message-----
From: Johnson, Ronald Keith Louis
Sent: Tuesday, March 20, 2007 12:10 PM
To: Warrack, Thomas; Barnes, Susan
Subject: FW: Pre-empting bad press on the subprime situation

FYI

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Schachne, Bruce
Sent: Tuesday, March 20, 2007 12:01 PM Eastern Standard Time
To: McDavid, Veronica
Cc: Bessenoff, Arlene; Traverso, Lucy; Johnson, Ronald Keith Louis; Yan, Amy; Desai, Prashant; Goldstein, David; Tempkin, Adam; Atkins, Chris

Subject: RE: Pre-empting bad press on the subprime situation

Hi all,
In a meeting with Kathleen Corbet today, she requested that we put together a marketing campaign around the events in the subprime market, the sooner the better. She also requested that it incorporate not only how we market our thinking on the subprime topic to our traditional audience, but also the press, government and regulatory bodies, etc. She says that Moody's has been calling Chuck Shumer every week with an update on their thinking on subprime, and she didn't feel that we are being proactive enough in communicating our thinking to the market as well as proactively protecting ourselves against bad press. Ronnie, could you schedule a meeting for all of us to organize this campaign, the sooner the better?

Thanks,
Bruce

-----Original Message-----

Permanent Subcommittee on Investigations
EXHIBIT #52c

PSI-SP-000407

From: Schachne, Bruce
Sent: Thursday, March 15, 2007 7:45 AM
To: McDavid, Veronica; Sedov, Dmitri
Cc: Bessenoff, Arlene; Traverso, Lucy; Johnson, Ronald Keith Louis; Yan, Amy; Desai, Prashant; Goldstein, David
Subject: RE: Pre-empting bad press on the subprime situation

Ronnie, thanks for the idea. The resoruces to produce and edit the podcasts are relatively limited, which is why we're starting with one per week. Your idea is good but not feasible as a multi-part series given the available resources. However, I do think it makes sense in the short-term to have a podcast that focuses on sub-prime and also discusses somw of the basics of RMBS. Arlene, what do you think of this idea?

-----Original Message-----
From: McDavid, Veronica
Sent: Tuesday, March 13, 2007 10:30 AM Eastern Standard Time
To: Sedov, Dmitri
Cc: Ranganath, Ram; Traverso, Lucy; Johnson, Ronald Keith Louis; Yan, Amy; Desai, Prashant; Schachne, Bruce; Goldstein, David

Subject: Pre-empting bad press on the subprime situation

Dmitri,

There's already a lot of press about the subprime meltdown, and there's going to be a lot more. For some of the consumer-oriented podcast aggregators (like iTunes), what about doing --"Structured Finance 101"? It could be a series, in which one podcast would explain how a mortgage-backed security worked, another would differentiate between RMBS and CMBS, a third explain what an ABS is, and a fourth, how these structured products make up a CDO--or it could all be done as one longer podcast.

All market participants will be getting negative press before this subprime thing is finished playing out. We could hold a tcon about how we're concerned about the public not understanding structured finance and how we want to educate them, offering our podcasts to the WSJ, FT, Bloomberg, and the NYTimes business editors. Making a pre-emptive move like this, to educate Main St. investors, would be perceived as a public service and an effort to increase transparency in the marketplace. We'd be one of the good guys instead of just one of the institutions under attack.

Ronnie

PSI-SP-000408

From: Diamond, Kim
Sent: Thursday, April 26, 2007 2:55 PM
To: Scott, Gale
Cc: Palmisano, James; Duka, Barbara; Mei, David
Subject: FW: PWR 16

Gale, the newest sickening trend. Issuers trying to pass their loss of profitibility resulting from the latest blow out in spreads by demanding severe rating fee pricing reductions.....we lost the pwr deal because we refused to reduce our fee from 1.4 million to 1.1 million for a 4 billion dollar pool....unbelievable...the bankers make shitty loans with such skinny margins tha they can't make any money and expect us to eat it. Given our current staffing (i.e. Not enough analysts to rate the current pipeline of deals), the opportunity cost of doing the deal at that ridiculously low fee and risking eroding our pricing structure going forward was deemed too high...lets just hope the deal prices like crap without us.

Sent by Good Messaging (www.good.com)

-----Original Message-----
From: Duka, Barbara
Sent: Thursday, April 26, 2007 12:18 PM Eastern Standard Time
To: Diamond, Kim; Pollem, Kurt
Subject: PWR 16

Add this to your lost deal list. The problem was fees. They wanted the entire amount they spoke to D. Mei about (a reduction from $1.4MM to $1.1MM). We agreed to $1.35MM.

Kim, your gut about what was driving this is largely true. Spreads widened. Uncertainty caused profitability concerns. They were putting it on us.

Barbara Duka
Managing Director
Structured Finance
Standard & Poor's
55 Water Street, 41st Floor
New York, New York 10041-0003
Phone : (212) 438-2447
Fax : (212) 438 - 0125
barbara_duka@standardandpoor's.com

Permanent Subcommittee on Investigations
EXHIBIT #53

PSI-SP-000134

From: Bell, Ian
Sent: Friday, July 13, 2007 5:44 AM
To: Rose, Joanne; Gillis, Tom
Subject: FW: Tomorrow's FT Column -- Saskia Sholtes

Joanne/Tommy

More for the post-mortem than now but one aspect of our handling of the subprime that really concerns me is what I see as our arrogance in our messaging. Maybe it is because I am away from the center of the action and so have more of an "outsider's" point of view. The comment from Chris below for me is a sign of that attitude.

I listened to the telecon TWICE. That guy was not a "jerk". He asked an entirely legitimate question that we should have anticipated. He then got upset when we totally fluffed our answer. We did sound like the Nixon White House. Instead of dismissing people like him or assuming some dark motive on their part, we should ask ourselves how we could have so mishandled the answer to such an obvious question.

I have thought for awhile now that if this company suffers from an Arthur Andersen event, we will not be brought down by a lack of ethics as I have never seen an organisation more ethical, nor will it be by greed as this plays so little role in our motivations; it will be arrogance.

Maybe worth a discussion either at SFLT or just around a glass of wine and a diet Coke.

Ian

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Winn, Martin
Sent: Thursday, July 12, 2007 10:55 PM GMT Standard Time
To: Albert, Felicity; Bell, Ian; Ridpath, Barbara
Subject: FW: Tomorrow's FT Column -- Saskia Sholtes

Worth knowing ....

> -----Original Message-----
> From: Winn, Martin
> Sent: 12 July 2007 22:53
> To: Atkins, Chris
> Subject: RE: Tomorrow's FT Column -- Saskia Sholtes
>
> Aahhh ...
>
>> -----Original Message-----
>> From: Atkins, Chris
>> Sent: 12 July 2007 22:52
>> To: Winn, Martin
>> Subject: RE: Tomorrow's FT Column -- Saskia Sholtes
>>
>> He was the very first questioner, the jerk who wouldn't let go...

Permanent Subcommittee on Investigations
EXHIBIT #54a

PSI-SP-000409

From: Winn, Martin
Sent: Thursday, July 12, 2007 5:50 PM
To: Atkins, Chris
Cc: Appel, Marjory
Subject: FW: Tomorrow's FT Column -- Saskia Sholtes

Who is Eisman?

The FT ran a story earlier this week about hedge funds profiting from shorting subprime. I've already pointed out to one or two journalists they should take with a pinch of salt what hedge fund investors tell them - they're probably just talking their book.

Martin

-----Original Message-----
From: Rose, Joanne
Sent: 12 July 2007 22:46
To: Atkins, Chris; Corbet, Kathleen; Anderberg, Stephen; Tillman, Vickie; Gillis, Tom; Buendia, Rosario; Barnes, Susan; Warrack, Thomas; Warner, Ernestine; Pollsen, Robert; Mason, Scott; Winn, Martin; Jordan, Pat; Appel, Marjory; Weiss, Steven (MHC - steven_weiss); Stafford, David (MHC - david_stafford); Rubin, Donald (MHC - donald_rubin); Bolger, Rita; Braddon, Cindy (MHC - cindy_braddon); Netram, Melissa (MHC - melissa_netram); Briamonte, Frank (MHC - frank_briamonte)

Cc: Benjamin, Bette-Kay
Subject: RE: Tomorrow's FT Column -- Saskia Sholtes

just so you know the guy Eisman actually is at a hedge fund and he sounds like he is a short.

-----Original Message-----
From: Atkins, Chris
Sent: Thursday, July 12, 2007 5:35 PM
To: Corbet, Kathleen; Anderberg, Stephen; Tillman, Vickie; Rose, Joanne; Gillis, Tom; Buendia, Rosario; Barnes, Susan; Warrack, Thomas; Warner, Ernestine; Pollsen, Robert; Mason, Scott; Winn, Martin; Jordan, Pat; Appel, Marjory; Weiss, Steven (MHC - steven_weiss); Stafford, David (MHC - david_stafford); Rubin, Donald (MHC - donald_rubin); Bolger, Rita; Braddon, Cindy (MHC - cindy_braddon); Netram, Melissa (MHC - melissa_netram); Briamonte, Frank (MHC - frank_briamonte)

Cc: Benjamin, Bette-Kay
Subject: Tomorrow's FT Column -- Saskia Sholtes

Rating agencies under scrutiny

By Saskia Scholtes in New York

Published: July 12 2007 20:08 | Last updated: July 12 2007 20:08

When debt investments turn sour, the rating agencies have grown accustomed to drawing criticism for spotting problems too late and then taking too long to act on them.

PSI-SP-000410

The current turmoil in the US subprime mortgage market is no different for them. The crisis has generated a barrage of such investor criticism, which reached fever pitch this week in response to a swathe of downgrades of mortgage bonds and related complex debt products.

One investor repeatedly asked analysts at Standard & Poor's on a conference call this week: "What is it that you know today that the markets didn't know three months ago?"

Amid the steady drumbeat of bad subprime news - late payments and defaults on subprime home loans have been worryingly high for several months - the downgrades were broadly expected. But investors and analysts are struggling to understand what additional evidence the agencies were waiting for to justify the moves, and have raised a series of questions over the reliability of their analysis.

Susan Barnes, analyst at S&P said on the conference call that the rating agency waits for a body of evidence to accumulate before taking action: "It takes a period of time for these deals to show their true performance. We have been reviewing these deals closely and felt it was time to take action."

However, the rating agencies admit that the level of losses continues to exceed their initial expectations and historical precedent, prompting both Moody's and S&P to review their loss estimates and ratings process. Moody's announced its review in April, and S&P followed this week.

For many investors, the delay in taking action has raised concerns over the agencies' dependence on performance data that could be unreliable. This is partly because structural changes in the mortgage market and a higher incidence of mortgage fraud mean that relying on comparisons with data from previous housing downturns could give an incomplete picture.

Meanwhile, some analysts raise concerns that the rating agencies are not asking some of the most basic questions. Christian Stracke, analyst at research firm CreditSights, said: "An apparent lack of basic analysis behind [mortgage bond] ratings was on display in S&P's discussion of their estimate of the sensitivity of [late payment] rates to changes in interest rates: namely, they have no such estimate."

Josh Rosner, consultant at research firm Graham Fisher said: "The rating agencies appear to have relied, almost exclusively, on information provided to them by issuers and even have chosen not to require some meaningful disclosures about underlying residential loans included in the structures."

Mr Rosner points to an April report from Moody's that showed the rating agency did not consider debt-to-income ratios as a primary piece of data in their mortgage models, although this is generally considered as one of the three key predictors of mortgage default.

In the same report Moody's said it would for the first time request loan level data detailing the structure of adjustable-rate mortgages, the servicer, the month of the first interest rate adjustment and other data that would allow them to analyse risks. S&P admitted this week that it does not receive this kind of granular data on performance of individual loans within the mortgage pools backing the bonds that it rates.

One revelation that analysts have described as "extraordinary" this week is that S&P has no specific estimate of how much turmoil in the housing market would be needed to force downgrades of the AAA and AA ratings that have been left untouched in this round of downgrades and constitute the bulk of the principal value of most mortgage-backed deals. Moody's also said in an interview that it had no such estimate.

The rating agencies wield enormous influence, not only because their pronouncements can affect the cost of funds for issuers of debt, but because ratings are often enshrined in the regulations that govern what securities can be bought by insurance companies, pension plans and mutual funds.

Analysts say some of the main reasons that initial ratings for subprime bonds may have been over-optimistic are weaker underwriting standards, fraud, and concentration in overvalued regions. Some analysts also warn that other parts of the mortgage market are beginning to show symptoms of similar troubles.

PSI-SP-000411

Meanwhile, many of these bonds are held by complex collateralised debt obligations. Roughly half of the CDOs issued in 2005 and 2006 were backed by mortgage- related debt.

Vishwanath Tirupattur, CDO analyst at Morgan Stanley said in a recent report: "Like it or not, rating agencies, as arbiters of credit quality, wield enormous influence - nowhere more so than in the context of CDOs."

PSI-SP-000412

From: Pollsen, Robert
Sent: Thursday, July 19, 2007 5:55 PM
To: Warner, Ernestine
Subject: No one should be "faulted" for 2006 Subprime performance - Q&A after Conference Call -- How Bad Is 2006 Subprime Collateral? (Tuesday, November 21st @10:30AM EST)
-----Original Message-----
From: Pollsen, Robert
Sent: Tuesday, November 21, 2006 12:52 PM

In case some of you *missed* the Q & A at the *end* of the conference call, I thought you might want to know the following:

David Liu of UBS said that the "wave" (of year 2006 Subprime poor performance) was stronger than anticipated - even by UBS. According to David, UBS held among the most "gloomy" of the views out there, and yet even *they* were (negatively) surprised!

David said he'd "not fault anyone" for not anticipating such poor performance of year 2006 Subprime collateral.

Although the Rating Agencies have *increased* their Loss Coverage %, David Liu thinks it will not compensate *enough* for the poor performance of year 2006 Subprime collateral. According to David, "the Rating Agencies were caught off guard, too!"

Fremont (Investment & Loan, an issuer) is only the tip of the iceberg (to poor performance).

Other year 2006 issuers' performance is not that much different (better).

Clink on the link below to download the 27-page document.

http://www.mtgstrat.com/getpdfmail.asp?F:\sub\NW\CURRENT\20061121nw.pdf

Replay Info:

Conference ID:	**1003479**
Toll free dial-in	1-888-266-2081 (Domestic) 1-703-925-2533 (International)
Replay Dates:	November 21st, 2006 to December 21st, 2006

Robert B. Pollsen ("Bob")
Director
Structured Finance Ratings
Standard & Poor's
55 Water St., 42nd Floor
New York, NY 10041-0003
Phone: (212) 438-2577
Fax # (212) 438-2664
E-mail: robert_pollsen@standardandpoors.com

Permanent Subcommittee on Investigations
EXHIBIT #54b

PSI-SP-000124

-----Original Message-----
From: Warrack, Thomas
Sent: Monday, November 20, 2006 5:19 PM
To: Ahn, Laura; Albergo, Leslie; Alizadeh, Rasool; Arne, Errol; Barnes, Susan; Beauchamp, Kyle; Bergeland, Regina; Bergman, Mathew; Bliss, Brendan; Boardman, Jeremy; Bruzese, Frank; Cao, Becky; Chu, Eliza; Clements, Julia; Conon, Jonathan; Davis, Jessica; Deasy, Chris; Dougherty, Mike P; Epstein, Kenneth; Gleeson, Michael S; Glehan, David; Goldenberg, Mark; Graham, Peter; Grow , Brian (S&P); Grundy, James; Guinyard, Anthony; Hall, Daniel; Hawkins, Kisha; Hierl, Jonathan; Hinman, Carissa; Hongwei Wang, David; Hopkins, Amanda; Kahan, Jack; Kennedy, Martin; Kimmel, George; Kostiw, Karen; Kumar, Rohit; Larkin, Daniel; Levin, Mark; Listner, Michael; Lukacsko, Erik; Maciaszek, Matthew; Mahdavian, Sharif; Manasseh, Rani; Mason, Scott; Mccormick P, Michael 9/7/2006; Mcdermott, Gail; McMillon, Robin; Messler, Julie; Muhammad, Aliyma; Neary, Rebecca; Niemy, Todd; Osterweil, Terry; Parker, Samuel; Perelmuter, Monica; Polizzotto, John; Polumbo, Kimberly; Rossmann, Anne; Rubino, Beth; Samuels, Amy; Sang, John; Schneider, Jeremy; Shaikh, Waqas; Sharma, Sudhir; Siber, Matthew; Skuthan, Natalia; Smith, Keith; Solar, Mona; Stock, Michael; Stumberger, Danielle; Taylor, James; Tegen, Daniel; Tencer, Steve; Uppuluri, Sai; Van Kirk, Spencer; Vonderhorst, Brian; Wallace, Vanessa; Warrack, Thomas; Watson, Jeff; Weller, Brian; Wray, Michael; Yioupis, Leo; Zimmerman, Allen
Cc: Kambeseles, Peter; Cheng, Kenneth; Wong, Elwyn; Warner, Ernestine; Pollsen, Robert; Koch, Richard; Gutierrez, Michael
Subject: FW: Conference Call -- How Bad Is 2006 Subprime Collateral? (Tuesday, November 21st @10:30AM EST)

FYI- "Recommended listening"

Kisha, can you see if we can reserve room 3, 6 or 7, so the whole group can dial in together.

Thanks, Tom

-----Original Message-----
From: Jeana.Curro@ubs.com [mailto:Jeana.Curro@ubs.com]
Sent: Monday, November 20, 2006 4:35 PM
Subject: Conference Call -- How Bad Is 2006 Subprime Collateral? (Tuesday, November 21st @10:30AM EST)

Mortgage Strategist Readers:

Conference Call

How Bad Is 2006 Subprime Collateral?

Deals from 2006 have performed poorly compared to earlier vintages.

Why the poor performance?
Loose underwriting?
Collateral characteristics?

PSI-SP-000125

Higher interest rates and slower HPA??

How is the 2006 vintage likely to perform going forward.

Speakers:

- **Thomas Zimmerman - Executive Director**
- **David Liu - Director**

Tuesday, November 21st, 2006
10:30am - 11:30am EST

Dial-in Info:

Conference ID:	**1003479**
Toll free dial-in	1-866-227-1582 (Domestic)
	1-703-639-1130 (International)

Replay Info:

Conference ID:	**1003479**
Toll free dial-in	1-888-266-2081 (Domestic)
	1-703-925-2533 (International)
Replay Dates:	November 21st, 2006 to December 21st, 2006

PSI-SP-000126

From: Tillman, Vickie
Sent: Monday, November 26, 2007 1:01 PM
To: Barnes, Susan; Gillis, Tom
Subject: RE: November presentation

This looks fine and thanks

-----Original Message-----
From: Barnes, Susan
Sent: Monday, November 26, 2007 10:36 AM
To: Tillman, Vickie; Gillis, Tom
Subject: RE: November presentation

Vickie,
Here's our proposed response to Kurt's question. If you have any questions or need further clarification feel free to give us a call. Regards, Susan

Standard & Poor's LEVELS model evaluates loan characteristics and assigns a default probability on a loan level basis. These loan characteristics that you mention including piggy back, speculative borrowing, and affordability loans have been included in various forms of mortgage loans and securitizations for some time. And therefore are included in our analysis, specifically the LEVELS model. What is transpiring is how the performance of these characteristics is differing from historical norms. The cause or causes at this time are still uncertain. Macroeconomic factors as well as the combination of these higher risk characteristics coupled with fraud seem to be the most likely reasons for the anomalous behavior.

While the ultimate performance of these loans still remains to be seen, Standard & Poor's adjusted it's default expectations for the anomalous behavior and has increased its default expectations accordingly for all loans analyzed since July 2007.

-----Original Message-----
From: Tillman, Vickie
Sent: Saturday, November 24, 2007 3:07 PM
To: Gillis, Tom; Barnes, Susan
Subject: FW: November presentation

Could you get answers to these questions on Monday thanks

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Rubin, Donald (MHC - donald_rubin)
Sent: Friday, November 23, 2007 04:57 PM Eastern Standard Time
To: Tillman, Vickie
Cc: Milano, Patrick; Schuman, Adam (MHC - adam_schuman)
Subject: FW: November presentation

Vickie: Kurt Havnaer is an analyst for Jensen Investment Management, a solid long term holder of MHP shares. Jensen currently holds over 2.0 million shares. He's called with questions about S&P and I have been sending him material from S&P, including your complete testimony filed with the Senate banking committee.

Today, Kurt e-mail the attached question, which focuses on possible problems with LEVELS and the possibility that the original ratings for 2005 and 2006 RMBS issues were too high relative to earlier originations. Clearly, he is aiming for a "gotcha," but I doubt he is alone..

Permanent Subcommittee on Investigations
EXHIBIT #55

PSI-SP-000127

Need some help in responding.

Thanks,

Don

From: Kurt Havnaer [mailto:KHavnaer@jenseninvestment.com]
Sent: Friday, November 23, 2007 2:09 PM
To: Rubin, Donald
Subject: RE: November presentation

Don,

I have a question on the recent downgrades of RMBS backed by pools of sub-prime mortgages originated in 2005 and 2006. My question is based on reading Vickie Tillman's Congressional testimony. I believe she indicated that the performance of sub-prime mortgages issued in 2005 and 2006 was very different than the performance of sub-prime mortgages issued prior to 2005. In her testimony, she implies that the characteristics of the mortgage loans originated in 2005 and 2006 were different from those orginated prior to 2005. For example, on page 23 of my copy of her testimony she indicates that, "many of the 2006 transactions may be showing weakness because of origination issues, such as aggressive residential mortgage loan underwriting, first-time home-buyer programs, piggyback second-lien mortgages, speculative borrowing for investor properties, and the concentration of affordability loans." While I'm certainly not a mortgage expert, I wonder if the performance difference was due to the possibility that the characteristics of the sub-prime mortgage loans issued in 2005 and 2006 were different from the sub-prime mortgage loans issued prior to 2005. My understanding is that your LEVELS model analyzes historical mortgage loan defaults and is used, along with other models, to assign ratings to RMBS. It seems possible to me that some of the RMBS issued in 2005 and 2006 that have already been downgraded were originally rated too high because the LEVELS model did not account for differences in the characteristics of the sub-prime mortgage loans originated in 2005 and 2006 relative to those originated prior to 2005. My guess is that other investors have brought this point up, and I'm wondering how management is responding to this line of reasoning. Thanks for your time. I appreciate it.

Kurt

From: Rubin, Donald [mailto:donald_rubin@mcgraw-hill.com]
Sent: Wednesday, November 21, 2007 8:37 AM
To: Kurt Havnaer
Subject: RE: November presentation

Kurt: We do not break out the revenue contribution of various asset classes, but the notion of "majority" doesn't make sense to me. There is a lot more to S&P than structured finance, important as it is.

Donald S. Rubin

The McGraw-Hill Companies

Senior Vice President - Investor Relations

1221 Avenue of the Americas

48th Floor

PSI-SP-000128

New York, NY 10020

Tel: 212.512.4321

Fax: 212.512.3840

donald_rubin@mcgraw-hill.com

From: Kurt Havnaer [mailto:KHavnaer@jenseninvestment.com]
Sent: Wednesday, November 21, 2007 11:15 AM
To: Rubin, Donald
Subject: RE: November presentation

Don,

Thanks for answering my questions yesterday. I appreciate it. I have another question for you--not sure if this is something the company discloses or not. I just read an article that indicates that structured finance ratings account for the majority of the revenues in your ratings business. Can you tell me if this is correct? Thanks.

Kurt

From: Rubin, Donald [mailto:donald_rubin@mcgraw-hill.com]
Sent: Tuesday, November 20, 2007 8:47 AM
To: Kurt Havnaer
Subject: November presentation

Kurt:

As promised, here is a copy of a recent presentation.

Look forward to talking to you this afternoon.

Sincerely,

Donald S. Rubin

The McGraw-Hill Companies

Senior Vice President - Investor Relations

1221 Avenue of the Americas

48th Floor

New York, NY 10020

PSI-SP-000129

Tel: 212.512.4321

Fax: 212.512.3840

donald_rubin@mcgraw-hill.com

Thank you,

The McGraw-Hill Companies

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PSI-SP-000130

The McGraw-Hill Companies, Inc.

MINUTES

Regular Meeting of Board of Directors

December 5, 2007

A regular meeting of the Board of Directors was held at The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, New York at 10:00 a.m., pursuant to notice sent to all Directors in accordance with the By-Laws.

The following Directors of the Corporation, consisting of consisting of a quorum of the Board, were present:

Pedro Aspe
Douglas N. Daft
Linda Koch Lorimer
Harold McGraw III
Robert P. McGraw
Sir Michael Rake
James H. Ross
Edward B. Rust, Jr.
Kurt L. Schmoke
Sidney A. Taurel

Ms. Hilda Ochoa-Brillembourg participated via teleconference call.

Sir Winfried F. W. Bischoff was absent.

Mr. Harold W. McGraw, Jr., Chairman Emeritus, was absent.

An executive session of the Board commenced at 10:00 a.m. At such session, only the members of the Board and Mr. Vittor were present.

Mr. Terry McGraw, Chairman presided and Mr. Vittor recorded the proceedings of the executive session.

[redacted]

Permanent Subcommittee on Investigations
EXHIBIT #56

[redacted]

With respect to media coverage of S&P and the subprime matter, Mr. Terry McGraw noted the key issue raised by critics relates to the conflicts of interest in S&P's issuer pays model. Mr. Terry McGraw noted in response we acknowledge such conflicts and go to great lengths to manage them. Mr. Terry McGraw noted the SEC concurs these potential conflicts of interest are present but manageable by the rating agencies. Mr. Terry McGraw indicated the issuer pays model (in contrast with a subscription model) permits S&P to provide substantial transparency to its rating process through the dissemination of its ratings globally. Mr. Rust noted the quality of the data provided by issuers to S&P and the other rating agencies is critical; more attention needs to be paid in the media and by regulators to the fact that issuers are responsible for providing reliable data to the rating agencies.

Mr. Terry McGraw noted another criticism of the rating agencies is they are rating new structured finance instruments with no prior history. Mr. Terry McGraw noted S&P has been rating mortgage-backed securities for more than 30 years without any problems. Mr. Terry McGraw noted the 2005-06 vintage loans appear to be the key problem areas in the recent subprime situation. Mr. Terry McGraw noted S&P has refused to rate certain deals when it was not comfortable in rating the proposed security. In response to a question by Mr. Aspe, Mr. Terry McGraw noted if information provided by issuers turns out to be erroneous, S&P would refuse to rate the deal; if information were found to be fraudulent, S&P would go to the SEC with such a finding. Mr. Terry McGraw emphasized it is important the rating agencies take the actions required so that the new Credit Rating Agency Reform Act succeeds. In response to a question by Mr. Schmoke, Mr. Terry McGraw noted any report of fraud to the SEC would not be public unless and until the SEC determined to make it public and that ratings would be withdrawn by S&P if it were determined that S&P was provided fraudulent information. Mr. Terry McGraw noted the market would reject ratings that were too volatile because ratings are supposed to be less volatile than market prices. Sir Michael Rake noted there is a fine line between rating agencies reviewing data provided by issuers and actually performing due diligence.

[redacted]

[redacted]

At Mr. Terry McGraw's request, Mr. Sharma joined the Board meeting to review the voluntary actions that are currently being considered by S&P in response to the subprime situation. Mr. Sharma noted Ms. Tillman and he were spending significant time with regulators, legislators, representatives of central banks and investors in order to listen to their concerns and to advise them of what S&P is doing in response to the subprime situation. Mr. Sharma noted Treasury Department officials indicated to him they believe investors did not understand what they were investing in as they should have and that the Treasury Department has been advising the market not to blame the rating agencies for this problem. Mr. Sharma noted the risk management function at many financial institutions has been downgraded in recent years which explains in part the failure of the market to understand what they were investing in. Ms. Ochoa-Brillembourg noted the market has confused rating risks with pricing risks which has resulted in a mispricing of risk. In response, Mr. Sharma noted he has discussed with regulators the need for the market to obtain independent market pricing assessments to address this issue. Mr. Sharma noted the comparability of S&P's ratings and that S&P has a strong record demonstrating that defaults over time are consistent with S&P's rating expectations. Mr. Sharma noted the key issue is liquidity rather than default. Mr. Sharma noted S&P will be offering additional perspectives to the market concerning liquidity and volatility in addition to continuing to publishing default assessments.

Mr. Sharma reviewed the various voluntary actions that have been considered by S&P in response to the subprime situation. Mr. Sharma reviewed the policies and practices currently in place at S&P with respect to governance; analytics; information; and education and reviewed proposed new voluntary actions that are being considered to be taken by S&P in each of these areas.

In response to an inquiry by Mr. Daft as to how S&P will explain why S&P is proposing these voluntary actions at this time, Mr. Sharma stated that S&P continues to evolve and enhance its governance and analytical processes in response to changing conditions. [redacted] In response to an inquiry by Mr. Rust, Mr. Sharma noted S&P understands the importance of our role in the capital markets and that S&P will do our part to respond to the subprime situation but that others in the market must also do their part. In response to a comment by Ms. Lorimer that S&P should encourage issuers to improve their own practices, Mr. Sharma noted that S&P is launching a review of originators' due diligence practices. In response to a question by Mr. Schmoke, Mr. Sharma indicated the cost of implementing the proposed voluntary actions has not yet been calculated because we have not yet decided which voluntary actions will be pursued. [redacted]

DATE: 04/20/2007
TIME: 15:47:00
AUTHOR: Alina Pak
RECEIPIENT: Derek Miller
CC:
SUBJECT:

Derek,

two things:
1) do you want to invite Brian V and KK for the subprime discussion with Jill?
2) all the info from the RMBS group: list of 100% 2nds and list of cusips failing RMBS screeners and info from Ian on rating variance for RMBS is in the file called SF Deal Screener April 2007 on p/credit products/subprime exposure - greent tabs.

This is supposed to be a shared foder for the PA team with all potentially problematic subprime RMBS - as long as we keep updating it.

----- Forwarded by Alina Pak/LP/CHI/F-I on 04/20/2007 11:25 AM -----

Alina Pak/LP/CHI/F-I
04/19/2007 12:12 PM

To
US CTP_Performance Analytics
cc

Subject
Fw: Treatment of subprime RMBS in CDO reviews

Just wanted to clarify an important point.
Q-n: A deal does not have any of the CUSIPs on the RMBS screener or SPAM variance report and is not 100% backed up by 2nd lien loans - how do we address the subprime exposure?

The best option is to ask the manager if they have any concerns about any specific names in addition to those we already identified. This has to be done at the same time when we talk (call or email) to the mgr. For those reviews which are already being wrapped up, if you still have time, email the manager.
Please also check with the trustee reports for servicer exposure. If you see the headline risk names (NC, Freemont, Novastar etc) include this in your discussion. We are already required to use servicer concentration model. But in addition to that, we should include the RMBS deals serviced by such servicers in the discussion with the manager. Please continue to check for servicer ratings on Fitch's RMBS page for d/graded servicers.

I don't think we should be notching down all subprime RMBS under some broad assumptions, unless we have an indication of a specific bond heading towards a downgrade - based on an expert RMBS opinion (manager, Fitch's RMBS group, SPAM), mkt price indication. We will not be able to justify our rating action to the public or manager.

Permanent Subcommittee on Investigations
EXHIBIT #57

PSI-MOODYS-000047

Please note that while everyone is concerned about late 05 and 06 subprime RMBS, most downgrades by our RMBS group have taken place in the 02-04 space. See the file from the RMBS group in the folder p/credit products/SUBPRIME EXPOSURE for some interesting data, including rating actions they've taken.

----- Forwarded by Alina Pak/LP/CHI/F-I on 04/19/2007 10:46 AM -----

Alina Pak/LP/CHI/F-I
04/18/2007 03:52 PM

To
US CTP_Performance Analytics
cc

Subject
Re: Treatment of subprime RMBS in CDO reviews

Sorry for another email. The fodler SUBPRIME EXPOSURE is created. There is 1 file there called SF Deal Screener April 2007.
The green tabs show "problematic" subprime RMBS, based off Grant's "failed screeners", 100% 2nds, and rating variances.

Check wether the deal you are reviewing has any of these assets. Most of the data is already allocated by deal. Thanks to Francis who put together this file.

Alina Pak/LP/CHI/F-I
04/18/2007 03:35 PM

To
US CTP_Performance Analytics
cc

Subject
Treatment of subprime RMBS in CDO reviews

PA: For everyone who is planning to work on DSF or other sector CDOs with a substantial exposure to subprime RMBS.

The problem: we continue to base our reviews of DSF CDOs loaded with mezz subprime bonds on the current asset ratings. We are yet to see the bulk of downgrades. The pitfall is that we may affirm a CDO and a few months later there will be a significant d/grading activity in the portfolio. While we could recommittee, it's clearly the least preferable approach. We also can not defer the reviews until we get a clearer picture on subprime RMBS since

PSI-MOODYS-000048

the pile of stale deals grows and RMBS rating actions will be happening gradually over a long time.

Here is what I suggest. I will create a folder on the p-drive:

Credit Products/SUBPRIME EXPOSURE, which stores info on subprime RMBS which were identified as potential "near future downgrades". This folder will include info:

1) From the RMBS "failed screeners", deals 100% backed up by 2nd lien loans, and any other heads up from them.
2) RMBS deals serviced by failing subrprime servicers: filing Ch 11 or those whose servicer ratings are on RWN or dgraded below RS3+.
3) RMBS bonds identified from the discrepancy report from Ian as Erika suggested. E.g. if SPAM has a more recent and lower rating than us.

We will have to maintain this folder to capture all new developments. I am not sure yet how to synthesize all of the RMBS screeners and reports in one place.

Does anyone think that we may need to maintain the file with all of the estimates from the managers - similar to what Zach was doing a year ago for aircraft and MH? How much did people use it before?

All assets identified based on the information saved in the folders should be considered potentially distressed but not necessarily always treated as distressed. This folder is to share info for identifying "near future downgrades" in subprime RMBS space. The analyst then should be using discretion whether to treat these assets as distressed or performing. Those failing RMBS screeners are clearly distressed (see Grant's description below). Bonds below A from the RMBS deals 100% backed up by 2nd lien loans are very likely to be distressed as well (see Grant's quote below). For those which have lower SPAM rating, let's consult RMBS. It's possible that SPAM developed a more conservative opinion than our RMBS analysts.

Traditionally we've been leaving distressed assets out of Vector and treating them separately based on the estimated CFs for P&I. An alternative treatment could be "notch down" the asset rating and leave it in Vector.

In all cases with material exposure (>10%?) to such assets we should make an effort to get the manager estimates. We want to avoid a situation where a manager challenges our rating action because they feel that we treated some underlying assets too harshly without talking to them first.

PS: Here is what Grant said about 100% 2nd lien loan backed subprime RMBS:

Yes, I agree with Kevin - 2005 bonds initially rated 'BBB-' and below will have writedown risk in 2007. 2006 second lien performance has been even worse, so a number of 2006 second lien bonds rated 'BBB-' and below will face writedown risk this year as well.

Because the triggers on these deals fail (and because the losses on the second lien deals are more front-loaded), we're showing that 'A' and above still hold-up pretty well. Not only do we not foresee writedown risk any time soon, many aren't even showing any downgrade risk yet.

PSI-MOODYS-000049

DATE: 11/27/2007
TIME: 16:45:19 GMT
AUTHOR: Advani, Deepali
RECEIPIENT: May, William
CC:
SUBJECT: RE: Overnightor NY - November 26th

Wow Bill- that must be horrible. . .morale here is not terrific either- but we are moving along - we are all getting the *managing expectations* talk for the bonus- but as we all know we are lucky to be employed. Just very disappointing since we made a lot of money and as you can imagine the fine-toothed comb that is going through our book is finding that it is clean business (ie nothing residual on the book to reserve for)- nevertheless FI down for the year - and we will all have to pay for that. But the counter argument is - you could have hired the ML guys- but then who knows how the book would look.

Believe it or not- folks still want to trade - though as you can imagine- short - liquid - transparent - also restructuring opportunities which are a good fit for my skillset - so I am not too worried- assuming of course that the wheels don't come off the bus altogether.

So as I mentioned I put my place on and got an offer the first day! I am willing to be flexible (I share your view of downward pressure- but felt a little beaten down)- so for now nothing - but I am hopeful. My life in general feels better now that I have WE - I ran into one of our salesmen from the west coast yesterday - he says I look better too - so all is well.

Will you be out in CA next week- if so - would love to see you - I am going all the way out for dinner Mon night- so I have a lot of spare time. . .

Hope we will meet soon - best wishes,
Dee

From: May, William [mailto:William.May@moodys.com]
Sent: Tuesday, November 27, 2007 11:21 AM
To: Advani, Deepali
Subject: RE: Overnightor NY - November 26th

It looks like a good time to sell your apartment and rent: Manhattan can't resist the downward pressure on home prices forever.

We are about to have layoffs. Don't know how many exactly but it will be substantial in the CDO group. Needless to say, morale is not sterling. Eric was transferred to the New Products Group so we only have 3 MDs now.

It feels as if a recession is a given; I'm just wondering if we are in for actual depression.

You're right about CDOs as WMD--but it's only CDOs backed by subprime that are WMD. CLOs, TruPS, synthetic CBOs, etc. are all performing very well. Unfortunately the market isn't distinguishing among CDO types so all CDOs are languishing.

How's life with you? Do you have any business?

-----Original Message-----
From: Advani, Deepali [mailto:deepali.advani@lehman.com]
Sent: Tuesday, November 27, 2007 9:50 AM
To: May, William
Subject: RE: Overnightor NY - November 26th

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PSI-MOODYS-000064

Yes- I knew you would appreciate - Bill who ever thought CDOs would be WMD?

How is all with you?

I am enjoying my WEs and freedom - no luck finding a new place- so I listed mine and I think I will rent for a year or so - will be fun to try something new. Though have to say - every day more bad news- would be much too bad for the world to end- but that's sure how it feels.

—

From: May, William [mailto:William.May@moodys.com]
Sent: Tuesday, November 27, 2007 9:46 AM
To: Advani, Deepali
Subject: RE: Overnightor NY - November 26th

I think he's too optimistic.

-----Original Message-----
From: Advani, Deepali [mailto:deepali.advani@lehman.com]
Sent: Tuesday, November 27, 2007 8:23 AM
To: da80@columbia.edu
Subject: FW: Overnightor NY - November 26th

Even for those who are not in the correlation markets- sometimes our trader gets it really right- so on our march to the end. . .

—

From:
Sent: Monday, November 26, 2007 9:34 PM
Subject: Overnightor NY - November 26th

IG close 11/23 : 80.25
IG close 11/26: 85.25 (mids)
Change: + 5 bps
Equity Base Correlation Change: +1.8%

The wheels on the bus are falling off, falling off, falling off...the wheels on the bus are falling off, all over Wall Street. For those of you without an English based pre-school experience give me a ring -- I'll sing the above refrain for you. It is very catchy. Volumes in the CDX indices were meek and we went out weak. I can't see Asia/Europe feeling too excited about their WEI screens when they walk in to reverse the trend either. Bespoke activity remains muted at best. As an aside, while I was not trading bespokes this afternoon I spent some time looking deep in the bowels of my desk for my DOW 10,000 baseball cap -- better dust that bad boy off.

PSI-MOODYS-000065

used for the purpose of (i) avoiding U.S. tax related penalties or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.

PSI-MOODYS-000066

From: Mahoney, Patrick
Sent: Friday, June 25, 2004 10:14 AM
To: Mahoney, Patrick; Raiter, Frank; Parisi, Frank; Osterweil, Terry
Cc: Kennedy, Martin; Barnes, Susan
Subject: RE: LEVELS
In addition, we have to think about the old HPVI in 5.5 -- there is no OFHEO update in it. Those who were updating seasoned loans in 5.5 were using MRAC.

-----Original Message-----
From: Mahoney, Patrick
Sent: Thursday, June 24, 2004 5:27 PM
To: Raiter, Frank; Parisi, Frank; Osterweil, Terry
Cc: Kennedy, Martin; Barnes, Susan
Subject: RE: LEVELS

Yes, we can this if required. IT can resurrect 5.5 and send the banks a "key" to unlock them. The Help Desk can handle the calls, if any. All of the FHLB banks have the documentation associated with 5.5.

-----Original Message-----
From: Raiter, Frank
Sent: Thursday, June 24, 2004 5:21 PM
To: Parisi, Frank; Mahoney, Patrick; Osterweil, Terry
Cc: Kennedy, Martin; Barnes, Susan
Subject: RE: LEVELS

This is going to be resolved by their regulator. Patrick, is there any support for their old versions? We should discuss before we get back to Tony and the FHLB.
FR

-----Original Message-----
From: Parisi, Frank
Sent: Thursday, June 24, 2004 5:13 PM
To: Mahoney, Patrick; Osterweil, Terry; Raiter, Frank
Cc: Kennedy, Martin; Barnes, Susan
Subject: RE: LEVELS

They did allude to that when we met with them 2 meetings ago.

Francis Parisi, Ph.D.
Director
Structured Finance
Standard & Poor's
55 Water Street – 40th floor
New York, NY 10041-0003
Phone: 212-438-2570
Fax: 212-438-2661
E-mail: francis_parisi@standardandpoors.com

-----Original Message-----

Permanent Subcommittee on Investigations
EXHIBIT #59

PSI-SP-000229

From: Mahoney, Patrick
Sent: Thursday, June 24, 2004 5:12 PM
To: Osterweil, Terry; Raiter, Frank
Cc: Parisi, Frank; Kennedy, Martin; Barnes, Susan
Subject: RE: LEVELS

What happens when we migrate to 6.0? Will they want three versions in play, to facilitate pools structured across different time frames?

-----Original Message-----
From: Osterweil, Terry
Sent: Thursday, June 24, 2004 4:42 PM
To: Raiter, Frank
Cc: Parisi, Frank; Kennedy, Martin; Mahoney, Patrick; Barnes, Susan
Subject: FW: LEVELS

Frank,

Tony DiGiovanni from FHLB Indianapolis asked if they (and possibly the other FHLBs) can use LEVELS 5.5 to analyze the loans under a Master Commitment that was established when 5.5 was in effect. With the model changes from 5.5 to 5.6, some of their commitments which were structured to achieve a "0" loss coverage at "AA" when using 5.5 are now showing a loss coverage > 0 under 5.6.

I think their request seems reasonable since we do not require additional enhancement for an already rated transaction if a new model goes into effect and that new model would show an increase in enhancement required. The same methodology holds true if we rated a deal using a specific version of our model and subsequently implemented another version after which we received a prefunding pool for the rated deal. In this case, we would use the prior version since that was what was used when rating the transaction.

If you agree to their request, they would like something in writing (of course) for their friends at the Finance Board.

Terry

-----Original Message-----
From: Holt, Mark A. [mailto:MHolt@fhlbi.com]
Sent: Thursday, June 24, 2004 1:55 PM
To: Osterweil, Terry
Cc: DiGiovanni, Anthony J.
Subject: LEVELS

Mr. Osterweil,

This is a follow up e-mail to your previous discussion with Tony DiGiovanni regarding the differences in LEVELS v5.5 & v5.6 and the

PSI-SP-000230

resulting data from each.

As Tony mentioned, we have written numerous master commitment contracts (9 months forward) based on our knowledge and experience with v5.5. We monitored the pools to ensure PFIs were fulfilling their commitments based on the statistics and data in that contract and in turn, expected similar LEVELS results at the expiration (end of the 9 months) or filling of the pools. As Tony indicated, we have been somewhat surprised by some of the results we have seen from v5.6 as compared with the sample file data run in v5.5.

We have been advised that v5.6 does have underlying differences in logic and does incorporate some changes (fixed disposition costs compared to %) and we do understand that change. However, we now face difficulty as pools are filled and final analysis is run under v5.6.

Based on this information, we are requesting access and approval to use LEVELS v5.5 to rate all master commitments written while v5.5 was in effect (any commitments written prior to 3-1-04) until the pools are filled or expire. This will allow us to rate the pools written based on v5.5 under the original guidelines. We would appreciate your response and assistance with providing us access to v5.5 as our version has expired as of 3-1-04.

We would also appreciate any additional information that might be available describing specific changes within v5.6. We acknowledge the importance of understanding the updated model and want to be fully prepared to structure future transactions that will yield acceptable results from LEVELS.

Also, Tony would like to discuss the Georgia loan situation separately. When you have had an opportunity to review, he would appreciate a contact to discuss that matter.

Thanks for your assistance and cooperation.

Mark Holt
Funding & Technical Operations Manager
Mortgage Purchase Program
Federal Home Loan Bank of Indianapolis
317-465-0557
mholt@fhlbi.com

PSI-SP-000231

From: Griep, Cliff
Sent: Tuesday, June 21, 2005 5:09 PM
To: Jordan, Pat
Cc: Gillis, Tom; D'Erchia, Peter; Inglis, Perry; Bryan, Andrea; Tesher, David
Subject: RE: new CDO criteria

Thanks Pat. Yes, I was referring to Evaluator 3.0 which I knew from the APB discussions was being tested, and I wanted to check in on the status. I had been in contact with Kai, who passed me the technical document to be released with 3.0, and I understand the supporting criteria article is being drafted.

The issue raised by the applicability of the revised criteria to outstanding issues is, I agree, a difficult one, but also extends to other areas in structured, and potentially C&G, where we depend upon models. It's complicated all the more by potential selective disclosure issues raised by client beta testing of models that potentially embed forthcoming criteria, or the actual release of models that embed new criteria which provides selective insight into future rating changes. It might be helpful to raise this issue with APB when you are nearing or have reached a recommendation to see if we can forge a consistent set of considerations/guidelines, or policy, for the firm in making these judgments. I agree it's the overarching issue.

Tom had mentioned at APB his interest, one that I share, in reviewing whether the new criteria would reduce ratings volatility for newly rated transactions relative to the 1997-1999 vintage of corporate bond transactions, an least when subjected to the same default levels that prevailed in the last downturn. I understand this may be tough to test in light of the other protections built into new transactions, some driven by our previous criteria changes and others by investor demand, but I understand some of the testing was yielding positive results in this regard. I can catch up with Tom on this.

-----Original Message-----
From: Jordan, Pat
Sent: Tuesday, June 21, 2005 2:26 PM
To: Griep, Cliff
Cc: Gillis, Tom; D'Erchia, Peter; Inglis, Perry; Bryan, Andrea; Tesher, David
Subject: RE: new CDO criteria

Cliff,

Assuming you're referring to our proposed (we have not definitely decided to release it) updated version of Evaluator (3.0), we have tested a number of deals but have more to test - both in NY and London. We also have some select clients currently reviewing the Beta version and providing us with feedback.

This has proven to be a complex update and review, and many issues have arisen and continue to arise. The overarching issue at this point is what to do

with currently rated transactions if we do release a new version of Evaluator. Some of believe for both logistical and market reasons that the existing

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PSI-SP-000236

deals should mainly be "grand fathered". Others believe that we should run all deals using the new Evaluator. The problem with running all deals using E3 is twofold: we don't have the model or resource capacity to do so, nor do we all believe that even if we did have the capability, it would be the responsible thing to do to the market.

Pat

-----Original Message-----
From: Griep, Cliff
Sent: Tuesday, June 21, 2005 12:14 PM
To: Jordan, Pat
Cc: Gillis, Tom; D'Erchia, Peter
Subject: new CDO criteria

Pat, Peter, have we had a chance to review the implications of the proposed new criteria on outstanding transactions. What is the status of this exercise and has it raised any policy issues?

Also, is it possible to see what the ratings impact would be on portfolios rated under the new criteria, and recently rated transactions under existing criteria, were we to see corporate default rates reach the same levels experienced in the last downturn?

PSI-SP-000237

From: Wong, Elwyn
Sent: Thursday, July 21, 2005 3:41 PM
To: Bryan, Andrea
Cc: Kambeseles, Peter
Subject: FW:

This has become such an intractable mess!! I don't believe we give it out. Deutsche and Lehman clamouring for it. We really look like amateurs.

-----Original Message-----
From: Bae, Myles [mailto:mbae@us.nomura.com]
Sent: Thursday, July 21, 2005 3:37 PM
To: Wong, Elwyn
Subject: RE:

Understood. In which case we'd absolutely need the E3 whether it's in its final form or not. We're in comp on a trade where the other dealer has the E3 and is waving it at the investor where your analyst in Asia (no names for the time being) won't let my colleagues in Asia near it - she simply won't let him have it for some reason.

Not sure how things are run in Asia but I know we wouldn't even be talking about this in NY. I'd better not be losing trades out there because your analysts have selectively let certain dealers have access to the E3 and not us.

We will not be held to 2 different standards especially over this E3 model.

Elwyn, can you pls help out? Perhaps we should have a quick chat.

Thanks.

-----Original Message-----
From: Wong, Elwyn [mailto:Elwyn_Wong@standardandpoors.com]
Sent: Thursday, July 21, 2005 3:16 PM
To: Bae, Myles
Subject: RE:

My best guess is we will use E3 (not the current beta version, but the final version) to moniotr all deals..... maybe there is a transition point....just like we have from transitioning from Trading Model to E1.

The trick is of course to minimize impcat on deals

-----Original Message-----
From: Bae, Myles [mailto:mbae@us.nomura.com]
Sent: Thursday, July 21, 2005 12:38 PM
To: Wong, Elwyn
Subject: RE:

thanks but no official stance on which version of the model is used to monitor deals that gets rated before the official v3 is released? have a customer particularily uncomfortable with this - no change in the credits in my deal but my notes may get downgraded?? would you live with v2.4.3 (the model used to rate the trade) being the model used for future monitoring purposes of trades by letting us explicitly add it to deal docs?

pls advise.

-----Original Message-----
From: Wong, Elwyn [mailto:Elwyn_Wong@standardandpoors.com]
Sent: Thursday, July 21, 2005 12:34 PM
To: Bae, Myles
Subject: RE:

E3 as is will HIGHLY UNLIKELY be the final rollout version.

My best guess is for exisiting rated deals, if E 2.4.3 does not differ from the final version of E3 by a couple of notches, no rating action will be taken. If

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PSI-SP-000265

more, we will have intensive scrutiny and depending in the circumstances upgrade or downgrade. Needless to say, we are minimalizing the number in the latter category.

-----Original Message-----
From: Bae, Myles [mailto:mbae@us.nomura.com]
Sent: Thursday, July 21, 2005 10:40 AM
To: Wong, Elwyn
Cc: Wilcox, Christopher; Ng, Chui
Subject: RE:

Elwyn,
How about the monitoring of exiting trades? Will you use v2.4.3 of the Evaluator for all trades rated using the particular version? I've got a customer who has v3 and thinks his notes will be monitored by v3 when it gets rated by v2.4.3 today.

would appreciate your IMMEDIATE feedback on this.

Thx.

-----Original Message-----
From: Wong, Elwyn [mailto:Elwyn_Wong@standardandpoors.com]
Sent: Wednesday, July 20, 2005 12:52 PM
To: Bae, Myles; Drexler, Michael
Cc: Wilcox, Christopher; Ng, Chui
Subject: RE:

I think Mike now has a much bigger expense account

-----Original Message-----
From: Bae, Myles [mailto:mbae@us.nomura.com]
Sent: Wednesday, July 20, 2005 9:47 AM
To: Drexler, Michael
Cc: Wilcox, Christopher; Ng, Chui; Wong, Elwyn
Subject: RE:

CONGRATULATIONS!!!! and of course, thanks for the info.

Pls let me know when you settle down at your new place. We'll do lunch - let's have Elwyn pay for it.

Thanks.

-----Original Message-----
From: Drexler, Michael [mailto:michael_drexler@standardandpoors.com]
Sent: Wednesday, July 20, 2005 9:45 AM
To: Bae, Myles
Cc: Wilcox, Christopher; Ng, Chui; Wong, Elwyn
Subject: RE:

2.4.3 is the official version, and all SCDOs are being rated with it. The only exception is for long-short SCDOs, for which it is our global policy to use E3.

There should be no confusion globally. If there is, please let Elwyn know.

By the way, I have resigned from S&P, so Elwyn or Chui will take care of your

PSI-SP-000266

inquiries in the future.

Cheers,

Mike

-----Original Message-----
From: Bae, Myles
[mailto:mbae@us.nomura.com]
Sent: Wednesday, July 20, 2005
9:41 AM
To: Drexler, Michael
Cc: Wilcox, Christopher; Ng, Chui;
Wong, Elwyn
Subject:

Michael,
What is S&P's official position on which version of CDO evaluator is to be used for rating Synthetic CDO transactions? I understand version 3 of the evaluator has been distributed to few market participants and we'd like to be held to consistent standards globally. I'm also hearing from my colleagues in Asia that they are running into issues regarding which version of the evaluator is the official one to use from both customers and your local offices.

FYI, we're currently using version 2.4.3.

Thanks in advance for your thoughts on this.

Regards,

Myles

PSI-SP-000267

From: Chun, Roy
Sent: Thursday, October 06, 2005 7:07 PM
To: Gillis, Tom; Albulescu, Henry; Anderberg, Stephen; Audino, Diane; Barnes, Susan; Binz, Michael (55 Water St.); Burbage, Ted; Chu, Nancy; Coyne, Patrick; De Mollein, Juan; Duka, Barbara; Fazio, Angelo; Fritz, Thomas; Griep, Cliff; Gutierrez, Michael; Hedman, Eric; Kelly, Paul; Kennedy, Martin; Khakee, Nik; Kharnak, Lina; Koch, Richard; Mason, Scott; Merriam, Michael; Olson, Nancy; Osterweil, Terry; Palmisano, James; Ryan, Mary; Scaperdas, Christine; Stock, Michael; Tillen, Bonnie-Lee; Trick, Frank; Warner, Ernestine; Woodell, Colleen; Bell, Ian; Buendia, Rosario; Carrier, Henry; D'Erchia, Peter; Hutchinson, Rose; Jehu, Carol; Jordan, Pat; Klein, David; Lannie, Pauline; Logan, Jacki; Michaux, Fabienne; Pevzner, Yelena; Rose, Joanne; Scott, Gale; Shaw, Brenda; Bryan, Andrea; Diamond, Kim; Hunt, Clayton; Sheridan, Joseph; Tesher, David; Welsher, Ellen
Cc: Griep, Cliff; Mcginnis, Peter; Warrack, Thomas; Kaur, Manjeet; Colwell, Dennis
Subject: RE: Tomorrow's AM Agenda

Regarding Interest deferral topic - not 100% sure what you expect: I can give people an update on the status of the GMAC issue - some good positive resolution but did generate a lot of heat on GMAC from the industry.

At the AM meeting where this came up we actually lumped this under litigation risk. Scott Mason, Eric Hedman and I were to meet and provide some follow up.

The other topic that I had on my plate was from the June AM meeting that we never discussed again at the subsequent AM meetings (I missed the last few AM meetings). It had to do with: Recovery Assumptions/consistency. Here is what I wrote to the group last time. I have to admit that I have not followed up since.

There are two levels of this questions:

1. At the individual deal level. In brief the transparency of the assumptions made on a particular deal are not always very clear.

2. More global assumption changes

- *How is it disseminated to surveillance?*

    Based on feedback it seems to be mostly an informal process between the groups. AMs are aware of the issue and make an effort to notify and contact surveillance but there is no formal notification process or procedure in place (based on initial feedback).

    CDO has a standing criteria meeting (surveillance rep will attend) where major issues are vetted so there is a forum for topics of this nature to be raised.

    CMBS has established a method of benchmarking old deals to new deals which is updated periodically so that CMBS surveillance has the latest "assumptions" of the primary group.

    In various asset classes, the way surveillance is done is different from how a new deal is done because of the lack of models/methods (analytical and cash flow models) that can be used for both surveillance and new deal. Thus, changes in new deal assumptions are not necessarily pertinent to how surveillance is done. In my opinion, this creates a sense of disconnect and analysts (new deal and surveillance) do not feel a need to make sure there is a good process and procedure in place to identify basic global assumption changes.

- *How do we handle existing deals especially if there are material changes that can cause existing ratings to change?*

    - I think the history has been to only re-review a deal under new assumptions/criteria

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PSI-SP-000258

when the deal is flagged for some performance reason. I do not know of a situation where there were wholesale changes to existing ratings when the primary group changed assumptions or even instituted new criteria. The two major reasons why we have taken the approach is (i) lack of sufficient personnel resources and (ii) not having the same models/information available for surveillance to relook at an existing deal with the new assumptions (i.e. no cash flow models for a number of assets). The third reason is concerns of how disruptive wholesale rating changes, based on a criteria changes, can be to the market.

- CDO is current debating the issue and appropriate approach as they change the methodology.
- CMBS is trying to go through the process of "updating" all the existing ratings to new rating levels but this could take up to three years based on current resources.

I'll be at the meeting tomorrow so any topic you want to discuss is okay with me.

Roy

-----Original Message-----
From: Gillis, Tom
Sent: Thursday, October 06, 2005 2:03 PM
To: Albulescu, Henry; Anderberg, Stephen; Audino, Diane; Barnes, Susan; Binz, Michael (55 Water St.); Burbage, Ted; Chu, Nancy; Chun, Roy; Coyne, Patrick; De Mollein, Juan; Duka, Barbara; Fazio, Angelo; Fritz, Thomas; Griep, Cliff; Gutierrez, Michael; Hedman, Eric; Kelly, Paul; Kennedy, Martin; Khakee, Nik; Kharnak, Lina; Koch, Richard; Mason, Scott; Merriam, Michael; Olson, Nancy; Osterweil, Terry; Palmisano, James; Ryan, Mary; Scaperdas, Christine; Stock, Michael; Tillen, Bonnie-Lee; Trick, Frank; Warner, Ernestine; Woodell, Colleen; Bell, Ian; Buendia, Rosario; Carrier, Henry; D'Erchia, Peter; Hutchinson, Rose; Jehu, Carol; Jordan, Pat; Klein, David; Lannie, Pauline; Logan, Jacki; Michaux, Fabienne; Pevzner, Yelena; Rose, Joanne; Scott, Gale; Shaw, Brenda; Bryan, Andrea; Diamond, Kim; Hunt, Clayton; Sheridan, Joseph; Tesher, David; Welsher, Ellen
Cc: Griep, Cliff; Mcginnis, Peter; Warrack, Thomas; Kaur, Manjeet; Colwell, Dennis
Subject: Tomorrow's AM Agenda

Analytical Manager Meeting Agenda
October 7, 2005

3:00 - 3:30 What's up?

3:30 - 4:00 Interest deferral paper & CMBS action - Roy Chun
Tom - Is RMBS part of this? You had it on last month's agenda

4:00 - 4:15 Criteria mailbox update - Paul Kelly

4:15 - 4:30 CVM update - Eric Hedman & Frank Trick

4:30 - 5:00 Economic update - David Wyss

<< File: GMAC Commercial Mortgage Litigation Fees Regarding Terrorism Insurance To Affect CMBS Deals.doc >> << File: SF Rating Definitions.doc >> << File: RMBS SASCO

PSI-SP-000259

Write down example.doc >>

Thomas Gillis
Managing Director and Chief Quality Officer
Structured Finance Ratings
Standard & Poor's
55 Water Street, 40th Floor
New York, N.Y. 10041-0003
Tel 212-438-2468/Fax 212-438-6320
e-mail: tom_gillis@sandp.com

PSI-SP-000260

From: Griep, Cliff
Sent: Wednesday, October 19, 2005 11:02 AM
To: Jordan, Pat
Cc: Gillis, Tom; Gilkes, Kai; D'Erchia, Peter
Subject: CDO model

Pat, I'd like to arrange a discussion at APB of the CDO criteria/model changes, it's status and implications. I am individually familiar with the issue, but most on APB are not. It raises several franchise level issues which could be viewed as precedent setting from a policy perspective, including the implications of the application of the new interpretation of our ratings performance and the related transparency issues,(APB previously reviewed the default study proposed by Kai), the implications of our dependence on models with largely static assumptions, and the volatility of model results to changes in assumptions; the management of the outstanding base of ratings, and the decisions taken by the CDO group to apply the new criteria to certain kinds of transactions and the related consistency and transparency implications. Joanne has asked me to help the group on these issues, and

The APB meets pretty regularly on Thursday mornings from 9am to 11am. November 17th would work. Please let me know.

From my perspective the main issues are the ones above, but there are specific analytical issues which I also would like to cover.

What is the criteria that will be incorporated into the model, and how and why has that criteria been changed, if it has, from what was originally proposed by the criteria team?

To the extent that the new default results are incorporated, what implications does this have for our default research generally, if any, and the reporting of our results. It seems at minimum we will need to explain the difference between using one versus the other, and likely need to work through consistency issues. Will we use the new default study results in all criteria applications? This is really an APB issue.

What is the rating implication of the criteria change and how will this be communicated/managed? Relatedly, to the extent that some types of CDO ratings performed poorly through the last downturn, to what extent will the criteria, coupled with other changes that have been made, prevent a reoccurrence?

What was the basis for applying the new criteria to new transactions before the group determined the implications of the new criteria for outstanding transactions? Are we sufficiently transparent about this? To the extent that the new criteria may have been changed/adapted since it was first applied to new transactions, will the changes have implications for the ratings on these recently rated transactions?

If the new criteria utilizes asset backed default rates for judging the future performance of CDO's incorporated into CDO's are these default rates appropriate given whatever differences exist between the historic ratings performance of the asst backed and CDO sectors? What are the other methodological challenges related to CDO's squared?

I'm hearing that Fitch's vector model is being well received by market participants, and that they are about to launch a cash flow analytical capability related to it. Is E3 competitive with

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vector?

Is there any competitive implication if competitors are able to provide expected loss given default assumptions, or expected loss distribution assumptions, on CDO's, and S&P is not? Is recovery or loss given default analysis on CDO traunches a critical competitive issue or not? How is it prioritized and what are your expectations for putting this analytical capability in place?

What are the impediments to incorporating the actual recovery assessment provided by the C&G group into our CDO analysis? What are the plans here and what implication for model and surveillance? To the extent they are going to be included, what is the implication of the contemplated upgrade of some two thirds of the existing recovery assessments?

Some of these we might want to go through in smaller group. Let me know.

PSI-SP-000184

From: Wong, Elwyn
Sent: Wednesday, November 23, 2005 10:34 AM
To: Ghetti, Belinda; Kambeseles, Peter
Subject: FW: Disclaimer - Help

Only gets better

-----Original Message-----
From: Bryan, Andrea
Sent: Wednesday, November 23, 2005 10:27 AM
To: Wong, Elwyn
Subject: Re: Disclaimer - Help

Yes. What happens when they hear that cash deals won't be using e3.

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Wong, Elwyn <Elwyn_Wong@standardandpoors.com>
To: Bryan, Andrea <andrea_bryan@standardandpoors.com>
Sent: Wed Nov 23 10:21:32 2005
Subject: RE: Disclaimer - Help

Lord help our fucking scam ... this has to be the stupidest place I have worked at. Marc Steinberg is sending us a cash CDo of ABS portfolio to check as we speak

Your conference call on E3?

-----Original Message-----
From: Bryan, Andrea
Sent: Wednesday, November 23, 2005 10:14 AM
To: Wong, Elwyn
Subject: Re: Disclaimer - Help

No and I'm sure that we will not provide them any signoff.

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Wong, Elwyn <Elwyn_Wong@standardandpoors.com>
To: Bryan, Andrea <andrea_bryan@standardandpoors.com>
Sent: Wed Nov 23 10:09:28 2005
Subject: FW: Disclaimer - Help

I guess we have not heard boo from J Ro

-----Original Message-----

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EXHIBIT #64

PSI-SP-000192

From: Neer, Brian (FID) [mailto:Brian.Neer@morganstanley.com]
Sent: Wednesday, November 23, 2005 9:42 AM
To: elwyn_wong@sandp.com
Subject: Disclaimer - Help

Elwyn,

We are in a bit of a pickle here. My legal staff is not letting me send anything out to any investor on anything with an S&P rating right now. We are waiting for you to tell us you that you approve the disclaimer or are grandfathering our existing and pipeline deals. My business is on "pause" right now.

Help!

Thanks,

Brian

PSI-SP-000193

From: Tesher, David
Sent: Monday, November 28, 2005 9:46 AM
To: Kambeseles, Peter
Subject: Fw: E3 FAQ

Need to discuss later...

Sent from Blackberry Wireless Handheld

-----Original Message-----
From: Inglis, Perry <perry_inglis@standardandpoors.com>
To: Gilkes, Kai <kai_gilkes@standardandpoors.com>; Jordan, Pat <pat_jordan@standardandpoors.com>; Tesher, David <david_tesher@standardandpoors.com>; Bryan, Andrea <andrea_bryan@standardandpoors.com>; Khakee, Nik <nik_khakee@standardandpoors.com>; Gillis, Tom <tom_gillis@standardandpoors.com>
Sent: Mon Nov 28 07:02:36 2005
Subject: RE: E3 FAQ

Dear All - Here is our proposal for the transition process as discussed last Wednesday. This has been agreed by Kai, Simon Collingridge, Ian Bell and me:

1.Agreed on a 4 month transition period at the end of which all new deals will need to be rated and surveilled using E3. However for any deal rated on E2.4.3 (either before or during the transition period) this deal will continue to be surveilled on E2.4.3 for its life.

2. All new deals that are rated or considered for a rating during the transition period will be run on both E2.4.3 and E3. We will also run all deals through both E3/Low and E3/High to determine if the result on E2.4.3 is within the tolerance levels. The actual tolerance results will not be shared with arrangers (except where the results require more credit enhancement as outlined below). This will need to be carefully managed globally.

3. If the deal falls within the tolerance levels then it can be rated on E2.4.3 and also surveilled (inc SROC report) on E2.4.3 for its life.

4. If the deal falls outside of the tolerance levels then additional c/e will be required to bring the result on E2.4.3 up to a level at least the same as E3/Low. The deal can then be rated and surveilled on E2.4.3 but there will need to be a flag to surveillance to ensure the excess c/e under 2.4 doesn't feed into an upgrade. If the deal falls outside the E3/High then the arranger will be strongly advised to use E3.

5. For all deals surveilled on E2.4.3 where an upgrade (or downgrade) is being considered the E3 tolerances will be run and the upgrade (or downgrade) will only happen if the deal falls into the tolerance band.

6. Propose that to ensure consistency a global surveillance committee is established.

7. Propose that exactly the same process is followed for cash.

Regards

Perry

-----Original Message-----
From: Gilkes, Kai
Sent: 28 November 2005 11:54
To: Jordan, Pat; Tesher, David; Bryan, Andrea; Inglis, Perry; Khakee, Nik
Subject: E3 FAQ

Dear all,
Please see the attached updated FAQ for today's call.
Kai

<< File: FAQ for E3 Release KG 28-Nov-05.doc >>

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PSI-SP-000201

From: Inglis, Perry
Sent: Thursday, December 01, 2005 7:50 AM
To: Gilkes, Kai; Gillis, Tom; Jordan, Pat; Bryan, Andrea; Tesher, David
Subject: RE: Transition and ongoing surveillance process for E2.4.3 versus E3

I'll have a go at answering your other issues/questions Tommy and we can always discuss on the call today:

1. Yes I think arrangers will be able to accept surveillance on E3.4 etc. This is no different to how we do things now - all deals surveilled on latest model and then a final check on rated model before action being taken. It is just that the changes are so fundamental in E3.0 that we haven't been able to continue this process moving from E2.4.3 but I would expect to reinstigate from E3.0 onwards.

2. Scripting - no problem and a good idea. I don't think your concerns on the tolerance point will be a particularly big issue for the market. My view is that arrangers will be quite happy to hear that their deal falls within our acceptable tolerance levels and just get on with their trade. Our experience is that really only the high yield deals are going to fall outside of the tolerance which will be very obvious to arrangers anyway when they look at E3.

3. There is no intention to change what is being surveilled

4. I understand your point but if we accept that we have a tolerance band for existing deals then surely we should be willing to have the same for new deals during the 4 months period? Isn't our concern with the deals that fall outside the tolerance that they are under enhanced for credit risk but if inside the tolerance they are not? So if the deal gets inside the tolerance by adding more enhancement but still uses E2.4.3 we shouldn't have a problem. My concern here is that for the HY deals that may fall outside the tolerance if we insisted they use E3 they would be having to put in substantially more c/e only some of which is to do with credit risk. The move from E3/Low to full E3 is purely model risk and is a standard that we are not holding other deals to.

Hope that helps!

Perry

-----Original Message-----
From: Gilkes, Kai
Sent: 01 December 2005 11:07
To: Gillis, Tom; Inglis, Perry; Jordan, Pat; Bryan, Andrea; Tesher, David
Subject: RE: Transition and ongoing surveillance process for E2.4.3 versus E3

Tom,
With regard to point 5 below, I don't think we will experience a situation where deals surveilled using E2.4.3 exhibit very different volatility to those surveilled using E3. The reason for this is that while the subordination levels of each model can clearly be different, the sensitivity of both models to rating changes in the underlying portfolio is not very different. For example, during the impact testing we notched several portfolios by 1 notch, and observed very similar rating changes in the two models. (In an extreme case, if

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several names fell from IG to NIG, I would expect E3 to be more sensitive than E2.4.3, all else equal). I agree that we need to do more research on ratings volatility generally, but I would argue that most ratings volatility is actually structural (i.e. due to high leverage, etc.), and not related to modelling assumptions.

Also, I would not expect the tolerance bands to affect the relative impact of E2.4.3 and E3, apart from perhaps to bring the actions of E2.4.3 closer to E3 (i.e. slightly larger downgrades than E2.4.3 might suggest).

Kai

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, November 30, 2005 5:12 PM
To: Inglis, Perry; Gilkes, Kai; Jordan, Pat; Bryan, Andrea; Tesher, David
Subject: RE: Transition and ongoing surveillance process for E2.4.3 versus E3

Perry,
I apologize but I have done a little bit of brain dump below. Trying to deepen my understanding. I have included some suggestions and/or questions below in Blue. Thanks! Tom

-----Original Message-----
From: Inglis, Perry
Sent: Monday, November 28, 2005 12:20 PM
To: Gilkes, Kai; Gillis, Tom; Jordan, Pat; Bryan, Andrea; Tesher, David
Subject: Transition and ongoing surveillance process for E2.4.3 versus E3

Dear All

Following our call today I have changed no.5 below to reflect our conversation. I would be grateful to receive your approval or otherwise to this proposal so that it can be rolled out to the deal analysts and surveillance analysts globally:

1.Agreed on a 4 month transition period at the end of which all new deals will need to be rated and surveilled using E3. However for any deal rated on E2.4.3 (either before or during the transition period) this deal will continue to be surveilled on E2.4.3 for its life. Which we are assuming is 3 years. Will arrangers be able to accept an E3 rating but E3.4 surveillance?

2. All new deals that are rated or considered for a rating during the transition period will be run on both E2.4.3 and E3. We will also run all deals through both E3/Low and E3/High to determine if the result on E2.4.3 is within the tolerance levels. The actual tolerance results will not be shared with arrangers (except where the results require more credit enhancement as outlined below). This will need to be carefully managed globally. How will we respond? It may be helpful to script out a few examples for the staff. Do we think some firms will reverse engineer this?

3. If the deal falls within the tolerance levels then it can be rated on E2.4.3 and also surveilled (inc SROC report) on E2.4.3 for its life.
Will the surveillance be adjusted to the number of issues defaulted as opposed to the probability of default?

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4. If the deal falls outside of the tolerance levels then additional c/e will be required to bring the result on E2.4.3 up to a level at least the same as E3/Low. The deal can then be rated and surveilled on E2.4.3 but there will need to be a flag to surveillance to ensure the excess c/e under 2.4 doesn't feed into an upgrade. If the deal falls outside the E3/High then the arranger will be strongly advised to use E3. This is for new deals. I think it will be difficult maintaining a consistent approach to these transactions by leaving it up to the adviser. If it is outside of the tolerances (high or low), these are transactions are higher risk that we are targeting by developing E3. Inside the tolerances are the transactions that we have determined are more model risk and not so much credit risk. I would think we would want any deal that is outside the tolerances to use E3.

5. For all deals surveilled on E2.4.3 where an upgrade is being considered the deal will only be upgraded if also passing on E3/Base. The level of upgrade will however be in accordance with E2.4.3 and the deal will continue to be surveilled on E2.4.3. For all deals surveilled on E2.4.3 where a downgrade is being considered the deal will also be run on E3/Low. If the deal falls within the E3/Low tolerance the downgrade will be in accordance with E2.4.3. If the deal falls outside of the tolerance this information will be taken to the surveillance committee for potential action beyond (i.e. more rating notches) than the output of E2.4.3 would suggest. The deal would continue to be surveilled on E2.4.3 I believe this is suggesting treating upgrades differently than downgrades. I agree with this, if I understand correctly, over time in a period of sustained upgrades more and more transactions would move closer to be being on an E3 base. I like the sentiment suggested that we should move toward E3 for all deals provided that it is not disruptive to the market.

I think we need to either be as explicit as possible with our underlying assumptions or be willing to reassess each year our agreement. I am concerned that in two years from now we may be faced with some big corporate downgrade (a la GM). I don't know if this could happen but assume there were 100 deals holding/referencing GM and half were under E2.4 and half E3. All of the E3 deals show a change but because of the tolerances, none of the E2.4 deals indicate a change. I think depending on the circumstances we should leave open our options on how we react to these types of events.

I think we need to understand better how transitions will change under E3. I have heard people state that E3 will make our ratings more volatile. Do we have any empirical evidence of this? Do we know how much more volatile? Do we know how much volatility is associated with the new default curves verses the application of defaults to referenced entities vs. our existing approach?

Arguments against moving to an E3 include concerns about volatility. We need to monitor and think about two groups of deals with the same ratings and portfolios, with different volatilities. Perhaps it would be useful to take and existing transaction and assume a few transition scenarios and see how they would perform under E2.4, E3, and the tolerances over there life. I think this would be great help for me to gain a better understanding of these issues.

Do we need to think about E2.4 and E3 when it comes to trades based on the

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same index. I would assume that they would need to be treated the same.

6. Propose that to ensure consistency a global surveillance committee is established which for the first few months should compile a group that includes both surveillance and deal analysts/managers.

7. Propose that exactly the same process is followed for cash.

PSI-SP-000264

From: Griep, Cliff
Sent: Wednesday, December 07, 2005 5:17 PM
To: Gillis, Tom; Jordan, Pat
Subject: RE: RE: FW: Call from Abby Moses, Derivatives Week re: status of CDO Evaluator 3

I know the plan. I've read the earlier version of the technical document, but not the latest revisions. I may have missed it, but I'm also looking for the related FAQ. My general comment on the technical document is that it may not adequately cover precisely what, and precisely why the analytical framework is changing. My sense is that it would be helpful to present an executive summary of what is changing, and why it's changing, and what the implications are. With regard to communication, and perhaps SFLT has already done this, I think it's helpful to reassess whether the manner in which we released the potential changes and the beta, is consistent with the transparency objectives implied by the code. As mentioned at APB, we need to make sure the practices are taking the public release and comment period seriously. In hindsight, this seems like a strong candidate for that. I agree that we may have achieved feedback from the right people with the existing process, but again in hindsight, given that we appear like we are going to end up with disgruntled customers one way or the other, it may have been better to put together a detailed piece which posed specific areas for feedback, inclusive of the criteria and policy issues, and set up a process to evaluate that. The feedback may be being assessed in a more systematic way than I'm aware, but it doesn't seem so. I don't disagree with how the recent inquiries have been handled, and I agree a global communication strategy is needed. On APB, and CMS EC, my sense, reinforced from the banker meetings, is that there is risk and potentially material business implications with any implementation plan. I was offering APB, and have been for awhile now, as a sounding board for the issue, and to support/reinforce/make decisions regarding the policy issues around grandfathering. As I said a few months ago, it would be helpful to have a policy framework communicated to the market on when S&P will apply new criteria in model derived ratings to outstanding transactions and when it won't. In the absence of such a stated position, and divergent historical precedents, we are not being as transparent as we need to be.

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, December 07, 2005 8:17 AM
To: Griep, Cliff; Jordan, Pat
Subject: RE: RE: FW: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

Cliff,

I seem to recall that we indicated that we announced the new model being developed and the potential changes being considered in it at a conference in London last Feb. I think this was in response to your concern over the limited beta in the market. We indicated that beta was not the only disclosure but that we announced it at a conference. That being said, we are rating certain transactions (shorts and first to default) with the new model which as you know is different from the existing model. I thought that you understood our approach to outstanding issues. We were not grandfathering. However, we were applying tolerance bands around the model to prevent unnecessary rating volatility. It was precisely because of our diligence to applying our criteria to all transactions, albeit in a responsible way, that resulted in the Lehman Brothers meeting you attended. So we are not planning to take the issue APB. As I thought we agreed, we are working diligently to release the new model as soon as humanly possible. I believed I had told you that we were hoping for this Friday. I have understood your silence as agreement. If our release of the model is problem, please let me know. We do not wish for the release to be scooped by anyone in the media. In fact, we were just discussing setting up meetings with Adam to propose a media plan. Our Communications people in Europe have been fully briefed. You have our technical document and FAQ that will be published. As you might imagine by the Lehman response, we believe that the release and move to this model is a high priority and urgent. However, your concerns are equally concerning to us and would like to address any you may have.
Thanks! Tom

-----Original Message-----
From: Griep, Cliff
Sent: Tuesday, December 06, 2005 5:46 PM
To: Jordan, Pat
Cc: Gillis, Tom
Subject: FW: RE: FW: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

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Pat, I thought you guys said that we had publicly introduced the proposed criteria through a series of conferences. Did we share the proposed changes just with select market participants? Are we rating transactions today based on criteria that has not been publicly released? Do you want apb to consider the grandfathering issue and provide an explicit decision? Do you want to use a formal comment period as was requested by apb back in april for all major criteria issues?

-----Original Message-----
From: Tempkin, Adam
Sent: Tue Dec 06 17:36:01 2005
To: Griep, Cliff; Barker, Mimi
Cc: Carlson, Gus; Winn, Martin
Subject: RE: FW: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

To my best knowledge, we have not yet issued a public commentary on the proposed changes to criteria.

-----Original Message-----
From: Griep, Cliff
Sent: Tuesday, December 06, 2005 5:22 PM
To: Barker, Mimi
Cc: Carlson, Gus; Winn, Martin; Tempkin, Adam
Subject: RE: FW: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

The structured group said the other day that they have already made the proposed new criteria public several months ago. Do we have a publicly released article on this.

-----Original Message-----
From: Barker, Mimi
Sent: Tue Dec 06 17:04:23 2005
To: Griep, Cliff
Cc: Carlson, Gus; Winn, Martin; Tempkin, Adam
Subject: FW: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

Hi Cliff -- Wanted you to be aware of the media interest on this issue, and to forward a copy of the Lehman report, in the event you haven't seen it. Thanks. Mimi

-----Original Message-----
From: Tempkin, Adam
Sent: Tuesday, December 06, 2005 4:58 PM
To: Barker, Mimi
Cc: Carlson, Gus
Subject: RE: Call from Abby Moses, Deriviatives Week re: status of CDO Evaluator 3

Hi Mimi,

I spoke briefly to Pat Jordan about this yesterday, and the only thing she wants us to say externally at this point is that we are still doing internal testing of CDO Evaluator 3 (E3), getting market feedback, etc. Beyond that, she does not want to give any more details. FYI -- This delay in updating our assumptions and our model has been a huge issue in the market for awhile now, and in fact, Lehman Brothers recently wrote a pretty harsh article about our delay. I have attached the Lehman article below.

I spoke to the reporter and told her the comment Pat suggested -- more internal feedback and testing, etc. -- and given

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how this is already out in the market, it's just not enough detail for the Derivatives Week reporter, Abby Moses. I suspect Abby will use my quote but then write, "declined to comment further...", etc. She wants to know more details about this overhaul of our methodology -- is it a serious overhaul? Are we changing our assumptions? What's the timing? Will it be retroactive for recent deals, and if so, how far back?, etc.

Given that Lehman already wrote about this, my feeling is that we should be providing more detail to the market -- at least regarding which assumptions we are changing and to what extent, etc.

Thanks,

Adam

-----Original Message-----
From: Barker, Mimi
Sent: Monday, December 05, 2005 4:52 PM
To: Tempkin, Adam
Cc: Wargin, David
Subject: Call from Abby Moses, Deriviatives Week

Hi Adam -- David transferred a call from Abigal Moses at Deriviatives Week (212 224 3640) -- we thought she was calling on the press release pub fi just put out on Debt Deriviative Profiles (DDP) criteria revisions.

Turns out she was callling about whether we were changing criteria on CDO evaluators -- she'd heard we were beta testing a new edition. I told her I'd call you, and in the meantime I sent her the DDP piece (amoses@iinews.com) as she had written on pub fi and deriviatives last week.

Over to you.

Thanks.

Mimi

PSI-SP-000181

From: Tesher, David
Sent: Wednesday, December 21, 2005 10:40 AM
To: Kambeseles, Peter
Subject: FW: RE: E3 docs

Things change while we were out?

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, December 21, 2005 8:35 AM
To: Tesher, David; Bryan, Andrea; Inglis, Perry; Gilkes, Kai
Subject: RE: RE: E3 docs

David,
You missed our meeting yesterday. We will be distributing the notes on that meeting shortly and will be reconvening for a final decision. Thanks! Tom

-----Original Message-----
From: Tesher, David
Sent: Wednesday, December 21, 2005 8:23 AM
To: Bryan, Andrea; Inglis, Perry; Gillis, Tom; Gilkes, Kai
Subject: Re: RE: E3 docs

It is my belief that we have now all agreed to publically dissiminate the "tolerance" bands (given the numerous conversations that have taken place regarding this subject over the last several days.....which have included Joanne, Cliff, Tommy, and now all the PL's) ......

As such ......let's now move forward.....

In turn, as was suggested yesterday in our pre-TCON call ......I suggest we work in parallel to: a) craft the message around why we implemented the tolerance bands (ie ...as a "transistional PD proxy" for vintage trades and transactions that are in the dealer pipelines that have been structured around 2.4.3), b) to work with publishing, Laura, and Adam in generating the press release around this issue ....and, c)work with Ram and Bob Watson to logistically incorporate onto our Web Site ......

Unfortunately I do not see any simple logistical solution regarding how to dissiminate this to all market participants ... I would recommend we incorporate them into E3.0 .....and then phase them out publically ......at some time in the future.....

The important thing is to begin to "craft" the "politically correct" external tolerance band message....Who would like to take the lead on this?

David

Sent from Blackberry Wireless Handheld

-----Original Message-----
From: Bryan, Andrea <andrea_bryan@standardandpoors.com>
To: Inglis, Perry <perry_inglis@standardandpoors.com>; Gillis, Tom <tom_gillis@standardandpoors.com>; Gilkes, Kai <kai_gilkes@standardandpoors.com>; Tesher, David <david_tesher@standardandpoors.com>

Sent: Wed Dec 21 07:48:52 2005

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Subject: Re: RE: E3 docs

yes, we need to think of the best delivery to clients.

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Inglis, Perry <perry_inglis@standardandpoors.com>
To: Gillis, Tom <tom_gillis@standardandpoors.com>; Bryan, Andrea <andrea_bryan@standardandpoors.com>; Gilkes, Kai <kai_gilkes@standardandpoors.com>; Tesher, David <david_tesher@standardandpoors.com>

Sent: Wed Dec 21 05:27:25 2005
Subject: RE: RE: E3 docs

I agree that we need to make the tolerances public. Really what we mean is giving everyone E3/Low and E3/High. Please let me know how you intend to do this - put it up on the website alongside E3/Base? Just send the relevant tables to the arrangers? Press releases?

-----Original Message-----
From: Gillis, Tom
Sent: 16 December 2005 20:04
To: Inglis, Perry; Bryan, Andrea; Gilkes, Kai; Tesher, David
Subject: FW: RE: E3 docs

We should discuss later or monday.

-----Original Message-----
From: Rose, Joanne
Sent: Fri Dec 16 13:39:41 2005
To: Griep, Cliff; Gillis, Tom
Subject: RE: E3 docs

I think we should make the tolerance levels public,.

Joanne

-----Original Message-----
From: Griep, Cliff
Sent: Friday, December 16, 2005 9:53 AM
To: Gillis, Tom
Cc: Rose, Joanne
Subject: RE: E3 docs

Should we be going out with request for feedback on the cash flow criteria issues at the same time we are releasing E3. Are we ready to? It seems like E3 will raise questions about cash flow deals and we may want to address these at the same time.

I would take out the reference to "last three to five years", and just say upfront that "the model incorporates changes in default, correlation, and

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recovery criteria reflecting additional data and research related to each, as well as expanded capabilities to incorporates additional structural features including......" The updated research is detailed in the supporting technical document.

It would be helpful to see the rationales for the individual ratings that are being changed,

It's not clear to me how, or even why we would keep the tolerance levels confidential, as they are going to be the primary determinant of the ratings for outstanding transactions.

-----Original Message-----
From: Gillis, Tom
Sent: Wednesday, December 14, 2005 5:29 PM
To: Griep, Cliff
Subject: FW: E3 docs

fyi

-----Original Message-----
From: Inglis, Perry
Sent: Tuesday, December 13, 2005 9:58 AM
To: Bryan, Andrea; Michaux, Fabienne; Tesher, David; Jordan, Pat; Gillis, Tom; Rose, Joanne; Gilkes, Kai; Bell, Ian

Subject: FW: E3 docs

Dear All

Here are what I hope are the final drafts of the Press Release, Internal FAQ document, Internal Transition and Process document, and suggested wording for rating action press release. I believe these all encompass your comments on previous drafts. I know there is some doubt as to whether the release will take place tomorrow or next week but please can you let me know if you have any comments asap.

Thanks

Perry

-----Original Message-----
From: Rodney, Gavin
Sent: 13 December 2005 14:51
To: Inglis, Perry; Gilkes, Kai
Subject: E3 docs

Hi
Here are the latest docs. I will be in a meeting till 4pm so can discuss any changes after that.

cheers
Gavin

<< File: Global MR paragraph draft Dec 13.pdf >> << File: CDO Evaluator media release draft Dec 13.pdf >> << File: FAQ draft Dec 13.pdf >> << File: Transition Process Doc Draft Dec 13.pdf >>

Gavin Rodney

PSI-SP-000199

Editorial Manager
Structured Finance
(44) 20-7176-3829

Standard & Poor's,
20 Canada Square,
Canary Wharf,
London E14 5LH,
United Kingdom

SF Investor Hotline: ঢ়-20-7176-3223 SFinvestor@sandp.com

Non-Investors should continue to direct their inquiries to: SFMarketingEurope@sandp.com

PSI-SP-000200

From: Scott, Gale
Sent: Tuesday, January 31, 2006 6:26 PM
To: Diamond, Kim
Subject: RE:

Importance: High

I don't blame him. See you then.

Gale

-----Original Message-----
From: Diamond, Kim
Sent: Tuesday, January 31, 2006 6:22 PM
To: Scott, Gale
Subject: Re:

I talked ghallagher off the ledge for now. He is pretty pissed though and is likely going to send an email to you and maybe even joanne. I will see you tomorrow

----
Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Scott, Gale <gale_scott@standardandpoors.com>
To: Diamond, Kim <kim_diamond@standardandpoors.com>
Sent: Tue Jan 31 18:15:52 2006
Subject: RE:

I sent to Joanne and Tommy.

Gale

-----Original Message-----
From: Diamond, Kim
Sent: Tuesday, January 31, 2006 6:00 PM
To: Scott, Gale
Subject: Fw:

Fyi

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Gallagher, Timothy <timothy.gallagher@gs.com>
To: Diamond, Kim <kim_diamond@standardandpoors.com>
Sent: Tue Jan 31 17:05:48 2006

Permanent Subcommittee on Investigations
EXHIBIT #69

PSI-SP-000252

Subject:

Kim - lets speak asap on my voice mail. I think the investor spoke to someone else. Below is the direct feedback:

"Rabo Tango are withdrawing any interest from LNR because they had a call with S&P who confirmed that this was being rated off the old methodology. Rabo's conclusion was that they felt this deal was a prime candidate for a downgrade when the new methodology kicked in."

I apologize if my voice mail seemed curt but this is a huge issue for us and the investor came to this conclusion immediately after the call with the S&P person.

Goldman, Sachs & Co.
85 Broad Street | New York, NY 10004
Tel: 212-902-7144 | Fax: 212-493-0687
e-mail: timothy.gallagher@gs.com
Goldman
Sachs
Timothy Gallagher
Fixed Income, Currency & Commodities

PSI-SP-000253

From: Tesher, David
Sent: Tuesday, February 14, 2006 7:10 PM
To: Anderberg, Stephen
Cc: Kambeseles, Peter
Subject: Fixed Income Activity Report:

Steve,

I am currently heading back to NY via Philly .....In turn, would you please incorporate the following into this months Activity Report from me:

1) Would you take what I submitted to Henry outlining the cash flow assumption teams that were established......and again reflect all of them:

Then......

2) Take the Cash Flow Beta Assumptions that we sent all the dealers.....and attach them to the same section .....Would you also highlight that these are Phase 1 of our rollout ......Then touch base with Peter -- and ask him to provide you with dialog highlighting our planned Phase II broader roll-out......
and then conclude with that.....

Also .....please add the following paragraph's where appropriate:

The Cash Flow CDO market continues to experience primary and secondary "overhang" given the rollout of CDO Evaluator 3.0 and the corresponding anxiety\anticipation surrounding our revised cash flow assumptions. The uncertainty and anxiety surrounding our revised cash flow changes has been pronounced (as was anticipated) given S&P's decision not to "grandfather" vintage CDO transactions.

Market feedback has been varied regarding our methodology changes.
Though market participants understand that S&P reserves the right to refine and adjust it's credit opinion at any time (based on the availability of additional\new data), Investors have generally conveyed their preference to have the market re-price risk -- as opposed to also being exposed to S&P "marking to market" its credit opinion as a result of additional data which translates into a methodology change.

Though the tolerance bands have provided some "cushion" as it pertains to mitigating a rating action based soley on a model based change ....they have also created confusion given their lack of transparancy. Further complicating this E3 Low tolerance band dissimination\transparancy issue is the fact that internal dialog\debate is still taking place around the CDO of ABS default tables and underlying assumptions (ie WAL, Correlation, Industry Concentrations).

Though market participants appreciate the complexities surrounding rolling-out a material change to our CDO methodology .....they have generally been united in their sentiment of requesting a longer lead time in order to help "manage expectations" and enable Dealers, Issuers and Investors to modify and transistion vintage and contemplated structures to our "new" standards .....

Several market veterans used the BASIL 2 accord as an analogy for "managing expectations" with greater lead time (ie the BASIL 2 discussions have been in the broad marketplace for a couple of years now).......

Steve --

Andrew Pedvis should have a follow-up regarding internal progress we have made rwegarding the credit estimate process.....

Sent from my BlackBerry Wireless Handheld

Permanent Subcommittee on Investigations
EXHIBIT #70

PSI-SP-000214

From: Bell, Ian
Sent: Tuesday, March 21, 2006 6:30 AM
To: Gillis, Tom
Cc: Inglis, Perry; Jordan, Pat
Subject: Moody's

Tom

FYI. Just sat on a panel with Frderic Drevon, my opposite number at Moody's who fielded a question on what happens to old transactions when there is a change to rating methodologie. The official Moody's line is that there is no "grandfathering" and that old transactions are reviewed using the new criteria. However, "the truth is that we do not have the resources to review thousands of transactions, so we focus on those that we feel are more at risk.". Interestingly, Olivier Dufour from Fitch said they "grandfathered" as it would otherwise be "unfair".

Regards

Ian

Sent from my BlackBerry Wireless Handheld

Permanent Subcommittee on Investigations
EXHIBIT #71

PSI-SP-000235

From: Coyne, Patrick
Sent: Tuesday, June 27, 2006 2:20 PM
To: Anderberg, Stephen
Subject: FW: RMBS LEVELS 5.7 and its Impact on Outstanding Deals

different from cdo

-----Original Message-----
From: D'Erchia, Peter
Sent: Tuesday, June 27, 2006 12:07 PM
To: Coyne, Patrick
Subject: FW: RMBS LEVELS 5.7 and its Impact on Outstanding Deals

-----Original Message-----
From: Warner, Ernestine
Sent: Tuesday, June 27, 2006 10:55 AM
To: Warrack, Thomas; Jordan, Pat; Buendia, Rosario
Cc: Wong, Elwyn; Kambeseles, Peter; Pollsen, Robert; D'Erchia, Peter; Tesher, David; Bryan, Andrea; Gillis, Tom; Albergo, Leslie; Arne, Errol; Barnes, Susan; Glehan, David; Goldenberg, Mark; Grow , Brian (S&P); Kennedy, Martin; Kostiw, Karen; Lukacsko, Erik; Mason, Scott; Mcdermott, Gail; Niemy, Todd; Osterweil, Terry; Parker, Samuel; Perelmuter, Monica; Polizzotto, John; Shaikh, Waqas; Solar, Mona; Stock, Michael; Tencer, Steve; Vonderhorst, Brian
Subject: RE: RMBS LEVELS 5.7 and its Impact on Outstanding Deals

Thanks Tom. The implications for existing deals following changes in rating criteria or models is accurately described below. Actual deal performance continues to drive rating affirmations and changes, even when loan level information has been made available. I would add that in light of information sharing around changes to the model we would often revisit our surveillance criteria making any necessary adjustments to ensure more precise ratings.

Examples of this includes more frequent reviews as delinquencies ramp up (again, performance driven) and movement toward higher support multiples or prolonged seasoning prior to upgrade especially at the lower rating levels.

Ernestine

-----Original Message-----
From: Warrack, Thomas
Sent: Friday, June 23, 2006 4:04 PM
To: Jordan, Pat; Buendia, Rosario
Cc: Wong, Elwyn; Kambeseles, Peter; Warner, Ernestine; Pollsen, Robert; D'Erchia, Peter; Tesher, David; Bryan, Andrea; Gillis, Tom; Warrack, Thomas; Albergo, Leslie; Arne, Errol; Barnes, Susan; Glehan, David; Goldenberg, Mark; Grow , Brian (S&P); Kennedy, Martin; Kostiw, Karen; Lukacsko, Erik; Mason, Scott; Mcdermott, Gail; Niemy, Todd; Osterweil, Terry; Parker, Samuel; Perelmuter, Monica; Polizzotto, John; Shaikh, Waqas; Solar, Mona; Stock, Michael; Tencer, Steve; Vonderhorst, Brian
Subject: RMBS LEVELS 5.7 and its Impact on Outstanding Deals

All,

Permanent Subcommittee on Investigations
EXHIBIT #72

PSI-SP-000244

As a result of the increase in credit support requirements as the RMBS Group moves from LEVELS 5.6 to 5.7 for July transactions, SF has had an increase number of queries from the marketplace (mostly from Wall Streets researchers and investors/CDO managers) on the impact this change will make on outstanding deals rated under the 'old criteria' or LEVELS 5.6. Given the significant inter-relationship between the RMBS and CDO markets, and to ensure consistent and systemic responses to this question across SF, Pat and Rosario have asked me to attempt to articulate our position and response to this question for all potentially impacted. (Incidentally this position was shared and discussed at the SF Investor Forum last month.)

(Also note: this position is taken in full consultation with Ernestine Warner and the Surveillance group.)

Simply put - although the RMBS Group does not "grandfather' existing deals, there is not an absolute and direct link between changes to our new ratings models and subsequent rating actions taken by the RMBS Surveillance Group. As a result, there will not be wholesale rating actions taken in July or shortly thereafter on outstanding RMBS transactions, absent a deterioration in performance and projected credit support on any individual transaction.

(We have taken the position that 'grandfathering' means to completely ignore or be ignorant of new rating changes. See further comment below.)

Reasoning behind this position:

- The RMBS New Ratings Group uses primarily a loan level, statistically driven approach to predict future default and loss. This statistical approach attempts to predict future performance based upon correlation analysis conducted on loans with similar collateral traits.
- The RMBS Surveillance Group (partially as a result of a lack of available updated level loan data and updated FICO scores as well as having the advantage of observing actual performance over time) has historically relied on a pool level analytical approach based upon the ability to observe the actual behavior of individual loans and pools vs. their projected credit support. This includes an analysis of the specific delinquency pipeline and the actual loss severities exhibited by the loans in the pool.)

This process results in the actual observed performance of individual transactions driving ratings actions post closing, rather than a statistically based forecast.

One can think about this in the following terms:
The New Ratings Group may determine that historically- Investor owned properties generally cause an increase in default probability, but that does not mean that every deal concentrated with investor properties will perform poorly. They Surveillance approach described above allows for this consideration.

PSI-SP-000245

How then can we claim not to "Grandfather" existing deals?

The New Ratings group develops its criteria in full cooperation with Surveillance, in fact often new rating criteria changes are implemented based upon feedback from the Surveillance Group on the positive or negative performance of outstanding transactions. As a result, Surveillance is fully aware of the specific collateral variables that New Ratings may deem to be of increased risk and therefore will monitor these deals with a heightened sense of focus and priority. We believe that this coordination and the resulting increased scrutiny that these loans and deals will experience remove any sense of "Grandfathering" existing deals.

We continue to be interested in your feedback as we discuss these critical concepts and distinctions with an ever evolving and inter-connected marketplace.

Thanks, Tom

PSI-SP-000246

From: Warner, Ernestine
Sent: Thursday, November 09, 2006 8:27 PM
To: Anderberg, Stephen; Thompson, Eric; Chun, Roy; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael
Subject: RE: Hot Topics Polling Questions

Steve, I think these are good. Nice job.

Ernestine

-----Original Message-----
From: Anderberg, Stephen
Sent: Thu Nov 09 18:10:11 2006
To: Thompson, Eric; Chun, Roy; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael; Warner, Ernestine
Subject: RE: Hot Topics Polling Questions

Good point - I will change

From: Thompson, Eric
Sent: Thursday, November 09, 2006 5:10 PM
To: Anderberg, Stephen; Chun, Roy; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael; Warner, Ernestine
Subject: RE: Hot Topics Polling Questions

You may want to change number four to say that otherwise, holders might be forced to sell.....given the audience is mixed.

Eric B. Thompson
Director
Structured Finance CMBS Surveillance
Standard & Poor's
55 Water Street, 42nd Floor
New York, New York 10041
Phone: (212) 438-2620 / Fax: (212) 438-2662
eric_thompson@standardandpoors.com

-----Original Message-----
From: Anderberg, Stephen
Sent: Thursday, November 09, 2006 1:16 PM
To: Chun, Roy; Coyne, Patrick; D'Erchia, Peter; Gutierrez, Michael; Thompson, Eric; Warner, Ernestine
Subject: Hot Topics Polling Questions

Hi all,

The polling questions for the closing of next week's Ht Topics session are below. Please let me know TODAY if you have any comments.

Thanks,

Steve

Permanent Subcommittee on Investigations
EXHIBIT #73

PSI-SP-000222

1. What is your primary role in the Structured Finance market?
    a. Investor
    b. Issuer
    c. Trustee
    d. Servicer
    e. Other
2. Which asset class is your primary focus?
    a. ABS
    b. CDO
    c. CMBS
    d. RMBS

3. The past several years have seen record growth in RMBS and CMBS issuance. In your experience, how have servicers done in fulfilling their obligations under the transaction documents?

Enter two responses: the first for RMBS servicers, the second for CMBS.

a. Strong
b. Above Average
c. Average
d. Below Average
e. Weak

4. Should S&P consider "grandfathering" existing ratings when implementing criteria changes?

a. Yes. Otherwise, I may be forced to sell if there are downgrades. It's not fair to change the rules.

b. No. I expect all ratings to be analyzed using the same approach and assumptions.

c. Maybe. It depends on what the change is. What's most important is that all ratings are an accurate & current assessment of credit risk.

5. In which Structured Finance category do you think the most product innovation will occur during 2007?

a. ABS
b. CDO
c. CMBS
d. RMBS

6. Which Structured Finance segment are you most concerned about the rating performance of over the next year?

a. ABS
b. CDO
c. CMBS
d. RMBS

PSI-SP-000223

Thanks,

Steve

Stephen Anderberg
Standard & Poor's CDO Surveillance
55 Water Street, 42nd floor
New York, NY 10041
(212) 438-8991 phone
(212) 438-2662 fax
stephen_anderberg@sandp.com

PSI-SP-000224

From: Gillis, Tom
Sent: Sunday, July 15, 2007 6:20 PM
To: Griep, Cliff; Buendia, Rosario; Daniels, Valencia
Cc: Daicoff, Cathy; Barnes, Susan; Stock, Michael; Warner, Ernestine
Subject: RE: Special APB meeting

Thanks - we will cover each one. Tom

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Griep, Cliff
Sent: Sunday, July 15, 2007 06:18 PM Eastern Standard Time
To: Buendia, Rosario; Gillis, Tom; Daniels, Valencia
Cc: Daicoff, Cathy; Barnes, Susan; Stock, Michael; Warner, Ernestine
Subject: RE: Special APB meeting

The issues that came up when I briefed the group were 1. Alignment of surveillance methodology and new criteria. 2. What is changing regarding criteria 3. How do we handle the grandfathering issue in the context of consistent application of criteria 4. Alignment of surveillance methodology and ratings actions with ratings definitions. 5. Implications for rated subprime book overall. 6. Communication within s&p.

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Buendia, Rosario
Sent: Sunday, July 15, 2007 02:41 PM Eastern Standard Time
To: Gillis, Tom; Daniels, Valencia
Cc: Griep, Cliff; Daicoff, Cathy; Barnes, Susan; Stock, Michael; Warner, Ernestine
Subject: RE: Special APB meeting

Tommy,
Based on the timeline update you, susan, Joanne and I had this past friday, I think wednesday afternoon not sooner than 2 pm looks much more feasible right now and therefore less likely that we'll have to reschedule.

Regards
Rosario

Ms. Rosario Buendia
Standard and Poor's
Managing Director
Global Practice Leader RMBS and ABS
Latin American SF REgional Practice Leader
Structured Finance Department.
Tel: 1-212-438-2410
Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----

Permanent Subcommittee on Investigations
EXHIBIT #74

PSI-SP-000254

From: Gillis, Tom
Sent: Sunday, July 15, 2007 02:27 PM Eastern Standard Time
To: Daniels, Valencia
Cc: Griep, Cliff; Daicoff, Cathy; Buendia, Rosario; Barnes, Susan; Stock, Michael; Warner, Ernestine
Subject: Special APB meeting

Valencia,
Could you schedule a special APB meeting for either Tuesday or Wednesday afternoon. It would be best if you could schedule it for either 2 or 3 pm and for a conference room on the 40th floor. The meeting will be a brief update of the current RMBS activities. It will be between 30 and 60 minutes. Thanks! Tom

P.s. Please forward an invitation to all of the cc's. Only 1 or 2 of them will be available or their designee. Thanks! Tom

PSI-SP-000255

From: Chun, Roy
Sent: Monday, October 01, 2007 3:55 PM
To: Warner, Ernestine
Subject: RE: Here are thoughts around RMBS

Thanks. I will include thoughts. I think I got some of the concepts already under the surveillance needs but will make it more explicit to the things you recommend.

Roy

-----Original Message-----
From: Warner, Ernestine
Sent: Monday, October 01, 2007 3:50 PM
To: Chun, Roy
Subject: RE: Here are thoughts around RMBS

Roy, here is a few recommendations that you can add:

Why RMBS?
- Ratings no longer grandfather - need batch processing for all deals rated within 12 months of critera or model changes

- Automate rating to maturity processes

Ernestine

-----Original Message-----
From: Chun, Roy
Sent: Monday, October 01, 2007 2:18 PM
To: Warner, Ernestine
Subject: FW: Here are thoughts around RMBS

FYI - trying to make a case for focusing the SF surv Initiative on Global RMBS efforts so we can get funding and resources. See attached.

Will need your support going forward.

Roy

-----Original Message-----
From: Chun, Roy
Sent: Friday, September 28, 2007 12:52 PM
To: Carrier, Henry; D'Erchia, Peter; Gillis, Tom; Chamberlain, Tim; Chen, John; Chun, Roy; Collingridge, Simon; Coyne, Patrick; Dunne, Beverley; Forbes, Pat; Kochubka, Gary; Kostiw, Jeff; Patel, Honey; Serrano, Julio; Smith, Belinda; Walker, Ed-s&p

Subject: Here are thoughts around RMBS

Permanent Subcommittee on Investigations
EXHIBIT #75

PSI-SP-000220

Hello all, This is related to the RMBS Global project as discussed at the offsite.

Instead of writing out a business case I put down points that will go in a powerpoint presentation.

Ed - If all approved by SFLT to move forward then as part of the project life cycle we will write up a business case and will work with Jeff and Joe P. to put together a funding request memo for inception.

Henry, you can pull some of the info off of this to help with the SFLT deck you are putting together. I will put this on a powerpoint presentation and have ready if needed to present to SFLT on Wednesday. I will also give you some points around CRE CDO.

Let me know if you have any comments.

Roy

<< File: RMBS Global Project.doc >>

Roy L. Chun
Managing Director
Standard & Poor's
55 Water Street
New York, NY 10041
tel: 212-438-2430
fax: 212-438-2662
e-mail: roy_chun@sandp.com

PSI-SP-000221

DATE: Wed, 2 May 2007
TIME: 10:51:57
AUTHOR: Froeba, Mark
RECEIPIENT: Buchwald, Zach (FID); May, William;
CC: Hart, Briana (FID)
SUBJECT: RE: Upcoming CLOs / grandfathering list

Zach,

Even for deals that are grandfathered (ie, analyzed under Moody's current methodology), we will begin asking them to REPORT (i) PDRs and (ii) PEs of LGD for each credit and for the pool. In addition, we will ask that every CDO include the "D" and "LD" ratings as a basis for default in the "Defaulted Security" definition.

Please call me if you want to discuss these points. Thanks.

Mark

-----Original Message-----
From: Buchwald, Zach (FID) [mailto:Zach.Buchwald@morganstanley.com]
Sent: Wednesday, May 02, 2007 9:00 AM
To: May, William
Cc: Froeba, Mark; Hart, Briana (FID)
Subject: Upcoming CLOs / grandfathering list

Bill:

Thanks again for your help (and Mark's) in getting Morgan Stanley up-to-speed with your new methodology. As we discussed last Friday, please find below a list of transactions with which Morgan Stanley is significantly engaged already (assets in warehouses, some liabilities placed). We appreciate your willingness to grandfather these transactions w/r/t Moody's old methodology. Please know that we are working hard to get these deals priced as quickly as possible, but bear in mind that market movements or slower-than-expected ramp-ups can sometimes slow down any individual deal.

Ellington - Sound Beach CLO
NYLIM - Flatiron 2007-1 CLO
Allstate - AIMCO CLO 2007-A
MJX - Venture IX CLO
Deerfield - Deer Park CLO
Blackstone - Essex Park CDO 2007
MS Prop - South Shore CLO
Halycon - Halcyon Loan Investors Hybrid CLO
Fore Advisors - Fore CLO I
BlueMountain - BlueMountain CLO V
BSIS - BSIS V
[Gilles Marchand] - Sound View CLO
Highland - [Pharma CLO 1]
Apidos - Apidos CLO VII
RiverSource - [summer CLO]
Symphony - [summer CLO]
Avenue Capital - Avenue CLO VII
Mountain Capital - Moutain CLO VII

Permanent Subcommittee on Investigations
EXHIBIT #76

PSI-MOODYS-000056

Zach Buchwald
Executive Director
Morgan Stanley & Co.
1585 Broadway
New York, NY 10036
Telephone: 212-761-1975
Facsimile: 212-507-8275

PSI-MOODYS-000057

DATE: 05/15/2007
TIME: 17:16:08
AUTHOR: Dronov, Alexey
RECEIPIENT: May, William
CC:
SUBJECT: RE: Stratford CLO

Bill - the timing for Stratford has been pushed back one month, so we will be pricing the deal in june. Should we still use the old methodology?

Alexey Dronov - VP
Structured Credit, Derivatives & CDOs
Calyon Corporate & Investment Bank
1301 Avenue of the Americas
New York, NY 10019
212-261-7497 (Office)
617-[redacted](Mobile)
alexey.dronov@us.calyon.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

---

From: May, William [mailto:William.May@moodys.com]
Sent: Wednesday, April 11, 2007 6:45 PM
To: Dronov, Alexey (CALYON)
Subject: RE: Stratford CLO

Alex,
Go ahead and use the old methodology.
Regards,
Bill

-----Original Message-----
From: Dronov, Alexey (CALYON) [mailto:Alexey.Dronov@us.calyon.com]
Sent: Wednesday, April 11, 2007 4:14 PM
To: May, William
Subject: RE: Stratford CLO

Bill,

We intend to price the Stratford deal in May but closing will be in June. Should we use the old methodology or the new one? I talked to Danielle Nazarian and Rudy Bunja about some of the LCDS features of the deal and they thought it would make sense to use the old methodology, but suggested that I double check with you. Thanks.

Alexey Dronov - VP
Structured Credit, Derivatives & CDOs
Calyon Corporate & Investment Bank
1301 Avenue of the Americas

Permanent Subcommittee on Investigations
EXHIBIT #77

PSI-MOODYS-000067

New York, NY 10019
212-261-7497 (Phone)
617-[redacted] (Mobile)
alexey.dronov@us.calyon.com

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: May, William [mailto:William.May@moodys.com]
Sent: Thursday, April 05, 2007 3:15 PM
To: Dronov, Alexey (CALYON)
Cc: Dupont-Madinier, Cyprien (CALYON)
Subject: RE: Stratford CLO

Alexey,
Your analysts are:
Quant: Elina.kolmanovskaya@moodys....com <mailto:Elina.kolmanovskaya@moodys.com>. # is 553-7852.
Legal: mark.froeba@moodys.com <mailto:mark.froeba@moodys.com>. # is 553-4149.
Regards,
Bill

-----Original Message-----
From: Dronov, Alexey (CALYON) [mailto:Alexey.Dronov@us.calyon.com]
Sent: Monday, April 02, 2007 7:15 PM
To: May, William
Cc: Dupont-Madinier, Cyprien (CALYON)
Subject: Stratford CLO

Bill,

We are working on a 700M-1B CLO for Highland Asset Management. The deal is a standard CLO except that potentially the entire collateral pool can consist of LCDS. The AAA tranche will be a revolver like the A-2 tranche in the duane street deals I structured at Morgan Stanley. The manager will have the ability to block portions of the revolver to invest in LCDS on an unfunded basis, also like in the duane street deals. The timing for the deal is as follows:

pricing - beg of may
closing - end of may

Please let us know who will be working on the deal on your end.

Alexey Dronov - VP
Structured Credit, Derivatives & CDOs
Calyon Corporate & Investment Bank
1301 Avenue of the Americas
New York, NY 10019
212-261-7497 (Phone)
617-[redacted] (Mobile)
alexey.dronov@us.calyon.com

PSI-MOODYS-000068

DATE: 06/12/2007
TIME: 17:26:43 GMT
AUTHOR: Nazarian, Danielle
RECEIPIENT: May, William
CC:
SUBJECT: RE: PDR/LGD methodology

Bill,

I didn't receive the file from them. Could you forward to me what they sent to you?

Thanks

-----Original Message-----
From: May, William,
Sent: Tuesday, June 12, 2007 12:08 PM
To: Jourdan, Laurent
Cc: Nazarian, Danielle
Subject: RE: PDR/LGD methodology

Laurent,
BofA did call. Our official position is that we have only one methodology that can be used now. Danielle is looking into the portfolio that they sent over.

-----Original Message-----
From: Jourdan, Laurent
Sent: Tuesday, June 12, 2007 12:05 PM
To: May, William
Cc: Nazarian, Danielle
Subject: RE: PDR/LGD methodology

Hi Bill,

Did you get a call from BofA yesterday? If so, may I know what was decided? It might be useful to know what our official position is on this issue in case it arises again.

Thanks.

Laurent

-----Original Message-----
From: Jourdan, Laurent
Sent: Monday, June 11, 2007 6:10 PM
To: May, William
Cc: Nazarian, Danielle
Subject: FW: PDR/LGD methodology

Bill,

In response to my email below, Danielle asked me to direct BofA to you regarding their request. You should expect a call soon from Sunil Rohra.

Laurent

-----Original Message-----
From: Jourdan, Laurent
Sent: Monday, June 11, 2007 5:59 PM

Permanent Subcommittee on Investigations
EXHIBIT #78

PSI-MOODYS-000054

To: Nazarian, Danielle
Cc: Torres, Ramon O.
Subject: PDR/LGD methodology

Danielle,

BofA (Sunil Rohra and Albert Huntington 212-933-2295) have asked me whether they could have an upcoming deal rated under the new methodology even before the new implementation date, which we anticipate to be by the end of summer. They initially told me their structure was passing under the new meth, but not under the old one. Now they're adding that they'd started marketing the structure under the new methodology and therefore would like to be able to keep doing so.

Your guidance would be appreciated. I am available if you need anything.

Laurent Jourdan
Associate Analyst
Credit Derivatives
Moody's Investors Service
99 Church St - New York, NY 10007
tel: +1 212-553-1086
fax: +1 212-298-6125
e-mail: laurent.jourdan@moodys.com

PSI-MOODYS-000055

DATE: 07/16/2007
TIME: 18:02:02
AUTHOR: Snailer, Joseph
RECEIPIENT: Liu, Qingyu; Wang, Jinyang; Arora, Rakesh;
CC: Agarwal, Navneet
SUBJECT: RE: Notching Status

Thanks for asking - wouldn't want you all to do a bunch of work and have to re-do it.

-----Original Message-----
From: Liu, Qingyu (Maggie)
Sent: Monday, July 16, 2007 6:02 PM
To: Snailer, Joseph; Wang, Jinyang; Arora, Rakesh
Cc: Agarwal, Navneet
Subject: RE: Notching Status

I see. Thanks for the clarification.

-----Original Message-----
From: Snailer, Joseph
Sent: Monday, July 16, 2007 6:00 PM
To: Liu, Qingyu (Maggie); Wang, Jinyang; Arora, Rakesh
Cc: Agarwal, Navneet
Subject: RE: Notching Status

The ratings you are generating should reflect what we would have rated the deals when they were issued knowing what we knew then and using the methology in effect then (ie, using the OC model we built then). Let me know if you have any questions.

-----Original Message-----
From: Liu, Qingyu (Maggie)
Sent: Monday, July 16, 2007 5:18 PM
To: Wang, Jinyang; Snailer, Joseph; Arora, Rakesh
Cc: Agarwal, Navneet
Subject: RE: Notching Status

All,

I have a question when I am running the OC model especially models from the first half of 2006. Some deals in the first half of 2006 we already downgraded within last week or last month. If we were to rate the bonds using the OC model we built then, the bond probably would be a Ba level. However, given today's market condition, the bond we rated Ba then we already downgraded to B or Caa last week. Shall we still provide rating for those bond we did not rate then using the old methodology and the old loss coverage number?

Thanks,
Maggie

-----Original Message-----
From: Wang, Jinyang
Sent: Monday, July 16, 2007 10:18 AM
To: Snailer, Joseph; Arora, Rakesh
Cc: Liu, Qingyu (Maggie)
Subject: RE: Notching Status

Joe:

Maggie and her team have completed 21 deals from second half of 2006.

There are 47 deals from the first half of 2006 which they will complete by next Wednesday. 5 deals from Jan 2006 was completed during the previous study.

-Zoë

-----Original Message-----
From: Snailer, Joseph
Sent: Monday, July 16, 2007 9:30 AM
To: Wang, Jinyang; Arora, Rakesh
Subject: Notching Status

Could you let me know where we stand on the OC model runs? The weekly task force meeting is tomorrow and I would like to update them.

Thanks.

PSI-MOODYS-000063

Structured Finance Credit Committee
March 31, 2008
Meeting Notes

1) Rating Definitions (David Rosa)

- We currently define our structured finance ratings as measurements of expected loss as of the legal final maturity date. Payments are sometimes made after this date, though. Most believe that payments made after legal final maturity should be considered in the calculation of expected lost. At the same time, however, most also agree that ratings should contain some information on the timeliness of payment.
- This issue sparked strong debate. Some preferred a pure expected loss approach. Others thought timeliness should be explicitly considered, but weren't quite sure how to do so.
- One member suggested a rule of thumb: follow the market. That is, if the market considers certain risks in bond pricing, those risks shout be what Moody's ratings measure, or speak to.
- **Follow-up**: The committee was unable to reach consensus on how to handle this issue. Members suggested a decision on the topic follow further analysis and discussion. Members specifically asked for a draft Special Comment on the topic.

2) Rating changes when methodologies change (David Rosa)

- Currently, following a methodology change, Moody's does not re-evaluate every outstanding, affected rating. Instead, it reviews only those obligations that it considers most prone to multi-notch rating changes, in light of the revised rating approach. This decision to selectively review certain ratings is made due to resource constraints. The result of this approach is that potential one-notch changes are not reviewed, and those ratings usually stay as is.
- Some suggested making this practice known to Moody's regulators, who seem most interested in making sure that multi-notch rating changes are made promptly and are not concerned with one-notch changes.
- Others asked why, if we can subjectively determine which obligations might be subject to multi-notch rating changes, we can't do the same for potential single-notch changes.
- **Follow-up**: No conclusion was reached on this topic. Members suggested reviewing the recent CMBS methodology change and the subsequent rating changes to see what the market thought of Moody's practices in this regard.

3) CPDO (Paul Mazataud, Olivier Toutain)

- As the recent market turmoil has exposed the credit risk in CPDOs, the CPDO team is proposing a completely new rating approach.
- The new approach is significantly simpler than the outstanding methodology and measures CPDO creditworthiness by only two metrics – short-term and long-term risk.
- Short-term credit risk for CPDOs is related to the spreads on an index. If those spreads rise to a certain level, the CPDO will unwind and leave investors with a

loss of over 90%. The spread at which the CPDO unwinds is called the "cash out" spread.

  - The proposed approach will measure the distance between the current spread and the cash out spread, and assign higher ratings where the difference between the two spreads is larger.

- Long-term risk for CPDOS is related to the ability of the facility to meet future payment obligations. A CPDO's ability to make good on its obligations is also related to the current spread on an index. Unlike for assessing short-term risk, however, in measuring long-term risk the concern is that the spread will *decrease* such that the CPDO will not have enough cash to cover its obligations.
  - The proposed approach will measure long-term risk by estimating the CPDO's final NAV and ranking the structure on that basis, with higher NAVs indicating a higher level of creditworthiness.
- The proposal would result in a downgrade for most CPDOs to the Baa level.
- Members suggested that the proposal, while good, is too simplistic for sophisticated CPDO market participants. Members noted that Moody's should try to avoid an appearance of being simple-minded. Members disagreed with a recent move by Fitch to put out a methodology that was so conservative that they could never be accused of over-rating an instrument, but at the same time made issuance almost prohibitively expensive.
- Other members added that the approach probably shouldn't be called a rating methodology, in order to avoid accusations of simple-mindedness. A better statement would be to say that a rating can't go any higher than the level suggested by this new approach, but at the same time, under that cap, more sophisticated analysis may be required.
- **Follow-up**: Members agreed with the proposed approach and suggested its quick implementation. Members also asked for a Special Comment on the topic.

FRAMEWORK FOR ANALYTICS POLICY BOARD REVIEW OF
RATING SURVEILLANCE STANDARDS
January 27, 2006

Each practice currently has standards for rating surveillance and the business units actively monitor compliance with them. APB has been asked to reassess existing standards and historical performance relative to them for further review by the Credit Market Services Executive Committee.

Results

The attached charts display our rating surveillance standards, compliance as of October 31, 2005, and a recommended assessment of that performance for the vast majority of Ratings Services.

The U.S. Public Finance group was at 93% compliance, as were U.S. Corporates, Financial Institutions and Insurance. Global C&G, excluding Funds, U.S. Public Finance and U.S. Public Power, was at 79%. C&G performance outside the U.S. is understated by incomplete/inaccurate CORE data. The Funds group was at 90% globally. It should be noted that many groups demonstrated improvement from July to October (compliance figures for July 31, 2005 are shown in parentheses in the charts), in part, reflecting CORE data cleansing.

For Structured Finance, performance was more difficult to measure, reflecting the absence of a centralized management information system on surveillance related workflow, and the consequent reliance on different spreadsheets from multiple tracking systems. Overall, reviews stemming from interim or exception reporting exceed or are consistent with stated standards. These monthly, quarterly or semi-annual reviews are the most valuable for addressing changing credit quality. However, there is no documented standard for follow-up in the U.S. The majority of sectors (ABS, CDO & CMBS) within Structured Finance primarily utilize an exception-based monitoring process, which generates candidates for full reviews. For European Structured Finance, interim review compliance is an admirable 100% with full review follow-up within two weeks. In the U.S., compliance ranges from 79% for RMBS to 93% for CMBS. For the volatile CDO asset class, interim review compliance is 87%.

During the past year, most groups fell short of standards, typically by a small degree. A few areas (Asian Corporates, U.S. public power, student loans and less active RMBS issuers in the U.S.) are substantially below par. Spurts in new issuance and staff turnover often hinder achievement of surveillance goals. Greater investment in exception reporting systems would also be beneficial in some areas.

Recommendations

The presentations to APB demonstrated the diversity of our rating activities and the ways in which we ensure ratings are up-to-date. For example, in Structured

Permanent Subcommittee on Investigations
EXHIBIT #81

S&P SEN-PSI 0008828

Finance, we closely watch metrics for loading periodic data into our surveillance tools. Recognizing the diversity and complexity of rating surveillance, APB should not and could not micromanage all of these processes. It is recommended that APB exercise its oversight in the following ways:

- Establish broad principles for rating surveillance standards.
- The business units should continue to monitor performance relative to standards on a monthly basis. The full APB should review performance annually and surveillance standards biannually. The latter review should include an assessment of whether standards are reasonable and how they compare to "best practices".
- Share "best practices" and suggest improvements.
- Identify vulnerabilities or weaknesses.

Rating surveillance principles

- Rating surveillance standards should be risk-based. High-risk ratings should be reviewed more frequently and intensely than low-risk ratings. This is the smartest way to employ our limited resources. Structured Finance, U.S. Public Finance, and Funds currently utilize risk-based surveillance systems. That is, they employ some type of risk-based exception reporting and/or have risk-based review frequency standards. Risk determinations could be based on rating level (e.g., emphasis on 'BBB' C&G issuers), outlooks, sector stress, historical rating volatility, market data (e.g., bond spreads) or other expectations regarding risk factors.
- Rating surveillance standards should continue to be established on a global basis for each practice, allowing for differences in public reporting and risk.
- Minimum standards should be achievable. We will measure and be expected to demonstrate compliance with minimum standards.
- Automated data collection and screening are highly effective elements of rating surveillance for certain types of ratings.
- Investors' perception of our rating surveillance is important. Publishing standards should be market-driven and each of the practices should have documented publishing standards. For example, if the market prefers quarterly report cards, peer comparisons and sector commentaries, these should be emphasized at the expense of full analyses for tier 2 firms for which there is little market interest. In some markets, such as Japan, we may choose to serve market demands by publishing more extensively than the minimum global standard.

Specific suggestions

The suggestions below reflect weaknesses to be remedied and best practices worth emulating.

- Complete and accurate CORE data must be maintained. For C&G, rating reviews, issuer tiers and other data must be routinely entered into CORE. A review is not complete until it is recorded in our database. Given the evolution of CORE and the development of work in process systems, all surveillance projects should be required to include documented business rules on surveillance event documentation and related management reporting.

- Each practice/region should formalize the process of forecasting expectations for credit performance in each sector, asset class or other class of issuer/issue to drive the process of identifying surveillance priorities; some groups have already done this. For ratings deemed risky, more frequent and/or detailed information should be requested and we should establish more frequent and/or intense reviews. Risk identification must be forward-looking.
- Publishing goals, such as annual publication of a full analysis for tier 2 financial services firms, should be pared back to reflect more limited market interest, freeing resources for more valuable activities.
- The rating surveillance process in Structured Finance is strengthened by the second-level reviews conducted by the U.S. Quality Review Board. Similar boards should be established in other regions.

[redacted]

- "Report Chase Procedures", now used in Structured Finance and Funds, could be adopted by other groups.

[redacted]

- For Structured Finance, we must clarify policies for placing issues on CreditWatch. Current practices are inconsistent.
- For some Structured Finance sectors, we should begin to publish "report cards" (e.g., major issuer auto loan transactions' recent and prospective performance). This would be of interest to investors and would provide an internal rating surveillance discipline.

[redacted]

- Meeting (or exceeding) rating surveillance standards should be a PMP goal for analytical staff.
- When reviews are overdue, managers should prioritize the backlog, as they have for certain Structured Finance ratings. For C&G ratings, an overdue review may be a sign of credit stress.

- The interdisciplinary MarketWatch Committee, established by managers for Australia and New Zealand, seems to be successful and could be employed in other small regions.
- In addition to the basic rating review standards, special attention should be given to issuers with the same rating and a positive or negative outlook for more than two years. Recent focus on this by the U.S. Corporate Quality Review Board has been beneficial.

Other observations

- Surveillance systems in Structured Finance have generally not kept pace with analytic process requirements - both control requirements and analytic requirements. Of particular note is the need for enhanced cash flow analytics throughout Structured Finance, reflecting growth and the increased complexity of issues (e.g., CDOs of ABS). The initiatives in place or in the process of definition appear to address these vulnerabilities.
- In Structured Finance, potential challenges/inconsistencies arise when we change model assumptions and/or release new model versions. We must understand the impact on the existing portfolio of ratings and skillfully manage the transition.
- The review of Structured Finance surveillance identified the following vulnerabilities:

[redacted]

- CDO -The dependency on credit estimates and shadow ratings for CDO collateral has increased rapidly. Control weaknesses exist in the surveillance processes and there seems to be a substantial surveillance lapse for shadow ratings on real estate collateral and credit estimates of North American obligors backing cash flow and synthetic CDOs.
- RMBS - Weaknesses exist in the surveillance infrastructure, particularly staffing, data quality, data links, and analytical systems. The significant deferral of RMBS surveillance beyond minimum review standards is inconsistent with policy and should be addressed.

[redacted]

[redacted]

- Could our Structured Finance surveillance incorporate a dynamic element? For example, if heightened credit stress is expected in the near-term, could issues be stress-tested more severely, in addition to applying existing criteria? Would a forecasting model be helpful?

[redacted]

- Critical dependencies now exist for structured surveillance, including reliance on CRISIL and outside providers of data or analytic capability. Those dependencies should be monitored.
- The C&G group has a modest but growing dependency on CRISIL. The EC should review the implication of outsourcing a primary analytical function such as the review of annual reports, regulatory filings, and drafting of credit reports.

Performance assessment

The charts below show surveillance standards and performance relative to them for each major sector. The performance assessment, in the last column, is based on the following performance relative to the stated standards:

Excellent - 95% or better

Very good - 85-95%

Good - 80-85%

Fair - 75-80%

Unacceptable - less than 75%

RATING SURVEILLANCE STANDARDS

U.S. Structured Finance	Full Review	Interim Review or Exception Report	Compliance	Performance Assessment
[redacted]				
RMBS	1. Full review annually for top 10 issuers (60%+ of outstanding deals) 2. Full review annually for other major issuers 3. Full review every 18 months for remaining issuers	Monthly review for transactions on "internal watch"	Full review – annual review cycle (top ten issuers, which represent 44% of total RMBS) – **100%** Full review – annual review cycle (other major issuers, which represent 33% of total RMBS) – **92%** Full review – 18 month review cycle (which represent 23% of total RMBS – **19%** Full review (all of RMBS) – 79% Interim – NA	Excellent Very Good Unacceptable Fair
[redacted]				
CDOs	When identified by interim review	Monthly or quarterly review of trustee reports on cash flow transactions' ROC report.	**87%**	Very Good

'edacted Material

S&P SEN-PSI 0008836

		Monthly for CF CDO of ABS. CDO. For synthetic transactions – SROC run 2X/month.		

9

Redacted Material

S&P SEN-PSI 0008837

RATING SURVEILLANCE STANDARDS

Europe Structured Finance	Full Review	Interim Review or Exception Report	Compliance	Performance Assessment
[redacted]				
RMBS	Upon identification of a trigger breach, rating committee within two weeks.	Data loaded monthly or quarterly depending upon availability reviewed for breach of trigger.	Interim – 100% Full – No	Excellent NA
[redacted]				
CDO	For cash flow – upon identification by interim process. For Synthetics – if identified by interim review process. Triggers for exception to be reviewed at least annually. Committees within two weeks.	For cash flow transactions, run monthly ROC. Key tests reported monthly. For synthetic transactions – exception reporting, monthly SROC run.	Interim – 100% Full – No	Excellent NA

From: Warner, Ernestine
Sent: Friday, April 28, 2006 2:11 PM
To: Chun, Roy
Subject: RE: Discussion with Lal

I think this may be a very good solution. Lal is a fantastic analyst. As you say, we will have to see what he thinks about this offer. Unfortunately, the timing could not be worse. RMBS has an all time high of 5900 transactions. Each time I consider what my group is faced with, I become more and more anxious. The situation with Lal, being off line or out of the group, is having a huge impact.

When we get together to discuss this, I would also like to talk about how we are going to address the current state in current terms.

On a positive note, my team interviewed the young lady you recommended (Diane Chuo) and found her back ground to be highly suited for a role in our group. I am going to meet with her when I am back from London and then hopefully be in a position to make a recommendation to Peter. In addition, the interviews with Kristie Joyce and Steve Young went well so we will see what results there.

Ernestine

-----Original Message-----
From: Chun, Roy
Sent: Friday, April 28, 2006 2:00 PM
To: Warner, Ernestine
Subject: RE: Discussion with Lal

After we discussed his present situation, I offered up to him to consider moving to another group or to work with me on this project if he is so unhappy in RMBS. Based on comments you have made regarding the quality of his work he sounded worth working with to see what could be done. I was very upfront with him. I said I do not see how he will stay in RMBS given the present situation.

No promises offered to him but I told him to think about it and let me and Peter know his intentions and we can see if there is a fit. He set up a meeting to talk to me on Monday.

I'll let you know how it goes.

-----Original Message-----
From: Warner, Ernestine
Sent: Friday, April 28, 2006 1:49 PM
To: Chun, Roy
Subject: RE: Discussion with Lal

OK. Roy, what position are you taking in this? Are you trying to influence the outcome one way or the other?

Permanent Subcommittee on Investigations
EXHIBIT #82

PSI-SP-000277

Ernestine

-----Original Message-----
From: Chun, Roy
Sent: Friday, April 28, 2006 1:47 PM
To: Warner, Ernestine
Subject: RE: Discussion with lAL

Yes, we had a meeting. He was not definitive but did not deny it. I assume he is looking to leave given the present situation.

I have another meeting with him on Monday to discuss further. I'll let you know what comes out of Monday's meeting.

Roy

-----Original Message-----
From: Warner, Ernestine
Sent: Friday, April 28, 2006 1:35 PM
To: Chun, Roy
Subject: Discussion with lAL

Roy, did you speak to Lal about whether he is looking for another job?

Ernestine Warner, Director
Standard and Poor's
Structured Finance Surveillance
55 Water Street
New York, New York 10041-0003
Phone - 212-438-2633
Fax - 212-438-2664

PSI-SP-000278

From: Warner, Ernestine
Sent: Thursday, June 01, 2006 11:46 AM
To: Chun, Roy
Subject: RE: Temp

Roy, thanks for taking the time to write the e-mail. It really feels like I am repeating myself when it comes to completing a very simple project and addressing some of the other surveillance needs. We have talked about this project several times and the proposal has been put in writing. The inability to make a decision about how the project is going to be resourced is causing undue stress.

I have talked to you and Peter about each of the issues below and at this point I am not sure what else you need from me. It may be helpful if you would share a copy of documentation you or the other surveillance managers have used in the past to secure reqs. or temps.

To rehash the points below:

In addition to the project above that involves some 863 deals, I have a back log of deals that are out of date with regard to ratings. When Steve and Kristie join the group as research assistants, they will take on the responsibilities of Jessica Rivera and some from Ash Rao so that Jessica can review the deals full time and Ash can review them maybe 50% of the time. This will help cover the void Lal left when he became the business analysts for the initiative, but again, does not move us any closer to FTS in the short term. We recognize that I am still understaffed with these two additional bodies. Lal being offline clearly exacerbates this problem and we may be falling further behind at the rate the deals are closing. If we no not agree on the actual number, certainly we can agree that I need more recourse if I am ever going to be near compliance.

There is only one college intern, Christina Lopez. I have a call into Nancy Farrelly to determine what happened to Elizabeth Clemens (?) and Darwin Recentes. They did not start on Tuesday as we originally thought.

Two of the four summer associates Gail referred to started with my group on Tuesday. According to the rules for summer associates, they must do the surveillance reviews and a project. They will review around 100 transactions (hopefully) and test our exception reports.

The other two summer associates went to CMBS surveillance.

I hope this helps but again you should give me a copy of the "template" other managers are using to secure the resources they need.

Thanks

Ernestine

-----Original Message-----
From: Chun, Roy

Permanent Subcommittee on Investigations
EXHIBIT #83

PSI-SP-000322

Sent: Wednesday, May 31, 2006 7:00 PM
To: Warner, Ernestine
Subject: Temp
Importance: High

Hi Ernestine, sorry I was not able to catch up with you today. I will be out at the planning session tomorrow and Friday so I thought better for me to send you this mail. I will try to call you tomorrow during any breaks so we can firm up decision on Temp. Please read following and think about it. I assume I will have a break somewhere around 11:00, around lunch (1:00), and about 3:00 to try to call you.

After speaking with Peter we decided that the Temp on this project should be funded out of the normal operating budget. The surveillance Initiative should be focused on new products and services or enhanced service levels over and above what we currently should be doing. That said it probably doesn't matter to you where it gets funded from. But the initiative spending is a different process - fairly bureaucratic - so relieved if I don't have to go through it for a small spend like this.

Anyway, Peter raised a few good point and questions that I want to run by you.
-Would it be better to have your new RSAs (Peter said he got the approval of the two - forget their names - Stephen & ..?) to develop the models as they would potentially have to do this going forward anyway for ongoing deals that Intex does not have?

-Between the interns and the new RSAs is it something that can be effectively done in a short time frame that won't set you back anymore than you are now? If they can do it, do we need to spend the $10,000 or so on a temp?

-If the prime deals are easy can Lal work with the interns to put those templates together and have the RSA only do the more difficult ones?

-From a cost management stand point - with three college interns and two new RSAs why do we need to hire a temp for two or three months? Does the Temp bring in that much more that can't be done by any of these people?

Also hopefully good news for you - in passing Gail McDermott mentioned we should be getting four or five of the associates coming in allocated to surveillance (I assume split among ABS/RMBS as has been done in the past but not sure - did not have a chance to get into any detail with her). Have you heard anything about this?

Roy L. Chun
Managing Director
Standard & Poor's
55 Water Street
New York, NY 10041
tel: 212-438-2430
fax: 212-438-2662
e-mail: roy_chun@sandp.com

PSI-SP-000323

From: Houston, Gail E
Sent: Tuesday, December 26, 2006 3:10 PM
To: Mahabir, Lal; Thornton, James
Cc: Warner, Ernestine
Subject: RE: Please continue temps

Lal / James,

Are you in tomorrow to meet about this?

Gail

From: Mahabir, Lal
Sent: Wednesday, December 20, 2006 4:07 PM
To: Thornton, James; Houston, Gail E
Cc: Warner, Ernestine
Subject: RE: Please continue temps

I think Gail, James and myself need to meet to figure out the details. Let me know what you all think. Thanks.

Lal Mahabir
Associate Director
Standard & Poor's
Structured Finance Surveillance
55 Water Street, 42nd Floor
New York, New York 10041
Phone: (212)438-2395
Fax: (212)438-2664
< <mailto:lal_mahabir@sandp.com>>

-----Original Message-----
From: Thornton, James
Sent: Wednesday, December 20, 2006 4:06 PM
To: Warner, Ernestine; Chun, Roy; Houston, Gail E; Mahabir, Lal
Subject: RE: Please continue temps

Permanent Subcommittee on Investigations
EXHIBIT #84

PSI-SP-000295

Hi,

The attached should help. These are the latest numbers as of 4pm today.

In the first table the "Latest CDU" (col E) is currently taken as Nov 2006. The "CDU in last 3 months" is deals with a latest CDU of Aug - Sept.

As you can see in the second table, the number of "Successful - but not up to date" deals has dropped by 400 due to the report being run a week later the numbers used on Monday's meeitng.

In addition to the work Lal and Gail have the temps working on, some of the temp work can be defined as reducing the number of errors in the second table (esp Class Name errors) to a specified target - say 10 - 20? This might be a realistic rolling target for number of deals we would expect with this error (allowing for new deals being loaded as old errors are fixed).

<< File: Status Dec 20th.xls >>

James

From: Warner, Ernestine
Sent: Wednesday, December 20, 2006 3:56 PM
To: Chun, Roy; Houston, Gail E; Mahabir, Lal; Thornton, James
Subject: RE: Please continue temps

Gail and Lal, would you please add the details?

Ernestine

-----Original Message-----
From: Chun, Roy
Sent: Wednesday, December 20, 2006 3:18 PM
To: Warner, Ernestine; Houston, Gail E; Mahabir, Lal; Thornton, James
Subject: RE: Please continue temps

I think we are going to get the approval for the full time (keep fingers crossed). With that in mind can we put a little more scope for keeping the temps.

I don't think we will be able to support more than a couple of temps but let's make the case. Also given that they have reached the three month window we are going to have to define a very specific project with time period for each.

The best is to have by temp what they will do and when they will be complete. This way we can be definitive about work and what gets done if we keep one temp or two or three...

-----Original Message-----
From: Warner, Ernestine
Sent: Wednesday, December 20, 2006 12:21 PM
To: Houston, Gail E; Chun, Roy; Mahabir, Lal; Thornton, James
Subject: Please continue temps

PSI-SP-000296

Good afternoon. In light of the current state of residential mortgage performance, especially sub-prime, I think it would be very beneficial for the RMBS surveillance team to have the work being done by the temps to continue. It is still very important that performance data is loaded on a timely basis as this has an impact on our exception reports. Currently, there are nearly 1,000 deals with data loads aged beyond one month. It is also important that the temps continue to resolve the 429 transactions that seem not to be supported by Intex. It is possible that models should be build for these transactions. Since the number is so significant, eliminating this backlog would be significantly impact full to the review process. In addition, the 203 deals that have failed to match classes would represent a quick win that the temps should be able to accomplish.

Please let me know if I should add more.

Ernestine

PSI-SP-000297

From: Warner, Ernestine
Sent: Friday, January 05, 2007 1:05 PM
To: Coyne, Patrick
Subject: RE: Data COE Resources Available for US ABS

Patrick. Well said. Thanks for including RMBS in the e-mail. I have raised the same concerns in the last few meeting with Julio and Gail.

Ernestine+-

-----Original Message-----
From: Coyne, Patrick
Sent: Friday, January 05, 2007 12:51 PM
To: Warner, Ernestine
Subject: FW: Data COE Resources Available for US ABS

FYI, Patrick

-----Original Message-----
From: Coyne, Patrick
Sent: Friday, January 05, 2007 10:41 AM
To: Serrano, Julio
Subject: Data COE Resources Available for US ABS

Julio,

Hope you had a great holiday!

Now that we are into 2007, I want to take a moment to reiterate my concerns regarding the significant deficit in terms of the # of analysts currently assigned to work on US ABS and RMBS data needs. Additionally, the caliber of the few resources currently assigned to work on these deals, which by the way number more than 8,000, is not at all sufficient. Furthermore, it's not clear to me what the rationale for the current distribution of Data COE resources is on a global level (e.g. why are there 10+ resources working on a couple of hundred UK ABS deals and only 1 to 2 FTE's assigned to the 2,000 US ABS deals?).

I apologize for being blunt, however, the value proposition offered by Surveillance is significantly dependent on having timely access to quality data. This is even more true in the future. While I've mentioned these concerns to you in passing during last year, I thought it would be helpful to summarize them in a single e-mail. I'm hoping to gain better insight into what the next steps are to address these concerns.

By the way, Gail Houston has done an excellent job and I am very happy with her enthusiasm and drive, however, given her significant task of managing data needs for ABS and RMBS, I am concerned that she will burnout or move on unless these issues are addressed in the near future, not to mention the impact on the business.

Regards,

Permanent Subcommittee on Investigations
EXHIBIT #85

PSI-SP-000275

Patrick

Patrick Coyne
Managing Director
Structured Finance Surveillance
Standard & Poor's
55 Water Street, 41st Floor
New York, NY 10041
Phone: (212) 438-2435
Fax: (212) 438-2664
patrick_coyne@standardandpoors.com

PSI-SP-000276

From: Warner, Ernestine
Sent: Saturday, February 03, 2007 12:02 PM
To: D'Erchia, Peter
Subject: RE: Headcount for RMBS Surveillance?/

That right. They will be a great help but they will not start until August, right? Let's talk about anything that we might be able to do in the interim. I talked to Tommy yesterday and he thinks that the ratings are not going to hold through 2007. He asked me to begin discussing taking rating actions earlier on the poor performing deals. I have been thinking about this for much of the night. We do not have the resources to support what we are doing now. A new process, without the right support, would be overwhelming.

E

-----Original Message-----
From: D'Erchia, Peter
Sent: Saturday, February 03, 2007 11:56 AM
To: Warner, Ernestine
Subject: FW: Headcount for RMBS Surveillance?/

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

-----Original Message-----
From: D'Erchia, Peter
Sent: Saturday, February 03, 2007 11:55 AM Eastern Standard Time
To: D'Erchia, Peter
Subject: RE: Headcount for RMBS Surveillance?/

Also you should be getting 4 or 5 new Associates from the 2007 Associate class for 12 and continuing ti get them going forward. That might help

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

-----Original Message-----
From: D'Erchia, Peter
Sent: Saturday, February 03, 2007 11:50 AM Eastern Standard Time
To: Warner, Ernestine
Subject: RE: Headcount for RMBS Surveillance?/

Write a one paragraph need for the title upgrade and send it to Nancy Farrelly. I think it will be approved. Thanks. Peter

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

Permanent Subcommittee on Investigations
EXHIBIT #86

PSI-SP-000280

-----Original Message-----
From: Warner, Ernestine
Sent: Saturday, February 03, 2007 11:45 AM Eastern Standard Time
To: D'Erchia, Peter
Subject: RE: Headcount for RMBS Surveillance?/

Peter, what can we do now? My group is under serious pressure to respond to the burgeoning poor performance of sub-prime deals. After losing Taoheed, we are really falling behind.

We need to talk about getting more resources in general. I am seeing evidence that I really need to add to staff to keep up with what is going on with sub prime and mortgage performance in general, NOW. We talked about adding three people several months ago. We need to reopen that discussion.

In addition to Taoheeds replacement and Darwin starting next week, I still need two RAs and an Associate. And that's just a start.

Are you in VCD training next week? Maybe we can talk at the end of one of the sessions?

Ernestine

-----Original Message-----
From: Allegretta, Angela
Sent: Friday, February 02, 2007 4:42 PM
To: D'Erchia, Peter
Cc: Warner, Ernestine
Subject: Headcount for RMBS Surveillance?/

Peter & Ernestine,

I just returned from a meeting with the Finance Team and no approval is in place for upgrade or replacement for Associate-

Headcount Open-

* RA - Taoheed Agbabiaka

Pls let me know -

Angela C. Allegretta
Senior Staffing Consultant
Human Resources Talent Acquisition
Standard & Poor's
55 Water Street, 37th Floor
New York, NY 10041
(212) 438-2470 (Tel)
(212) 438-6753 (Fax)
angela_allegretta@standardandpoors.com

PSI-SP-000281

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-----Original Message-----
From: D'Erchia, Peter
Sent: Friday, February 02, 2007 3:43 PM
To: Allegretta, Angela
Subject: RE: Interview

Thank you. Sorry for this.

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

-----Original Message-----
From: Allegretta, Angela
Sent: Friday, February 02, 2007 03:33 PM Eastern Standard Time
To: D'Erchia, Peter; Warner, Ernestine
Subject: RE: Interview

Peter,

I will see if he is available on Tuesday, 2/6 vs. Wednesday 2/7

Angela
Angela C. Allegretta
Senior Staffing Consultant
Human Resources Talent Acquisition
Standard & Poor's
55 Water Street, 37th Floor
New York, NY 10041
(212) 438-2470 (Tel)
(212) 438-6753 (Fax)
angela_allegretta@standardandpoors.com

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-----Original Message-----
From: D'Erchia, Peter
Sent: Friday, February 02, 2007 2:59 PM
To: Allegretta, Angela; Warner, Ernestine
Subject: Interview

PSI-SP-000282

Angela. I am sorry for the late notice but I will be unable to conduct an interview with Phillip Wong on Monday at 8:30 a m. Eric Thompson's. Mom passed away unexpectedly and I will be attending the funeral. Eric manages the CMBS surveillance group. I think Phil said he could come in the morning of Tuesday or Wednesday I would be willing to do either of those days at 8:30. Sorry again for late notice but it was unavoidable. Peter

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

PSI-SP-000283

From: Warner, Ernestine
Sent: Tuesday, February 13, 2007 3:09 PM
To: D'Erchia, Peter
Subject: RE: What's the problem now???

Hi Peter. I called them back and we talked about the A to D. I actually resulted from one huge loss. We had the deal on creditwatch. We also asked the servicer to give us loss estimates on the REO but we did not receive this information. I guess they did not care because only 3% of the deals is left. Tommy understands that we were on top of this rating and there was nothing more that we could have done (short of withdrawing the rating).

We really need help. Sub prime is going down hill. The 20% not covered in our system is also of great concern. I am going ahead with interviewing for the open positions.

-----Original Message-----
From: D'Erchia, Peter
Sent: Tuesday, February 13, 2007 2:23 PM
To: Warner, Ernestine
Subject: RE: What's the problem now???

I will talk to you tomorrow. We need to come up with needed headcount. I am going to ask Roy to work with us.

Peter D'Erchia.
Managing Director
Standard and Poor's Structured Finance Surveillance. 55 Water Street, 42nd. Floor. 10040 212 - 438 - 2438

-----Original Message-----
From: Warner, Ernestine
Sent: Tuesday, February 13, 2007 02:05 PM Eastern Standard Time
To: D'Erchia, Peter
Subject: What's the problem now???

Do you know why I am being asked to Join Pat, Tommy and Rosario in conference room 6 on 41?

Permanent Subcommittee on Investigations
EXHIBIT #87

PSI-SP-000324

From: Losice, Abe
Sent: Tuesday, April 24, 2007 8:03 PM
To: Barnes, Susan
Subject: Staffing for RMBS Surveillance

Attachments: Microsoft Excel Worksheet; Microsoft Word Document

Susan,

Here is a review regarding staffing for RMBS Surveillance.

We have worked together with Ernestine Warner (EW) to produce a staffing model for RMBS Surveillance (R-Surv). It is intended to measure the staffing needed for detailed surveillance of the 2006 vintage and also everything issued prior to that. This model shows that the R-Surv staff is short by 7 FTE- about 3 Directors, 2 AD's, and 2 Associates. The model suggests that the current staff may have been right sized if we excluded coverage of the 2006 vintage, but was under titled lacking sufficient seniority, skill, and experience.

x Untitled Attachment

We worked together with EW to craft a rationale for 4 adds to staff- 2 Associates and 2 AD's. The adds will be conduct monthly review of the 2006 vintage and to maintain surveillance on the all other transactions, with the possibility of increasing review frequency. It will also be to provide thought leadership, add communication skills and strong technical skills. We need people who have industry experience who can change our functionality.

x Untitled Attachment

We met with EW on and received the following update:

1. The add-to-staff reqs were approved. At least 2 offers have already been made. We had indicated in the earlier rationale that additional senior hires would be requested. The need to manage the changes and the need to communicate more frequently with the market highlight this need. It is easy to imagine the need for 2 Directors to do CVM work and to manage all this change (without being overwhelmed).

2. There is work being done to arrange for support from 4 people from Crisal to gather/ organize data.
3. Brian Grow and Sai Uppuluri are working to design the change to the functionality. More support from IT is needed to see these changes achieved. EW estimates that the time saved would only equal 1 FTE. It is expected that these changes would identify a better targeted group of deals for review for ratings change.

4. These changes would give us more deals for review. It is recognized that with the current emphasis on reviewing deals for CW negative or downgrade that there is insufficient attention on reviewing deals that could be subject to upgrade.

Permanent Subcommittee on Investigations
EXHIBIT #88

PSI-SP-000316

5. EW estimated that that R-Surv could use temporary support from 4-5 analysts. This could include Rating Analysts and Senior Research Assistants.

6. This effort should be focused on analytics and deal reviews. Assignments on smoothing data will be discouraging.

7. We may need to craft a positive message to attract staff to want to be part of this solution.

Checked with John Sang on his project with R-Surv. He has been trained He is reviewing a shelf with about 30 deals. He has not yet completed the review since he has not yet gone to committee or equivalent, but he expects to tomorrow. He does not expect rating changes on the deals reviewed so far. As he completes the reviews, John will report the time expended. We can compare it to the time indicated in the staffing model.

John Sang has been able to do this work part time while he handles other RMBS new deal activity. He thinks that others within our group of SRA's could do this work. As he works with Brian and Sai he thought that when their work is completed that R-Surv would be capable of handling the work with far less assistance from our group of SRA's. As we go down this road we could assign analysts to work part time on R-Surv to blend with other work or full time for a period of time. With somewhat declining volume and an RSA staff that is rising in skill, we should be able to try this temporary assignment to R-Surv.

Susan, I will check in with you about this.

Abe

Abe Losice
Managing Director
Structured Finance
Standard & Poor's
55 Water Street, 40th Floor
New York, NY 10041

Phone: (212) 438-7326
Fax: (212) 438-2649
abe_losice@sandp.com

PSI-SP-000317

From: Davey, Scott
Sent: Monday, October 08, 2007 4:17 PM
To: Graffeo, Michael; Rozek, Aleksandra
Cc: Keenen, Matt; Warner, Ernestine
Subject: RE: Alt. A Aged List

If you come across any deals on your age list that closed between the Q4 2005 and Q4 2006, please skip over them. Matt Keenan and I are currently reviewing the Alt A deals that closed during this time frame. Once we are done, we will take the appropriate rating action on any of the deals that we reviewed that are on the aged list.

Thanks.

Scott

-----Original Message-----
From: Davey, Scott
Sent: Sunday, October 07, 2007 10:15 PM
To: Keenen, Matt; Graffeo, Michael; Rozek, Aleksandra
Subject: Alt. A Aged List

Hi Everyone,

I have been looking over the Alt. A aged rating report. We are only 257 deals away from being 100% compliant. I would like to focus on getting the back log up to date by the end of October. Please review these deals, even if the shelf is not yet due for a review. You do not have to do the whole shelf, only the deals that are aged. Also, there are 64 deals that are due for review in October. They will be on the aged list next month. Please check your assignment sheet to see if any of these deals belong to the same shelf. This would save you from doing another press release for the same shelf next month.

Attached is the back log list. Please fill out the "Analyst" tab and send it to me at the end of each week. This will help me to track our progress and reassign deals if necessary.

Please let me know if you have any questions.

Thanks.

Scott

<< File: Alt A Aged List.xls >>

Permanent Subcommittee on Investigations
EXHIBIT #89

PSI-SP-000271

DATE: 01/18/2006
TIME: 20:08:52 GMT
AUTHOR: DiRienz, Mark
RECEIPIENT: Siegel, Jay; Kornfeld, Warren
CC:
SUBJECT: RE: 2006 Priorities for M3 team

ok

-----Original Message-----
From: Siegel, Jay
Sent: Wednesday, January 18, 2006 1:44 PM
To: Kornfeld, Warren; DiRienz, Mark
Subject: RE: 2006 Priorities for M3 team

OK with the top of the list. The simulations should not require any data, just a quant to look at historical unemployment, home price, and interest rate movements. I don't think expansion of the subprime dataset is important at all for existing products, and I'd put that below the simulations and spread credit capacity. The only thing we'd need the subprime data for is re-calibrating the model, which I assume isn't something we'll need to do anytime soon. As a new product, good idea -- but I think we need full functionality w/ M3 first, esp. if we're to remain short-staffed for yet another year.

-----Original Message-----
From: Kornfeld, Warren
Sent: Wednesday, January 18, 2006 1:37 PM
To: Siegel, Jay; DiRienz, Mark
Subject: FW: 2006 Priorities for M3 team

Based on our discussion here is my latest cut. I did keep expansion of the subprime dataset ahead of revising the simulation methodology. I put a question as to whether we want to expand such data set prior to beginning the simulation or are we comfortable that we have enough data? I do not think that this question does not need to be answered now but we can answer as we get closer to these steps.

I only am forwarding this to the two of you. Once we all agree, will forward it on to the others.

Subprime M3
Finish models
Rollout to internal users
Approval by internal users
Rollout out to external beta users
Approval by external beta users
Begin external sales
While completing the items above, develop documentation (Jody/Earl) and marketing material (Berrak)
M3 should include a 2nd lien analysis. Can look to some analyses short of developing a 2nd lien model, if there are time and resource constraints

Maintain Prime/Alt-A M3 product

Support external clients of M3

Develop separate internal database for rating purposes (RMBS, SQ, and monitoring) - build on loan-by-loan data already received when rating transactions plus data the servicer ratings group receives

Complete excess spread model interface

Develop a Prime data set for possible recalibration of Prime M3 as well as eventual product development

Expansion of Subprime data set for Subprime M3 (do we want to expand on the subprime data set prior to revising the simulation methodology?) as well as eventual product development

Permanent Subcommittee on Investigations
EXHIBIT #90

PSI-MOODYS-000058

Revise simulation methodology for Prime and Subprime M3

Integrate excess spread model directly into simulations (we need to keep in mind that bankers always push the structures to stay ahead of what we can currently model, so we'll need flexibility to be able to react well)

-----Original Message-----
From: DiRienz, Mark
Sent: Tuesday, January 17, 2006 4:07 PM
To: Siegel, Jay
Cc: Kanef, Michael; Rasch, Jody; Stein, Roger; Kornfeld, Warren
Subject: RE: 2006 Priorities for M3 team

I am generally in favor with your rank-ordering
-----Original Message-----
From: Siegel, Jay
Sent: Monday, January 16, 2006 11:52 PM
To: Stein, Roger; DiRienz, Mark; Kornfeld, Warren
Cc: Kanef, Michael; Rasch, Jody
Subject: RE: 2006 Priorities for M3 team

My thoughts:
Maintain current M3 product (Yes) and generate data updates (not sure what 'data updates' means) as needed
Develop documentation and marketing material for M3
Conditional on resource (likely to come through) revise of simulation methodology for M3 by 12/06 (simulation methodology shouldn't take that long; there are no data issues etc??)
Support clients of current M3 product (Can/should we really roll this out to outsiders before the econ simulations are re-done)
Develop of second lien models for M3-Sub Prime by 4/06 (I'm not aware of any market or analytic issues with subprime 2nds; also a very small part of our universe)
Conditional on resource (very likely to come through), develop a Prime data consortium and consider recalibrating Prime models, to start by 9/06
EITHER sort out legal issues to permit a single pooled data set for product development and monitoring/analysis OR begin beta development of a separate database for monitoring/analysis (Apparently won't sit well with all issuers)
Integrate excess spread model directly into simulations (reducing the need for multiple committees and providing more analytic granularity) (Good target, we need to keep in mind that bankers always push the structures to stay ahead of what we can currently model, so we'll need flexibility to be able to react well)

MI project shouldn't push RMBS behind, since we've resourced the work to date, I'm sure FIG would have a quant to lend if this is important to them.

-----Original Message-----
From: Stein, Roger
Sent: Wednesday, January 11, 2006 8:24 PM
To: Siegel, Jay; DiRienz, Mark; Kornfeld, Warren
Cc: Kanef, Michael; Rasch, Jody
Subject: 2006 Priorities for M3 team

Per Michael's request, I'm sending attaching a brief list of development priorities for 2006, in the order (priority) I think we should attack them. Please feel free to weigh in on either the content or the ordering of these.
Maintain current M3 product and generate data updates as needed
Support clients of current M3 product
Develop of second lien models for M3-Sub

PSI-MOODYS-000059

DATE: 05/23/2007
TIME: 12:33:05 GMT
AUTHOR: Kolchinsky, Eric
RECEIPIENT: Fu, Yvonne; Yoshizawa, Yuri
CC:
SUBJECT: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

Ok, but I'm not sure this will solve the communication problem. In the UBS case, the analysts were informed about the look through by the new deal staffing email and Yuri's email, below (in addition to the numerous discussions in sterring comm).

Unfortunately, our analysts are owerwhelmed and I'm concerned that the communication to the bankers will "2x and one notch" without any of the subtelties which we ascribe to the approach. I still get routinely asked for which tranches do we use the sequential life...

Thank you
Eric

-----Original Message-----
From: Fu, Yvonne
To: Kolchinsky, Eric; Yoshizawa, Yuri
Sent: Wed May 23 08:08:53 2007
Subject: RE: Paper on inter-CDO correlations - update from ABS Steering Committee

I think it should still be mentioned in the internal communication to give analysts better guidance. The current practtice is quite varied as the analysts do not seem to know what to do even in the cases for which you have communicated with the banks,i.e. UBS. I will send a revised one to both of you.

-----Original Message-----
From: Kolchinsky, Eric
Sent: Wednesday, May 23, 2007 7:56 AM
To: Yoshizawa, Yuri; Fu, Yvonne
Subject: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

Yuri/Yvonne

In that case, should we exclude any mention of the one notch rule from the general communication? Instead, we should give comm chairs the discretion to apply the rule as they see fit. In this way, there is less of a chance of it getting back to the bankers as a "general rule". They are more likely to know it as something that only applies, as a concession, on the deal that they are working on.

Thank you very much
Eric

-----Original Message-----
From: Yoshizawa, Yuri
To: Kolchinsky, Eric; Fu, Yvonne
Sent: Tue May 22 23:02:49 2007
Subject: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

We need to find a way of positioning the 1 notch as our way of "grandfathering"

Yuri Yoshizawa
Moody's Investors Service
(212) 553-1939

Sent From My Blackberry

Permanent Subcommittee on Investigations
EXHIBIT #91

PSI-MOODYS-000052

-----Original Message-----
From: Kolchinsky, Eric
To: Fu, Yvonne; Yoshizawa, Yuri
Sent: Tue May 22 23:00:12 2007
Subject: Re: Paper on inter-CDO correlations - update from ABS Steering Committee

Yvonne

Looks good generally, two comments however.

1. The one notch rule. I understand the impetus, but it may be problematic in the long term. I think that any stress levels that we implement now will be percieved by the market as being close to the final. They have been asking for certainty in their ability to ramp and structure deals.

If we give a one notch leeway with 2x now and end up with 2x in the long term without the extra room -- I think that bankers will be upset. Instead of dealing with the problem now, we will have to deal with it when we implement the final methodology. I think that we would be better off doing 2.5x with one notch now and go to 2x without. That way we can at least give them a trade-off.

2. We should be clear that the 2x should apply to the underlying vs the MAC.

3. Could you add that this should apply to cdo buckets in abs cdos as well?

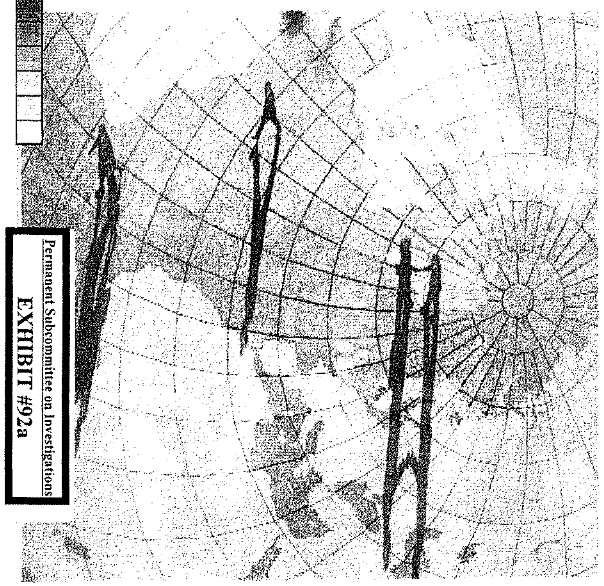
Thank you very much
Eric

-----Original Message-----
From: Fu, Yvonne
To: Kolchinsky, Eric; Yoshizawa, Yuri
Sent: Tue May 22 22:16:56 2007
Subject: Fw: Paper on inter-CDO correlations - update from ABS Steering Committee

I am planing on sending this to the group. Please let me know if you are ok with it - don't worry about spelling errors as I will do a spell check before sending!

Eric, we did not talk about the one notch

PSI-MOODYS-000053



Permanent Subcommittee on Investigations
EXHIBIT #92a

Moody's SFG 2002 Associate Survey

Highlights of
Focus Groups and Interviews

Prepared for:

Moody's Investors Service

Prepared by: MetrusGroup *and* ORC INTERNATIONAL®

May 2, 2002

Table of Contents

About The Interviews

- To gather information to assist in development of a business-focused associate survey for Moody's Structured Finance Group (SFG) a series of interviews and focus groups were conducted. These included:
  - Meetings with John Rutherfurd, Ray McDaniel, and Doug Woodham.
  - One-one-one interviews with Brian Clarkson, Dan Curry, Noel Kirnon, Andy Silver, Juan Pablo Soriano, and Detlef Scholz.
  - Two focus groups with SFG associates in New York.
  - Four focus groups with SFG associates in London.
- Participants in Interviews and groups were asked about:
  - What they saw as SFG's key business objectives.
  - What they considered to be the people issues most critical to SFG's efforts to reach its business objectives.
  - SFG's performance on these issues.
- The findings from these interviews are summarized in this document.
- Then, proposed questionnaire items are listed along with the issues they are intended to address. A copy of the draft questionnaire is provided as a separate document.

Overview Of Findings

- Most indicated that SFG business objectives included:
  - Generating increased revenue.
  - Increasing market share and/or coverage.
  - Fostering good relationships with issuers and investors.
  - Delivering high quality ratings and research
- Development of new products and services was also mentioned often, but not as frequently as the objectives listed above.
- Many felt that there should be a stronger focus on:
  - Improvement of the technology platform and the web site.
  - Developing a global presence for SFG (this was more an issue in Europe than in the US).
  - Developing associates.
- Understanding of business objectives and of how one's own work contributed to them were generally good, but there was some variation.
- When asked about how business objectives were translated into day-to-day work, most agreed that writing deals was paramount, while writing research and developing new products and services received less emphasis. Most agreed that there was a strong emphasis on relationships with issuers and investment bankers.

Overview of Findings

- When asked about the people issues most critical for SFG as it strives to reach its business objectives, issues most often mentioned included:
  - Performance and reward.
    - SFG management focuses on identifying high performers, and most acknowledge that high performers are rewarded.
    - But ratings are not communicated to all associates. Some know their ratings and some do not, and there may be some feeling that the system is inequitable. This may be more a concern in Europe than it is in the U.S.
    - While senior management of SFG agrees that good performance feedback is a critical ingredient of the performance/reward system, the amount and quality of performance feedback appear to vary from manager to manager.
  - Many acknowledge that salaries at Moody's is not as high as they are in investment banking. But most say there are tradeoffs that keep people at Moody's, most notably better balance between work life and personal life than they believe they would get elsewhere.
    - Since Moody's has separated from D&B, some say that workload is greater and that Moody's edge in work-life balance is eroding. As such, Moody's is seen as more vulnerable to turnover as the market improves.
    - In Europe, where the job market seems better and the gap in pay compared to other organizations seems larger, this set of issues appears to have more immediate consequences than it does in the U.S.

Overview of Findings

- Most critical people issues, continued:
  - Also mentioned as factors that keep people in SFG are intellectual challenge/stimulation, career opportunities, and being treated with respect. While it appears that performance in these areas is generally good, there may be some pockets of concern.
  - The quality of training and mentoring is seen as having an impact on performance.
    - Many say there is a need for more formal systematic training to help get new people up to speed more quickly.
    - At the same time, most acknowledge that on-the-job experience is critical for achieving proficiency. As such, the quality of mentoring and coaching has an impact on operating effectiveness.A nd at present the quality of mentoring and training seems uneven.
    - Most acknowledge that success at Moody's requires that people proactively seek training and development opportunities for themselves, so people are not looking to be spoon-fed. Rather, they see more effective training and mentoring as ways to enable busy, capable people to become more effective sooner.
    - There appears to be variation from manager to manager in the overall quality of people management. Some say this is an area in which training is needed.
  - As noted earlier, there is some concern about workload and its impact on operating effectiveness.
    - This is felt in both the U.S.and Europe, but appears to be more a concern in Europe.
    - Most acknowledge that Moody's *intends to run* lean, but there is some question of whether effectiveness is compromised by the current deployment of staff.

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Overview of Findings

- Most critical people issues, continued:
  - Related to some extent to the workload issue is the question of allocation of time for writing research and development of new products and services. Management may be giving mixed messages to associates about priorities.
  - Many are concerned about the technology platform and web site.
    - They believe that improvement in technology should take a higher priority.
    - The effectiveness of centralized technology support is questioned.
    - Some say the web site needs work, and that they hear criticisms from clients.
  - Most acknowledge that relationship management is critical for SFG's effectiveness, and most believe that it is a high priority. It is noted by management that people need to understand how to preserve independent judgment while sustaining good relationships.
  - Teamwork appears to be strong, *although some* London employees say there is a need for better teamwork across locations and geographic regions.

Key to Questionnaire Issues

- A draft questionnaire is being submitted as a separate document. The survey will be administered via the Internet, but the draft is formatted as a paper survey to facilitate editing.
- In addition to asking demographic questions on the survey, we plan to link survey responses to performance rating data supplied by Moody's. We will do this while preserving the anonymity of individual questionnaires. This will enable management to examine the responses of associates with varying performance ratings.
- A key to the questionnaire that links questionnaire items to the issues outlined above appears on the following pages.

Key to Questionnaire Issues

- Questions I, II and III are demographics on job level, work location and manager that will serve as a basis for segmenting the findings by group.
- Question IV asks for perceptions of SFG business objectives. It is designed to provide information on SFG priorities as seen by associates. Associates are asked how important they believe the following are to SFG:
  - Generating increased revenue
  - Increasing market share/coverage
  - Fostering good relationships with issuers and investors
  - Developing new products/services that meet market needs
  - Delivering high-quality ratings
  - Writing high quality research
  - Developing a global presence for SFG
  - Developing, deploying and retaining highly-skilled associates
  - Improvement of the technology platform

Key to Questionnaire Issues

- Questions V and VI ask people how they spend their time and how they might better spend their time in service of SFG business objectives. They are designed to provide information on whether associates are spending their time in the areas deemed most important to management and where associates believe they could better spend their time.Activities included in the list are:
  - Rating deals
  - Writing research
  - Participating in rating committee meetings
  - Developing new products/services
  - Communicating with issuers/investors
  - Participating in internal Moody's meetings
  - Managing associates (making work assignments, directing work, communicating to associates, giving performance feedback, etc)
  - Mentoring other associates (providing on-the-job training and guidance to others)
  - Performing administrative tasks
  - Engaging in professional growth and development

Key to Questionnaire Issues

- Question VII asks associates whether they agree or disagree with a series of statements designed to address critical people issues at SFG. They include:
  - Questions on understanding, deployment of, and alignment with SFG's strategic direction:
    - I have a clear understanding of SFG's strategic direction
    - SFG senior management is effective at setting priorities that are consistent with its strategic direction
    - I understand how my group's objectives fit in with SFG's overall strategic objectives
    - I understand how my actions contribute to the strategic objectives of SFG
  - Questions on communications to and from SFG management, part of a set of items designed to assess management effectiveness:
    - Communication from SFG senior management to associates is effective
    - Communication upward from associates to SFG senior management is effective
  - One question on ethics:
    - My clients view SFG as an ethical organization
  - Four questions on new ideas, risk, and adapability designed to assess SFG's climate for new product and service development.
    - SFG has a culture that fosters new ideas, better work processes, and improved products and services
    - SFG is effective at implementing new ideas
    - Associates in SFG are willing to take risks to increase business, reduce costs, or improve efficiencies
    - IN SFG we have been quick to adapt to changing customer and market demands

Key to Questionnaire Issues

- Question VIII includes additional items on critical people issues at SFG. It includes questions on:
  - Client focus, designed to tap into the key issue of relationship management. Questions include:
    - We take responsibility to seek input from issuers to enable us to understand their needs
    - People in SFG are responsive to investors' needs
    - People in SFG are committed to building strong relationships with investors
    - People in SFG are responsive to issuers' needs
    - People in SFG are committed to building strong relationships with our issuers
    - We do a good job of balancing the need for objectivity with the need for good relationships
  - Authority/empowerment, an issue that surfaced as a strength in focus groups.
    - There is a good match between my responsibilities and my authority to carry them out
    - I am involved in decisions that affect my work
  - Respect, an issue that surfaced as a factor that keeps people at Moody's, and is generally regarded as a strength.
    - I am treated with respect and dignity
    - SFG management values the contributions of all associates regardless of difference in gender, age, ethnic background, lifestyle, or other personal characteristics
  - Teamwork, generally regarded as strength, although there was some question regarding the need for more cooperation across geographies.
    - There is good teamwork and cooperation *within* my SFG team
    - The people with whom Iwork at SFG trust each other
    - There is good teamwork and cooperation *between* my team and other teams in SFG
    - There is good teamwork and cooperation among SFG work locations/geographic regions

Key to Questionnaire Issues

- Question IX explores views of management at three levels, including senior management of Moody's, senior management of SFG, and associates' immediate managers. The items on Moody's and SFG management are designed to assess associates confidence in leadership and leadership's performance in setting overall direction. The items on immediate managers are designed to assess effectiveness of day-to-day management.
  - Moody's senior management questions include:
    - I have confidence in the leadership ability of the Moody's senior management team
    - Senior management of Moody's provides clear direction
    - Senior management of Moody's is effective at implementing change
  - SFG senior management questions include:
    - I have confidence in the leadership ability of the SFG senior management team
    - SFG senior management provides clear direction
    - I can believe what SFG senior management says
    - SFG Senior management takes action based on associate feedback
    - SFG Senior management is effective at implementing change
  - Questions on immediate managers include:
    - I have confidence in the leadership ability of my manager
    - My manager provides me with clear, understandable goals and assignments
    - My manager provides recognition when Ido a good job
    - My manager is effective at the business/technical side of management
    - My manager is effective at the people side of management
    - My manager is accessible

Key to Questionnaire Issues

- Question X includes items on several key issues, including performance management, reward, work life-personal life balance, technology, deployment of skills, and training/development. These are all seen by associates as critical people issues in SFG.
  - Questions on performance management include:
    - The feedback that Ireceive on my work helps me improve my performance
    - My last appraisal helped me improve my performance
    - I understand my performance rating
    - I understand how my actions contribute to the strategic objectives of SFG
    - SFG does a good job of attracting high performing associates
    - SFG does a good job of retaining high performing associates
    - SFG does a good job of managing poor performers
  - Questions on reward include:
    - Merit increases are linked to job performance
    - Bonus compensation is linked to job performance
    - I believe that my salary is set fairly for the kind of work Ido
    - I believe that my variable/incentive pay (bonuses, options) is set fairly

Key to Questionnaire Issues

- Question X continued:
  - Items on balance and workload include:
    - I am able to maintain a healthy balance between my work life and my personal/family life
    - The number of hours that lam expected to work is reasonable
    - We have enough people in my department to do quality work
  - The item on technology is:
    - I have the technology Ineed to perform my job effectively
  - Items on skill deployment are:
    - People on my team have the skills they need to perform their jobs well
    - Work is organized in a way that uses our staff resources effectively
  - Items on training and development include:
    - There are sufficient opportunities to achieve my career objectives at Moody's
    - I understand the criteria for promotion for jobs in which I am interested
    - I am given a real opportunity to improve my professional skills
    - I have access to the training Ineed to perform well in my job
    - I receive the mentoring/coaching Ineed to help me perform effectively

Key to Questionnaire Issues

- Question XI includes items on overall commitment, satisfaction, and intention to stay at SFG. The questions are:
  - I am committed to SFG's growth and success
  - Considering everything, how would you rate SFG as a place to work?
  - If you had your way, would you be working for SFG twelve months from now
- Questions XII and XIII are open-ended questions designed to solicit associate input on two issues:
  - *What are the one or two things that SFG could do that would have the greatest impact on its ability to achieve its business objectives?*
  - *What are the one or two things that SFG could do that would most improve its ability to retain valued associates?*
- Finally, question XIV includes additional demographics to enable SFG to segment the findings by gender, length of service, and ethnicity (this item is designed for the U.S. only).

BES - 2005

Presentation to
Derivatives Team,

April 7, 2006

Moody's Investors Service

Permanent Subcommittee on Investigations
EXHIBIT #92b

Agenda

- Responses to 2004 BES
- Overview of 2005 Results & Feedback from Analysts
- 2006 Action Plan

Moody's Investors Service

Planned Responses to 2004 BES

- Training programs (SF wide and internal) – Training Coordinator Team
- Surveillance team
- Campus Hiring
- Suggestion Box
- Tech Team
- Admin Support
- Moody's Connect and other enterprise wide systems
- Ratings Consistency
  - Ratings Guide
  - Coordination with Europe
  - Co-Chairs for each product type
- Team Meetings
  - The rumor mill
  - BES update
- Opportunities
  - Focus Groups
  - Product Leaders
  - Co-Chairs
  - Surveillance Team
- Communication
  - Suggestion Box
  - 360 degree reviews
  - Semi-annual formal meeting

Moody's Investors Service

2005 BES Summary

- (from Gus's presentation to the group)

Moody's Investors Service

Positive Feedback from 2005 BES

- Responses are generally more positive than in the previous year.
  - Team consists of talented people who are approachable and helpful
  - Work is interesting and challenging
- Surveillance team is a big help.
- Team leader structure is working well.

Moody's Investors Service

Concern #1

We are overworked. Too many demands are placed on us for admin tasks, RACs, etc. and are detracting from primary workflow (btw: the new Surveillance Group has been a big help).

Moody's Investors Service

Solution #1

- Hire more people at all levels;
  - Current opens: 2 VP/Legal Analysts, VP/Quant, 2 AAs, 2 Snr Associates, 1 Stat Analyst
- Assign an Admin Analyst to every deal
  - AccuRate
  - Document Retention (but analysts must help)
- 1 Analyst per deal for "simple" deals (??See concern #8)
- See Solution #2

Moody's Investors Service

Concern #2

We have no Senior Associates to assist the analysts rating primary market flow. For example, help in NIRs would be much appreciated.

Moody's Investors Service

Solution #2

Snr Associates will assist in NIRs – We ask that analysts take care of their current inventory. Assignment of 1 NIR per Snr Associate per month should keep us up to date going forward – assuming capacity of up to 20 NIRs per month [but we don't have 20 Snr Associates – how did we come up with 20?].

Moody's Investors Service

Concern # 3

- **Inefficient information flow: several sources request the same info**

Moody's Investors Service

Solution # 3

- Better coordination so that we do not request certain info from the analysts if the info is already centralized
- One person will request all deal information including working group list from the lead analyst and assist in contacting appropriate people on the working group list to get documentation

Moody's Investors Service

Concern #4

- **Whatever happened to the "10 day rule?" Bankers are send us documents and models at the last minute.**

Moody's Investors Service

Solution #4

- "10 day rule" added to rating application
- When MD receives call from banker, "rule" will be reiterated.
- When analyst first establishes contact with banker, "rule" is reiterated. Any potential violations to be discussed with MD asap.

Moody's Investors Service

Concern #5

- **Promotion criteria are lacking.**

Moody's Investors Service

Solution #5

- **Promotion criteria to be drafted for promotions up to and including VP.**

Moody's Investors Service

Concern # 6

- Some of us are not getting timely PE's. What happened to semi-annual review and 360 degree review?

Moody's Investors Service

Solution # 6

- TMDs and team leaders with direct reports will try to do a better job with timely PE's.
- We ask analysts to take the initiative of requesting a semi-annual review if they desire (not everyone might want one)
- TMDs have been doing some form of 360 degree review by soliciting co-workers opinions when writing PE's. Do we need a more formal process?
- BES for all SVPs and SCOs [we decided not to do this, should we remove it? Let's keep it in.]

Moody's Investors Service

57321.471

Concern # 7

- We need more mentoring and training for new analysts

Moody's Investors Service

Solution # 7

- Continue with the SFG training program
- Derivatives Resource Page
- Ratings guide for CLO and CDO of ABS are available (Synthetics issues list and committee memo templates are being created as well)
- Pairing new analysts with mentors
- Web-based internal training modules are being scheduled

Moody's Investors Service

Concern # 8

- Quant analysts seem to be responsible for almost everything: committee memo, rating letters, press releases, NIRs, document retention. Is there a clear division of labor? What are the legal analysts' responsibilities?

Moody's Investors Service

Solution # 8

- When the quant is doing a deal by himself, obviously all of those tasks will be his responsibility. When a lawyer is involved, there is no clear division of labor. The division of labor will depend on the seniority of the quant analyst and the workload of the lawyer. It is best if the quant can discuss with the lawyer what level of support he is hoping for at the outset of the deal. Given that we have 60ish quants and 12 lawyers it is obvious that the quants will shoulder the majority of the outlined tasks.

Moody's Investors Service

Concern #9

- Group is too large. It would be good to get to know others better.

Moody's Investors Service

Solution #9

- Will Mark try to organize another event [I've asked Mark to organize a Cirque du Soleil outing – not company sponsored though]? I will check our budget for an event. (GH)
- Derivatives Resource Page

Moody's Investors Service

Concern #10

- **We are on different floors which leads to inefficiencies and ...**

Moody's Investors Service

Solution #10

I'll get back to you (GH)

Moody's Investors Service

Concern # 11

- We need better technology to meet the demand of running increasingly sophisticated models.

Moody's Investors Service

Solution # 11

- We have added a few super computers.
- More improvement is on the way(?).
- We have the Technology Committee who were responsible for getting us the new computers—suggestions should be sent their way.

Moody's Investors Service

2006 Action Plan

- Additional hires at all levels
- Admin help with Accurate and doc retention
- SA help with NIRs
- Formalize, reiterate and re-enforce 10-day rule
- Promotional criteria to be drafted
- 360 degree review and BES for SVP/SCOs
- Rating guides for major asset classes and mentoring system for new analysts

Moody's Investors Service

DATE: 01/03/2007
TIME: 20:03:59 GMT
AUTHOR: Frankowicz, Wioletta
RECEIPIENT: Kothari, Deepika; Chatterjee, Debashish
CC:
SUBJECT: RE: Subprime performance

Ok. Doing now.

-----Original Message-----
From: Kothari, Deepika
Sent: Wednesday, January 03, 2007 2:50 PM
To: Chatterjee, Debashish; Frankowicz, Wioletta
Subject: RE: Subprime performance

I updated the Dec deal list under HE YIR folder further - only 3-4 deals left to be classified

W, you can add this list to the prior Master list.

Deepika Kothari
Residential Mortgage Backed Securities Group
Moody's Investors Service
' 201-915-8732
* deepika.kothari@moodys.com

-----Original Message-----
From: Chatterjee, Debashish
Sent: Wednesday, January 03, 2007 2:49 PM
To: Shih, Benjamin; Frankowicz, Wioletta; Kothari, Deepika
Subject: RE: Subprime performance

Thanks Ben - this is very helpful!

-----Original Message-----
From: Shih, Benjamin
Sent: Wednesday, January 03, 2007 11:06 AM
To: Chatterjee, Debashish; Frankowicz, Wioletta; Kothari, Deepika
Subject: RE: Subprime performance

Here are the data for cum loss for the top 10 issuers and the deals behind the data. Please let me know if you need any other data.

<< File: Top10Issuers cum loss.xls >> << File: Deals for Top 10 issuers.xls >>

-----Original Message-----
From: Chatterjee, Debashish
Sent: Thursday, December 28, 2006 4:55 PM
To: Frankowicz, Wioletta; Kothari, Deepika
Cc: Shih, Benjamin
Subject: FW: Subprime performance

Holy cow - is this data correct? I just graphed it and Freemont is such an outlier!! In an Appendix we might want to list the deals included under each originator.

-----Original Message-----
From: Shih, Benjamin
Sent: Thursday, December 28, 2006 4:42 PM

To: Chatterjee, Debashish
Cc: Frankowicz, Wioletta; Kothari, Deepika
Subject: RE: Subprime performance

Here is the chart of top 10 issuers' 60+ delinquency. Please let me know if you need anything else for the HE YIR.

<< File: Top10Issuers.xls >>

-----Original Message-----
From: Chatterjee, Debashish
Sent: Wednesday, December 27, 2006 6:56 PM
To: Shih, Benjamin
Cc: Frankowicz, Wioletta; Kothari, Deepika
Subject: RE: Subprime performance

Figure 4 a b c and d
They are off of current balance - could we also see it based on OB?

For the top 10 issuers - could we please see the 60+ delinquencies for the 2006 vintage.
I would also like to include figure 3 - once the data has been fixed.

Also - remember we had talked about doing a bar graph for the performance - both 6 months after issuance and 18 months after issuance?

I guess the best option is to meet early tomorrow morning and hash out the details. I'll send a meeting request out.

-----Original Message-----
From: Shih, Benjamin
Sent: Wednesday, December 27, 2006 5:11 PM
To: Chatterjee, Debashish
Cc: Frankowicz, Wioletta; Kothari, Deepika
Subject: RE: Subprime performance

Could you tell me which chart in HE index report that you need? I assume you are referring to the Quarterly report but not all the figures? If you can give me the Figure numbers in the report, that will be great. Also for the top 10 issures, which performance measures?

-----Original Message-----
From: Chatterjee, Debashish
Sent: Wednesday, December 27, 2006 3:35 PM
To: Shih, Benjamin
Cc: Frankowicz, Wioletta; Kothari, Deepika; Huang, Sarah; Kommana, Rama
Subject: RE: Subprime performance

As early as possible. WE are trying to circulate the first draft on Friday.
If possible please send us the performance info first and then when the prepay info is ready you can send that to us.

-----Original Message-----
From: Shih, Benjamin
Sent: Wednesday, December 27, 2006 3:23 PM
To: Chatterjee, Debashish
Cc: Frankowicz, Wioletta; Kothari, Deepika; Huang, Sarah; Kommana, Rama
Subject: RE: Subprime performance

Debash,

When do you need this by? We are waiting for a calculation to be fixed in PDS in order for the prepay to be shown correctly.

PSI-MOODYS-000051

From: Watson, Jeff
Sent: Wednesday, January 24, 2007 9:20 PM
To: Uppuluri, Sai; Glehan, David
Subject: RE: Quick question: Fremont

No, we don't treat their collateral any differently...

-----Original Message-----
From: Uppuluri, Sai
Sent: Wednesday, January 24, 2007 7:37 PM
To: Glehan, David; Watson, Jeff
Subject: Quick question: Fremont

Dave/Jeff:
I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?

Thanks

Sai Uppuluri
Associate Director, Structured Finance Ratings
Standard and Poor's Credit Market Services
55 Water Street, 40th Floor
Phone: (212) 438-3018
Fax : (212) 438-7322
Email : sai_uppuluri@sandp.com

Permanent Subcommittee on Investigations
EXHIBIT #93b

PSI-SP-000137

From: Glehan, David
Sent: Wednesday, January 24, 2007 11:15 PM
To: Uppuluri, Sai
Subject: RE: Quick question: Fremont

:)

-----Original Message-----
From: Uppuluri, Sai
Sent: Wednesday, January 24, 2007 11:13 PM Eastern Standard Time
To: Glehan, David
Subject: RE: Quick question: Fremont

I know...i got good.com on the go

Sent by Good Messaging (www.good.com)

-----Original Message-----
From: Glehan, David
Sent: Wednesday, January 24, 2007 11:05 PM Eastern Standard Time
To: Uppuluri, Sai
Subject: RE: Quick question: Fremont

You are good to go.

-----Original Message-----
From: Uppuluri, Sai
Sent: Wednesday, January 24, 2007 10:41 PM Eastern Standard Time
To: Glehan, David
Subject: RE: Quick question: Fremont

Yup

Sent by Good Messaging (www.good.com)

-----Original Message-----
From: Glehan, David
Sent: Wednesday, January 24, 2007 10:14 PM Eastern Standard Time
To: Uppuluri, Sai
Subject: RE: Quick question: Fremont

Fico scores current?

-----Original Message-----
From: Uppuluri, Sai
Sent: Wednesday, January 24, 2007 08:18 PM Eastern Standard Time
To: Glehan, David
Subject: RE: Quick question: Fremont

Permanent Subcommittee on Investigations
EXHIBIT #93c

PSI-SP-000135

OC deal...Less than 1 year seasoned

-----Original Message-----
From: Glehan, David
Sent: Wednesday, January 24, 2007 8:04 PM
To: Uppuluri, Sai
Subject: RE: Quick question: Fremont

Is it a NIM or an OC deal? Any seasoning?

-----Original Message-----
From: Uppuluri, Sai
Sent: Wednesday, January 24, 2007 07:36 PM Eastern Standard Time
To: Glehan, David; Watson, Jeff
Subject: Quick question: Fremont

Dave/Jeff:
I have a Goldman deal with subprime Fremont collateral. Since Fremont collateral has been performing not so good, is there anything special I should be aware of?

Thanks

Sai Uppuluri
Associate Director, Structured Finance Ratings
Standard and Poor's Credit Market Services
55 Water Street, 40th Floor
Phone: (212) 438-3018
Fax : (212) 438-7322
Email : sai_uppuluri@sandp.com

Standard & Poor's loss coverage levels are contingent upon none of the mortgage loans being High Cost or Covered Home Loans (as defined by the applicable law) per the loan level file submitted to Standard & Poor's for analysis.

PSI-SP-000136

From: Warrack, Thomas
Sent: Thursday, February 01, 2007 10:42 AM
To: Ahn, Laura; Albergo, Leslie; Alizadeh, Rasool; Arne, Errol; Barnes, Susan; Beauchamp, Kyle; Bergeland, Regina; Bergman, Mathew; Bliss, Brendan; Boardman, Jeremy; Bruzese, Frank; Cao, Becky; Chu, Eliza; Clements, Julia; Conon, Jonathan; Davis, Jessica; Deasy, Chris; Dougherty, Mike P; Epstein, Kenneth; Gleeson, Michael S; Glehan, David; Goldenberg, Mark; Graham, Peter; Grow , Brian (S&P); Grundy, James; Guinyard, Anthony; Hall, Daniel; Hawkins, Kisha; Hierl, Jonathan 11/12/2006; Hinman, Carissa; Hongwei Wang, David; Hopkins, Amanda; Kahan, Jack; Kennedy, Martin; Kimmel, George; Kostiw, Karen; Kumar, Rohit; Larkin, Daniel; Levin, Mark; Listner, Michael; Lukacsko, Erik; Maciaszek, Matthew; Mahdavian, Sharif; Manasseh, Rani; Mason, Scott; Mccormick P, Michael 9/7/2006; Mcdermott, Gail; McMillon, Robin; Messler, Julie; Muhammad, Aliyma; Neary, Rebecca; Niemy, Todd; Osterweil, Terry; Parker, Samuel; Perelmuter, Monica; Polizzotto, John; Polumbo, Kimberly; Rossmann, Anne; Rubino, Beth; Samuels, Amy; Sang, John; Schneider, Jeremy; Shaikh, Waqas; Sharma, Sudhir; Siber, Matthew; Skuthan, Natalia; Smith, Keith; Solar, Mona; Stock, Michael; Stumberger, Danielle 1/4/2007 2:46:27 PM; Taylor, James; Tegen, Daniel; Tencer, Steve; Uppuluri, Sai; Van Kirk, Spencer; Vonderhorst, Brian; Wallace, Vanessa; Warrack, Thomas; Watson, Jeff; Weller, Brian; Wray, Michael; Yioupis, Leo; Zimmerman, Allen
Subject: FW: Defaults cause Fremont to end ties to 8,000 brokers
fyi

-----Original Message-----
From: Pollsen, Robert
Sent: Thursday, February 01, 2007 9:00 AM
To: Avant-Koger, Paula; Clarke, Lisa; Consul, Manish; Davey, Scott; Giudici, Andrew; Graffeo, Michael; Joyce, Kristymarie; Kim, Min; Mahabir, Lal; Rao, Asha; Ren, Chuye; Rivera, Jessica; Rivera, John; Warner, Ernestine; Young, Steven
Cc: Albergo, Leslie; Kostiw, Karen; Mcdermott, Gail; Osterweil, Terry; Stock, Michael; Tencer, Steve; Warrack, Thomas
Subject: Defaults cause Fremont to end ties to 8,000 brokers

Defaults cause Fremont to end ties to 8,000 brokers

Mon Jan 29, 2007 4:27 PM ET

By Al Yoon

LAS VEGAS, Jan 29 (Reuters) - Subprime mortgage lender Fremont Investment and Loan on Monday said it severed ties last quarter with some 8,000 brokers whose loans were responsible for some of the highest delinquency rates in the industry.

Such moves to improve loan quality have helped trim the number of early defaults on Fremont mortgages to a 3 percent rate from almost 6 percent in mid-2006, Mike Koch, a Fremont vice president of marketing, told investors at the American Securitization Forum meeting in Las Vegas. The so-called early payment defaults were close to 1 percent in 2005.

The brokers "released" were "highly correlated" to the sudden rise in defaults on Fremont loans, he said in response to questions from investors.

"First and foremost, increased loan quality is the No. 1 initiative for the year," Koch said.

Fremont was the fifth-biggest originator of subprime loans last year, with about $33 billion of loans issued.

A surge in defaults across the industry from low levels in 2003-2005 came as subprime underwriters loosened standards to help maintain volume in a shrinking market. The loans, most destined for the $575 billion home-equity, asset-backed bond market, are being returned by investors at an alarming pace, hurting profits.

Permanent Subcommittee on Investigations
EXHIBIT #93d

PSI-SP-000071

For Santa Monica, California-based parent Fremont General Corp. <FMT.N>, soaring loan repurchases led to a $16.4 million loss on the sale of its mortgages in the first nine months of 2006, compared with a $316.4 million gain on sale for the same period of 2005.
A call to Fremont General's office of corporate compliance and investor relations wasn't immediately returned.
Bond rating companies including Standard & Poor's, Moody's Investors Service and Fitch Ratings since November have said they may downgrade parts of bond issues packaged with 2006 Fremont loans by a unit of French bank Societe Generale.
Other steps taken by Fremont to shore up loan quality include reducing the number of loans made to borrowers who state, rather than prove, their income, Koch said. Fremont has cut the number of "seconds" loans it makes on top of first mortgages to about 5 percent at year end 2006 from above 6 percent in the third quarter, he said.
"In 2007 we will continue to drive that number lower and lower," Koch said.
The release of brokers spawned the majority of urgent questioning from investors who have seen the value of their lower-rated securities slide since late 2006. Investors have complained of significant "tiering" of their bonds, in which bonds backed by loans of certain issuers have fallen in price relative to bonds whose attributes are otherwise similar.
Koch was reluctant to call the brokers "bad" because some may have simply specialized in loans that Fremont has cut back on, such as eighty-twenty loans. Eighty-twenty loans are two simultaneous loans, one to finance 80 percent of a home and another to cover 20 percent.
However, some of the brokers were "pushing appraisals" to make a home appear more valuable, he said.
Koch said Fremont is "well-positioned" to weather the downturn in the housing market and mortgage credit that has resulted in the closure of smaller rivals Ownit Mortgage Solutions and Sebring Capital Partners LP. H&R Block Inc.'s <HRB.N> OptionOne Mortgage Corp. is up for sale.
Among support, Fremont has an untapped $3 billion warehouse line of credit and nearly $4 billion in available credit from the Federal Home Loan Bank system, Koch said.

PSI-SP-000072

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GSAMP Trust 2007-FM2

Moody's Org ID: 720035753

Closing Date: 21 Feb 2007
Current Total Deal Size(Mil): 693.0
Pay Frequency: Monthly

Market Segment: Structured Finance
Collateral Type: HEL - Closed-End - Not High LTV
Location of Assets: UNITED STATES

Originator: Fremont Investment & Loan
Trustee: Deutsche Bank National Trust Company
Primary Servicer: Fremont Investment & Loan
Underwriter: Goldman Sachs & Co.

Research | Ratings | Related Parties

Deal Research | Asset Class Research | Methodology

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Date	Document Type	Title
27 Mar 2010	Performance Report	GSAMP Trust 2007-FM2 View data in **Performance Data Services**
13 Jan 2010	Rating Action	Moody's updates loss projections for US Subprime RMBS issued in 2005-2007
13 Mar 2009	Rating Action	Moody's takes action on certain Goldman Sachs subprime RMBS
26 Feb 2009	Announcement	Moody's places 2005-2007 subprime RMBS on review for downgrade
23 Oct 2008	Rating Action	Moody's Downgrades Certain Goldman Subprime RMBS
18 Apr 2008	Rating Action	Moody's Downgrades Certain Goldman Sachs Subprime RMBS
04 Dec 2007	Rating Action	Moody's downgrades GSAMP subprime deals issued in 2007
08 Mar 2007	Rating Action	Moody's Rates GSAMP Trust 2007-FM2 Subprime Mortgage Deal
21 Feb 2007	Pre-Sale Report	GSAMP Trust 2007-FM2

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Credit Ratings:
GSAMP Trust 2007-FM2
US$1.002 bil mortgage pass-through certificates series 2007-FM2

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Last Updated: 17-Apr-2010 19:45:30 EST

	Type	Rating Date	Rating Action	Rating
Tranche: A-1	Local Long-Term	02-Mar-2010	Downgrade, CreditWatch/Outlook	CCC
Tranche: A-1	Local Long-Term	04-Aug-2009	CreditWatch/Outlook	B-
Tranche: A-1	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	B-
Tranche: A-1	Local Long-Term	20-Aug-2008	CreditWatch/Outlook	AA
Tranche: A-1	Local Long-Term	20-Aug-2008	Downgrade, CreditWatch/Outlook	AA
Tranche: A-1	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-1	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: A-2A	Local Long-Term	02-Mar-2010	Downgrade, CreditWatch/Outlook	B+
Tranche: A-2A	Local Long-Term	04-Aug-2009	CreditWatch/Outlook	BB
Tranche: A-2A	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	BB
Tranche: A-2A	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2A	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2A	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2A	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: A-2B	Local Long-Term	02-Mar-2010	Downgrade, CreditWatch/Outlook	CCC
Tranche: A-2B	Local Long-Term	04-Aug-2009	CreditWatch/Outlook	B-
Tranche: A-2B	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	B-
Tranche: A-2B	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2B	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2B	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2B	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: A-2C	Local Long-Term	02-Mar-2010	Downgrade, CreditWatch/Outlook	CCC
Tranche: A-2C	Local Long-Term	04-Aug-2009	CreditWatch/Outlook	B-
Tranche: A-2C	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	B-
Tranche: A-2C	Local Long-Term	20-Aug-2008	CreditWatch/Outlook	AA
Tranche: A-2C	Local Long-Term	20-Aug-2008	Downgrade, CreditWatch/Outlook	AA
Tranche: A-2C	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: A-2C	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: A-2D	Local Long-Term	02-Mar-2010	Downgrade, CreditWatch/Outlook	CCC
Tranche: A-2D	Local Long-Term	04-Aug-2009	CreditWatch/Outlook	B-
Tranche: A-2D	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	B-
Tranche: A-2D	Local Long-Term	20-Aug-2008	CreditWatch/Outlook	A
Tranche: A-2D	Local Long-Term	20-Aug-2008	Downgrade, CreditWatch/Outlook	A
Tranche: A-2D	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA

Permanent Subcommittee on Investigations
EXHIBIT #93f

Tranche: A-2D	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: B-1	Local Long-Term	24-Mar-2009	Downgrade	D
Tranche: B-1	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: B-1	Local Long-Term	17-Oct-2007	Downgrade	B+
Tranche: B-1	Local Long-Term	28-Feb-2007	New Rating	BB+
Tranche: B-2	Local Long-Term	02-Feb-2009	Downgrade	D
Tranche: B-2	Local Long-Term	20-Aug-2008	Downgrade	CC
Tranche: B-2	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: B-2	Local Long-Term	17-Oct-2007	Downgrade	B-
Tranche: B-2	Local Long-Term	28-Feb-2007	New Rating	BB
Tranche: M-1	Local Long-Term	04-Aug-2009		CCC
Tranche: M-1	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	CCC
Tranche: M-1	Local Long-Term	20-Aug-2008	CreditWatch/Outlook	BBB
Tranche: M-1	Local Long-Term	20-Aug-2008	Downgrade, CreditWatch/Outlook	BBB
Tranche: M-1	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA+
Tranche: M-1	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA+
Tranche: M-1	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA+
Tranche: M-1	Local Long-Term	28-Feb-2007	New Rating	AA+
Tranche: M-2	Local Long-Term	02-Mar-2010	Downgrade	CC
Tranche: M-2	Local Long-Term	04-Aug-2009	Downgrade, CreditWatch/Outlook	CCC
Tranche: M-2	Local Long-Term	20-Aug-2008	CreditWatch/Outlook	B
Tranche: M-2	Local Long-Term	20-Aug-2008	Downgrade, CreditWatch/Outlook	B
Tranche: M-2	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA
Tranche: M-2	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA
Tranche: M-2	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AA
Tranche: M-2	Local Long-Term	28-Feb-2007	New Rating	AA
Tranche: M-3	Local Long-Term	02-Mar-2010	Downgrade	CC
Tranche: M-3	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-3	Local Long-Term	17-Oct-2007	Downgrade	A
Tranche: M-3	Local Long-Term	28-Feb-2007	New Rating	AA-
Tranche: M-4	Local Long-Term	04-Aug-2009	Downgrade	CC
Tranche: M-4	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-4	Local Long-Term	17-Oct-2007	Downgrade	BBB+
Tranche: M-4	Local Long-Term	28-Feb-2007	New Rating	A+
Tranche: M-5	Local Long-Term	24-Feb-2010	Downgrade	D
Tranche: M-5	Local Long-Term	04-Aug-2009	Downgrade	CC
Tranche: M-5	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-5	Local Long-Term	17-Oct-2007	Downgrade	BBB
Tranche: M-5	Local Long-Term	28-Feb-2007	New Rating	A
Tranche: M-6	Local Long-Term	24-Sep-2009	Downgrade	D
Tranche: M-6	Local Long-Term	04-Aug-2009	Downgrade	CC
Tranche: M-6	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-6	Local Long-Term	17-Oct-2007	Downgrade	BBB-
Tranche: M-6	Local Long-Term	28-Feb-2007	New Rating	A-
Tranche: M-7	Local Long-Term	20-Jul-2009	Downgrade	D
Tranche: M-7	Local Long-Term	30-Jan-2008	Downgrade	CCC

Tranche: M-7	Local Long-Term	17-Oct-2007	Downgrade	BB+
Tranche: M-7	Local Long-Term	28-Feb-2007	New Rating	BBB+
Tranche: M-8D	Local Long-Term	25-Jun-2009	Downgrade	D
Tranche: M-8D	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-8D	Local Long-Term	17-Oct-2007	Downgrade	BB
Tranche: M-8D	Local Long-Term	28-Feb-2007	New Rating	BBB
Tranche: M-8P	Local Long-Term	25-Jun-2009	Downgrade	D
Tranche: M-8P	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-8P	Local Long-Term	17-Oct-2007	Downgrade	BB+
Tranche: M-8P	Local Long-Term	28-Feb-2007	New Rating	BBB
Tranche: M-9	Local Long-Term	23-Apr-2009	Downgrade	D
Tranche: M-9	Local Long-Term	30-Jan-2008	Downgrade	CCC
Tranche: M-9	Local Long-Term	17-Oct-2007	Downgrade	BB-
Tranche: M-9	Local Long-Term	28-Feb-2007	New Rating	BBB-
Tranche: P	Local Long-Term	28-Feb-2007	Not Rated	NR
Tranche: R	Local Long-Term	20-Aug-2008	Not Rated, CreditWatch/Outlook	NR
Tranche: R	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: R	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: RC	Local Long-Term	20-Aug-2008	Not Rated, CreditWatch/Outlook	NR
Tranche: RC	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: RC	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: RX	Local Long-Term	20-Aug-2008	Not Rated, CreditWatch/Outlook	NR
Tranche: RX	Local Long-Term	28-Feb-2007	CreditWatch/Outlook	AAA
Tranche: RX	Local Long-Term	28-Feb-2007	New Rating	AAA
Tranche: X	Local Long-Term	28-Feb-2007	Not Rated	NR

From: immanager@standardandpoors.com
Sent: Thursday, April 05, 2007 11:26 AM
To: Mooney, Shannon; Trant, Brian; Loken, Andrew
Subject: IMlogic IMManager conversation export: Thursday, April 05, 2007 11:25:36 AM EDT: shannon what happened?

IM Network: MSN IM

IM Users:

participant=shannon_mooney@standardandpoors.com "Mooney, Shannon" "shannon.mooney@comcast.net"
participant=brian_trant@standardandpoors.com "Trant, Brian" "trantbp@gmail.com"
participant=andrew_loken@standardandpoors.com "Loken, Andrew" "walchuk22@yahoo.com"

IM Dialog:

Thursday, April 05, 2007 11:25:36 AM EDT Trant, Brian started conversation.
Thursday, April 05, 2007 11:25:36 AM EDT Mooney, Shannon has entered the conversation.
Thursday, April 05, 2007 11:25:36 AM EDT Loken, Andrew has entered the conversation.
Thursday, April 05, 2007 11:25:36 AM EDT Trant, Brian: shannon what happened?
Thursday, April 05, 2007 11:25:36 AM EDT Trant, Brian: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 11:25:36 AM EDT Mooney, Shannon: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 11:25:36 AM EDT Loken, Andrew has left the conversation.
Thursday, April 05, 2007 11:25:36 AM EDT Trant, Brian: IM Administrator: This IM session is being recorded and may be reviewed for compliance by McGraw-Hill through its several divisions...
Thursday, April 05, 2007 11:25:39 AM EDT Loken, Andrew has entered the conversation.
Thursday, April 05, 2007 11:25:39 AM EDT Trant, Brian: i heard some fury
Thursday, April 05, 2007 11:25:51 AM EDT Mooney, Shannon: james yao at ubs
Thursday, April 05, 2007 11:26:05 AM EDT Mooney, Shannon: sarah is working with him

Permanent Subcommittee on Investigations
EXHIBIT #94a

PSI-SP-000403

From: Halprin, James
Sent: Thursday, April 05, 2007 3:19 PM
To: Hu, Bujiang; Kambeseles, Peter; Cheng, Kenneth; De Diego Arozamena, Alfredo; Ghetti, Belinda; Guadagnuolo, Lapo; Guarnuccio, Keith; Radziul, Robert
Cc: Cheng, Lois
Subject: RE: Vertical 2007-1/UBS/James Yao

Vertical is politically closely tied to B of A - and is mostly a marketing shop - helping to take risk off books of B o A. Don't see why we have to tolerate lack of cooperation. Deals likely not to perform. JH

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Hu, Bujiang
Sent: Thursday, April 05, 2007 02:51 PM Eastern Standard Time
To: Kambeseles, Peter; Cheng, Kenneth; De Diego Arozamena, Alfredo; Ghetti, Belinda; Guadagnuolo, Lapo; Guarnuccio, Keith; Halprin, James; Radziul, Robert

Cc: Cheng, Lois
Subject: Vertical 2007-1/UBS/James Yao

Lois, Sarah, and Shannon would like to give us a heads-up with respect to the lack of responsiveness/cooperation from UBS (James Yao) they're experiencing on Vertical 2007-1.

There seems to be a general lack of interest to work WITH us, incorporate our comments, or modeling to our criteria. Based on their collective difficult experience so far, our analysts estimate a smooth closing is unlikely. (The behavior is not limited to this deal either.)

Permanent Subcommittee on Investigations
EXHIBIT #94b

PSI-SP-000404

From: Cheng, Lois
Sent: Friday, April 06, 2007 4:23 PM
To: Cheng, Lois; O'Keefe, Brian; Kambeseles, Peter
Cc: Sachse, Sarah; Mooney, Shannon; Gatmaitan, Joshua
Subject: RE: VERTICAL ABS CDO 2007-1, LTD- closing next tues, update

Just wanted to update you guys on Vertical. The model is passing now. We found a mistake in the waterfall modeling that was more punitive than necessary. James Yao has been notified and is probably having a chuckle at our expense. I still feel that his attitude toward our rating process and our team still needs to be addressed in some way.

Thanks,
Lois

From: Cheng, Lois
Sent: Thursday, April 05, 2007 3:05 PM
To: O'Keefe, Brian; Kambeseles, Peter
Cc: Sachse, Sarah; Cheng, Lois; Mooney, Shannon; Gatmaitan, Joshua
Subject: VERTICAL ABS CDO 2007-1, LTD- closing next tues, deal not passing
Importance: High

Hi Pete/Brian,

Just wanted to let you know that this deal is closing and going Effective next Tuesday, but our rated Equity tranche (BBB) is failing in our cashflow modeling.

Sarah tried a lot of ways to have the model passed. Unfortunately we are still failing by 1bp, without any stress runs and without modeling certain fees (anticipated to be minimal).

In addition, we already incorporated the actual ramped up portfolio, and not a hypothetical one, for this exercise.

Regards,
Lois

From: Cheng, Lois
Sent: Friday, March 30, 2007 5:10 PM
To:
Subject: VERTICAL ABS CDO 2007-1, LTD. UBS
Importance: High

I am covering for Josh on this deal which is closing 4/10/07. They want to finalize all the docs and cashflow by next Tues, 4/3. Sarah and I have been working with James Yao from UBS but we have not been getting cooperation from him. He has told me that I am jeopardizing the deal. Please can you address the following issues?

- Instead of him addressing my comments/questions, he asked me to go back to the analyst who rated the previous deal for answer because of the "time constraint".
- This is the third time that he refuses to model the cashflow according to the Indenture and Criteria. Sarah has given him notice on these points previously but he has not changed his model.
- We have not received revised swap docs following comments made by Josh.
- He purposely spelled Sarah's name wrong and says that he will spell her name correctly once she does what he asks her to do, which he should be doing himself

Regards,

Permanent Subcommittee on Investigations
EXHIBIT #94c

PSI-SP-000391

PRE-CLOSING COMMITTEE MEMORANDUM

To:	Derivatives Rating Committee
From:	Saiyid Islam, Peter Hallenbeck
Committee:	Steve Lioce, Rudy Bunja, Ainat Koller
Deal:	**Vertical ABS CDO 2007-1, Ltd**
Pricing:	February 22, 2007
Closing:	April 10, 2007

Vertical ABS CDO 2007-1, Ltd is a mezzanine Hybrid ABS transaction that is expected to be 95% synthetic (CDS assets) at closing. The CDO would primarily reference Subprime and Midprime RMBS securities (about 55% and 35% respectively) with ABS CDOs making up the remainder at time of closing. Target WARF is 460-470 (Baa2-), covenanted to 500. The transaction is expected to be about 97% ramped at closing.

Banker:	UBS • James Yao 212-713-4972
Counsel:	Freshfields Bruckhaus Deringer LLP • Kiran Bokhari 212-277-4032
Collateral Manager:	Vertical Capital, LLC
Trustee:	Wells Fargo Bank, National Association
Effective:	May 2007
Reinvestment Period:	March, 2011
Payment Dates:	Monthly, commencing June 2007
First Auction Date:	[March, 2014]
TRS Counterparty:	MLI (P-1 rating)
CDS Asset Counterparty:	UBS AG, London Branch (Aa2/P1)
VFN Liquidity Provider:	[UBS]

Precedent

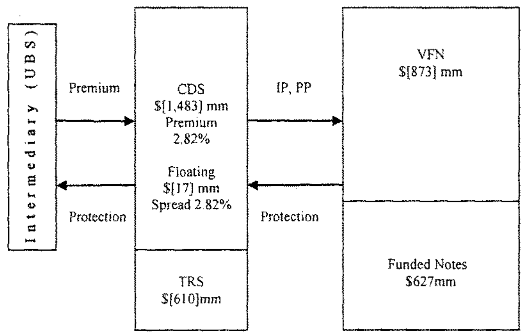
Deal:	Vertical Virgo 2006, Ltd
Closed:	Oct 31, 2006
Analysts:	Govind Gupta, Peter Hallenbeck

CAPITAL STRUCTURE

Tranche	Par	Size	Coupon	Moody's	Stated Maturity
Class X	$42,000,000		P&I of 700,000 / month	Aaa	Mar-2013
Class A-1S	$873,000,000	58.20%	0.18% / 1ML + 0.32%	Aaa	Mar-2047
Class A-1J	$229,000,000	15.27%	1ML + 0.75%	Aaa	Mar-2047
Class A-2L	$157,000,000	10.47%	1ML + 0.95%	Aa2	Mar-2047
Class A-3L	$57,000,000	3.80%	1ML + 3.50%	A2	Mar-2047
Class B-1L	$70,000,000	4.67%	1ML + 6.00%	Baa2	Mar-2047
Class B-2L	$32,000,000	2.13%	1ML + 7.00%	Baa3	Mar-2047
Class C-1L	$22,000,000	1.47%	1ML + 9.25%	Ba2	Mar-2047
Subordinated Notes	$60,000,000	4.00%	Residual		Mar-2047
Total	$1,500,000,000	100.00%			

Permanent Subcommittee on Investigations
EXHIBIT #94d

PSI-MOODYS-000113

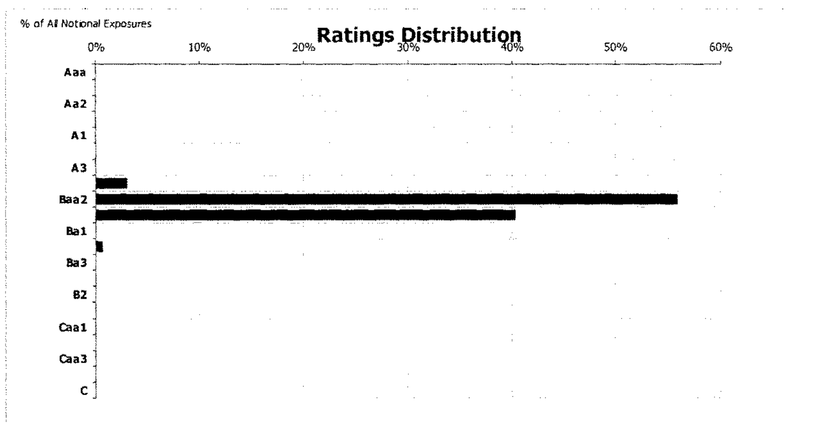


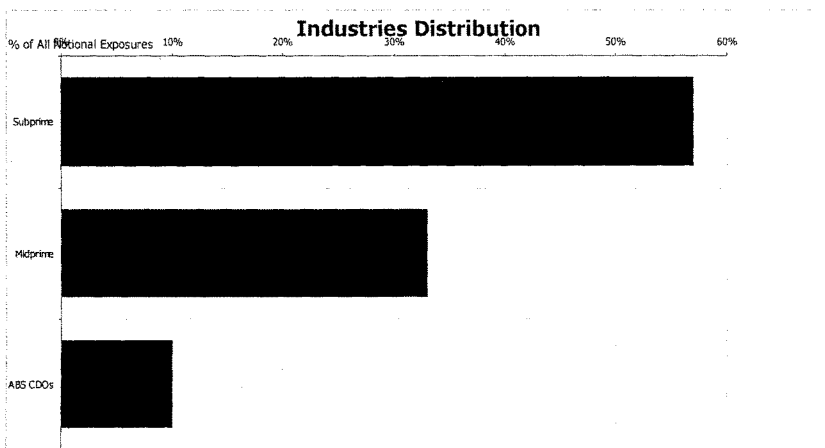
Deal Characteristics

Payment Frequency:	Monthly
Effective Date:	April 2007. At Closing, deal will be 99% Ramped Up, of which 97% will be CDS.
First Payment Date:	May 2007
Reinvestment Period:	Until April 2011
Auction Date:	8 years
Non-Call Period:	4 years
Stated Maturity:	40 years (2047); Maturity of Class X Notes is in 2013.

COLLATERAL

Total Initial Collateral Par:	$1,500,000,000
Weighted Average Life:	6.0 years
Weighted Average Rating Factor:	500
Weighted Average Recovery:	23.0%
Moody's Asset Correlation (covenant):	24% for n = 100
Weighted Average Spread (covenant):	2.82%
Current MAC:	22.57% for n = 100
Current Weighted Average Spread:	3.07%





Coverage Tests

There are no coverage tests in the deal except for a sequential pay test that is based on the Class B OC ratio.

Test	OC Requirement	
Class B Pro Rata Pay Test	103.0%	Years 1-4
Class B Pro Rata Pay Test	100.00%	Thereafter

Ratings-based OC Haircuts:

PSI-MOODYS-000115

Rating Level ("Moody's Rating")	Cushion	Haircut
Ba1-Ba3	10%	10%
B1 – B3	0%	30%
≤ Caa1	0%	50%

Waterfall Features

Interest Waterfall

i. Trustee, Administrative Expenses, and Senior Management Fees
ii. Senior Payments to the CDS counterparty, TRS Counterparty and Hedge Counterparty
iii. Interest and Principal to the Class X Notes
iv. Interest to the Class A1S Notes
v. Interest to the Class A1J Notes
vi. Interest to the Class A2 Notes
vii. Interest to the Class A3 Notes
viii. Interest to the Class B1 Notes
ix. Interest to the Class B2 Notes
x. Interest to the Class C1 Notes
xi. Junior Management Fees
xii. Subordinated Payments to the CDS counterparty, TRS Counterparty and Hedge Counterparty
xiii. To the Subordinated Trustee and Administration Expenses
xiv. After the Auction Date, to the payment of principal first Pro Rata to the Class B1, Class B2 and Class C1 Notes, second to the Class A3 Notes, third to the Class A2 Notes, fourth to the A1J Notes and fifth to the reduction of the Class A1S Notes until paid in full
xv. During years 1-4 of the transaction to preference shareholders up to an annualized coupon of 15%
xvi. During years 1-4 of the transaction to pay principal on Class B1 and Class B2 notes on a Pro rata basis up to a 3% annualized original notional
xvii. The remaining to the Subordinated Noteholders

Principal Waterfall

i. The Amounts referred to in clauses (i) through (v) of the Interest Waterfall above to the extent not already paid by Interest Proceeds
ii. During the reinvestment period, toward the purchase of additional collateral.
iii. After the end of the reinvestment period but prior to the Auction Call Date, to the Pro Rata reduction of the Class A1S Notes and principal payments to the Funded Rated Notes, provided that no Sequential Test has ever been breached, until 50% of the original Reference Portfolio Principal is paid down, then sequentially to the reduction of the Class A1S Notes, the Class A1J Notes, the Class A2 Notes, the Class A3 Notes, the Class B1 Notes, the Class B2 Notes, and then the Class C1 Notes.
iv. To the Junior Management Fee
v. Any unpaid interest due (to the extent not paid by Interest Proceeds) sequentially to the Class A3 Notes, the Class B1 Notes, the Class B2 Notes, and the Class C Notes.
vi. Subordinated payments to CDS Counterparty, TRS Counterparty and Hedge Counterparty
vii. To the Subordinated Trustee and Administration expenses
viii. The remaining to Subordinated Noteholders

Eligibility Criteria

Collateral purchased must satisfy the following criteria:

1. Denominated and payable in U.S. Dollars

2. Moody's Rating at least **Ba3**
3. Obligor or issuer of security is not a fund owned or managed by Collateral Manager
4. Excluded Securities: Listed below under Portfolio Percentage Limitations
5. Long dated assets: 10% bucket of which 5% mature within 5 years of stated maturity and remainder within 10 years. Expected maturity is within deal maturity.

Portfolio Percentage Limitations **(Section *12.2*)**

<u>By Rating:</u>	
Moody's Rating at least **Ba3 (Ba2 for Non RMBS)**	100%
Moody's Rating **Ba1 to Ba3**	≤ 5%
<u>Issuer Concentrations:</u>	
Single issue size Moody's Rating at least **Aa3**	≤ 2.0%
Single issue size Moody's Rating **A1 to A3**	≤ 1.5% (one exception 2.0%)
Single issue size Moody's Rating **Baa1** or **Baa2**	≤ 1.35% (two exceptions 2.0%, 1.5%)
Single issue size Moody's Rating **Baa3**	≤ 1% (two exceptions 1.35%)
Single issue size Moody's Rating **Ba1 to Ba3**	≤ 0.75% (two exceptions 1.0%)
<u>Single Servicer Concentration:</u>	
Servicer for Mortgage related securities:	
"Above Average" or better and not on negative watch	≤ 15% (10% for 2 servicers)
"Average" and not on negative watch	≤ 10%
Below "Average" and not on negative watch	≤ 5%
Servicers not for Mortgage	≤ 5%
<u>By Coupon Type</u>	
Fixed rate securities (not including CDS)	0%
CDS referencing fixed rate securities	20%
Floating Rate Securities (not including CDS)	20%
<u>By Type of Security:</u>	
Non Res A/B/B, HEL, or CMBS	≤ 20%
Residential A Mortgage Securities	≤ 25%
Residential B/C Mortgage Securities	≤ 100%
Home Equity Loan Securities	≤ 15%
CMBS Securities	
Aggregate CMBS	≤ 5%
CMBS Conduit Securities	≤ 5%
CMBS Credit Tenant Lease Securities (rated Aaa)	≤ 5%
CMBS Large Loan Securities (not below Baa2)	≤ 5%
Asset-Backed Securities	
Automobile Securities (not below Baa2)	≤ 10%
Credit Card Securities (not below Baa2)	≤ 2%
Student Loan Securities	
Fully guaranteed by the U.S. DOEd (not below Baa3)	≤ 5%
Not guaranteed by the U.S. DOEd (rated **Aaa**)	≤ 2%

Small Business Loan Securities (not below Baa2)		≤ 2%
CDO Securities		
Aggregate		≤ 10%
CLOs		0%
High Yield CDOs (rated Aaa)		≤ 10%
CDO^2		≤ 10%
Single Manager (not Vertical)		≤ 2.5%
Single Issuer		≤ 1%
Equipment Leasing Securities		
Aggregate		0%
Trust Preferred CDO (all types)		0%
Time Share Securities (at least Baa2)		≤ 2%
Car Rental		0%
NIM		≤ 2%
REIT		0%
PIK Bonds (Pikable)		≤ 10%
Neg Am (rated at least Aa3)		≤ 10%
Zero Coupon		0%
Index linked Securities		0%
Synthetic Securities (other than hedging CDS)		
Aggregate		100%
Not CDS		≤ 20%
Not CDS Fixed		≤ 0%

By Frequency of Interest Pay

Less than monthly	≤ 10%, none that pay less frequently than semi-annually. There are smoothing accounts set up for those paying less than monthly. 5% less than quarterly.

Other Limits

Pure Private Collateral Debt Securities	≤5%
Qualifying Foreign Obligors	≤5%
Average Life	≤15 years
Downgraded, withdrawn or on watch	≤5%

(not downgraded by two notches, or more than once, or rated Baa3 or below and have been downgraded prior to acquisition or on watch, or rated Baa2 and on watch.)

Shorts

No Shorts on cash.

Perfectly hedged shorts: has long position with reference obligation that forms part of the same Issue as, ranks pari passu with and has the same Stated Maturity as.

Any Disposition of a Hedging CDS Transaction shall be deemed to be an Acquisition of the portion of the notional amount of the Hedged CDS Transaction to which such Disposed of Hedging CDS transaction relates.

Net Issuer Hedged Short Premiums payable by the Issuer come out of the Interest Collection Account. Net premium inflows are treated as principal proceeds.

Unhedged (Naked) shorts: No naked shorts allowed.

Excluded Securities:

ABS Chassis Securities, ABS Container Securities, ABS Natural Resource Receivable Securities, Aircraft Leasing Securities, Bespoke CDO Securities, Cap Corridor Securities, Catastrophe Bonds, Combination Securities, Corporate CDO Securities, EETC Securities, Franchise Securities, Future Flow Securities, Guaranteed Asset-Backed Securities, Healthcare Securities, Interest Only Securities, Lottery Receivable Securities, Manufactured Housing Securities, Mutual Fund Fees Securities, Oil and Gas Securities, Principal Only Securities, Prohibited RMBS Securities, Restaurant and Food Services Securities, Small Business Loan Securities, Stadium Receivables Securities, Structured Settlement Securities secured with future legal fees, Tax Lien Securities, Tobacco Bonds, Toggle Floater Securities or Unhedged Short CDS Transactions.

VFN (Class A1S) Features

1. The initial Note Holder is UBS, which is currently rated Aa3.
2. Viable Funding Note Holder rating requirements: A1 & P1. If failing the requirements, with 30 days, they can replace themselves, obtain a satisfactory guarantor or fully fund the note (the money will be put into the reserve account. The VFN noteholder will only earn the commitment fee, not the full coupon.)
3. Permitted Use:
    a. CDS Termination Payment Amount;
    b. Bond Purchase Payment (may not cause a Notional Amount Shortfall and is subject to a cap of $100MM and must only be during Reinvestment Period);
    c. Credit Protection Payments;
    d. Interest Reimbursement Amounts;

4. Outs for the VFN:
    a. Commitment Termination Date: State Maturity or Redemption Date for the Notes; Event of Default (other than Specified Event of Default) and the liquidation of the collateral; Special Event of Default; CDS Termination; CDS term due to UBS default.
    b. For borrowing for CDS, no Specified Event of Default.
    c. Specified Event of Default: 5.1 (f) or (g)
    d. For Bond Purchases, causes a Notional Amount Shortfall or borrowings for such purpose exceed $100MM.
    e. Class B Pro Rata Pay Test is not satisfied;
    f. TRS Event of Default has occurred.

    Class A1S Notes are entitled to Make-Whole Amount with respect to an Optional Redemption occurring prior to Distribution Date in April 2011.

During the Reinvestment Period, the Remaining Unfunded Facility Commitment will be reduced in the following circumstances: (i) if a Ratings Confirmation Failure occurs, on the Distribution Date relating to the first Determination Date thereafter, to the extent necessary to obtain a Rating Confirmation (and to the extent that funds are available for such purpose in accordance with the Priority of Payments); and (ii) on each Distribution Date that occurs during any Reinvestment Suspension Period (and to the extent that funds are available for such purpose in accordance with the Priority of Payments), by application of the amounts of the Collateral Manager Discretionary Facility Reduction which the Collateral Manager elects to apply to reduce permanently the Remaining Unfunded Facility Commitment pursuant to the Indenture (*provided* that Commitment Fee will continue to accrue on the aggregate Collateral Manager Discretionary Facility Reduction to and including the last day of the Reinvestment Period).

Reserve Account (TRS) Investments:

1. TRS:
   a. TRS Required Ratings: P-1 & Aa3 (not on negative watch). If failure (**Collateralization Event**), MLI needs to take any action, including post collateral, that will satisfy RAC within 10 days.
   b. If TRS Swap Counterparty is downgraded below P-2 or A1 on negative watch, it shall, within 30 days, replace, get guarantor or any other action that satisfy RAC.
2. Eligible investments (a) cash, (c) demand and time deposits, (g) Reinvestment Agreements, (h) US money market, with counterparty rating not less than Aa2 or P1. Maturity date is no later than the Business Day immediately prior to the next distribution date.

On the Closing Date, the Issuer will deposit approximately U.S.$**610,000,000** (the "Initial Deposit") into the Reserve Account and invest such amounts in TRS Reference Obligations in accordance with the terms of the Total Return Swap. Under the TRS Transaction, the Issuer will pay all interest and similar distributions on the TRS Reference Obligations to the TRS Counterparty and the TRS Counterparty will pay one-month LIBOR on the notional amount of the Total Return Swap to the Issuer. If any TRS Reference Obligation in the TRS Asset Subaccount is sold at a price below the principal amount thereof, MLI shall be required to pay such deficiency to the Issuer. The notional amount of the Total Return Swap may be reduced by MLI, and the Total Return Swap may be terminated by MLI or the Issuer in certain circumstances.

Credit Default Swap (CMBS and RMBS applies, also CDOs):

There are two form-approved forms with PAUG and Physical Settlement. The forms will be used for both shorts and long. Otherwise subject to RAC.

Buyer (UBS) pays:
- Fixed Amount premium
- Additional Fixed Amount: Writedown reimbursement, principal shortfall reimbursement, interest shortfall reimbursement.

Seller (Vertical) pays:
- Floating Amount: Writedown, Principal Shortfall, Interest Shortfall
- Credit Protection Payments (Physical Settlement Amounts)

Credit Event:
- Failure to Pay Principal
- Writedown
  - Writedown or applied loss
  - Attribution of principal deficiency or realized loss
  - Forgiveness of principal
  - Implied Writedown (carry all the assets at par no matter if it is performing.)

- Distressed Ratings Downgrade
  - Caa2 or below
  - Rating withdrawn and not reinstated within five business days; provided if it was Baa3 or higher prior to such withdrawal, it shall not constitute a Distressed Ratings Downgrade is it is assigned at least Caa1 within 3 months after such withdrawal.

Floating Amount Event:
- Writedown
- Failure to Pay Principal
- Interest Shortfall

Settlement: Physical

Party A Ratings: Aa2 & P-1

Party A (UBS) Downgrade Event:
- If the counterparty fails the Required Ratings (ST rating P-1 & LT rating A1), Party A shall take one of the following actions, at its sole expense:
  - Within 30 Business days, enter into a CSA and post collateral, or find replacement, or get guarantor, or other action subject to RAC.
- If the counterparty fails the Second Level Required Ratings (ST rating P-2 and LT rating A3), Party A shall take one of the following actions, at its sole expense:
  - Within 10 Business days, find replacement, or get guarantor, or other action subject to RAC.

UBS will need to replace if they are rated P2 or A3.

Hedging Strategies

1. *Interest Rate Risk*
   Not Applicable

2. *Liquidity Risk*
   Not Applicable

3. *Basis Swap*
   Not Applicable (There is a quarterly/semi-annually paying asset smoothing account)

4. *FX Risk*
   Not Applicable

Modeling Assumptions

Model Used: CDOEdge

Model Parameters

Parameters	
Floating %	100%
Cash Assets	5%
Synthetic / CDS	95%
Moody's Asset Correlation (n = 100)	24%
WARF	500
Recovery	23%
WAC	-
WAS (synthetic)	2.82%
WAS	2.82%
TRS Spread	-1 Bps
Cash on Cash	None

C. Model Results:

Weighted Average of Base, Slow and Fast Prepayment Cases (MAC = 24%)

Unfunded Spread

Tranche	X	A1S	A1J	A2	A3	B1	B2	C1
Target Rating	Aaa	Aaa	Aaa	Aa2	A2	Baa2	Baa3	Ba2
WA EL%	**0.0000%**	**0.0001%**	**0.0057%**	**0.0799%**	**0.3665%**	**1.1171%**	**2.8156%**	**3.9836%**
Zero-Default WAL	3.223	8.492	9.38	9.459	9.102	7.966	7.966	7.972
WA EL Target*	0.0005%	0.0041%	0.0049%	**0.0993%**	**0.5556%**	**1.5584%**	**4.6683*%**	**6.3990%**
WA Geomean Target	**0.0019%**	**0.0129%**	**0.0155%**	0.1404%	0.6891%	2.0592%	3.4299%	7.4281%

**Sequential hurdle for B2*

50% Unfunded, 50% Funded Spread

Tranche	X	A1S	A1J	A2	A3	B1	B2	C1
Target Rating	Aaa	Aaa	Aaa	Aa2	A2	Baa2	Baa3	Ba2
WA EL%	**0.0000%**	**0.0001%**	**0.0058%**	**0.0800%**	**0.3671%**	**1.1202%**	**2.8284%**	**4.0111%**
Zero-Default WAL	3.223	8.493	9.381	9.466	9.154	8.001	8.001	8.002
WA EL Target*	0.0005%	0.0041%	0.0049%	**0.0994%**	**0.5614%**	**1.5666%**	**4.6683*%**	**6.4151%**
WA Geomean Target	**0.0019%**	**0.0129%**	**0.0155%**	0.1405%	0.6958%	2.0691%	3.4438%	7.4448%

**Sequential hurdle for B2*

Sensitivity to Correlation

Stressing ABS CDO correlations by factor of 1.5

Actual MAC: 22.57%
MAC after stressing ABS CDOs: 22.71% (i.e. still within covenant)

MAC Covenant Scaled by factor of 1.1

Weighted Average of Base, Slow and Fast Prepayment Cases (MAC = 26.4%)

Unfunded Spread

Tranche	X	A1S	A1J	A2	A3	B1	B2	C1
Target Rating	Aaa	Aaa	Aaa	Aa2	A2	Baa2	Baa3	Ba2
WA EL%	**0.0000%**	**0.0003%**	**0.0111%**	**0.1183%**	**0.4745%**	**1.2829%**	**3.0044%**	**4.1138%**
Zero-Default WAL	3.223	8.492	9.38	9.459	9.102	7.966	7.966	7.972
WA EL Target*	0.0005%	0.0041%	0.0049%	**0.0993%**	**0.5556%**	**1.5584%**	**4.6683*%**	**6.3990%**
WA Geomean Target	**0.0019%**	**0.0129%**	**0.0155%**	0.1404%	0.6891%	2.0592%	3.4299%	7.4281%

**Sequential hurdle for B2*

50% Unfunded, 50% Funded Spread

Tranche	X	A1S	A1J	A2	A3	B1	B2	C1
Target Rating	Aaa	Aaa	Aaa	Aa2	A2	Baa2	Baa3	Ba2
WA EL%	**0.0000%**	**0.0003%**	**0.0111%**	**0.1184%**	**0.4753%**	**1.2869%**	**3.0189%**	**4.1436%**
Zero-Default WAL	3.223	8.493	9.381	9.466	9.154	8.001	8.001	8.002
WA EL Target*	0.0005%	0.0041%	0.0049%	**0.0994%**	**0.5614%**	**1.5666%**	**4.6683*%**	**6.4151%**
WA Geomean Target	**0.0019%**	**0.0129%**	**0.0155%**	0.1405%	0.6958%	2.0691%	3.4438%	7.4448%

**Sequential hurdle for B2*

ClassA2 fails EL hurdle by 1 notch, passes Geomean.

Ratings Guide (confirm compliance and/or describe exemptions to the current criteria and, if necessary, elaborate on the description of the exception in the Issues List)

1. Published Criteria
Rating Factors

☐ *Post Reinvestment Period Reinvestment* — conforms to RF Vol.I No.1 (2/18/04)
Yes
☐ *Ratings-triggered Haircuts* — conforms to RF Vol II No. 5 (1/25/06) **Yes**
☐ *Discount Securities* — conforms to RF Vol II No. 5 (1/25/06) **Yes**
☐ *Market Value Definition* — conforms to Rating Factor RF Vol. II No. 4 (12/14/05) **Yes**
☐ *Ramp-up Failure* — conforms to [Draft] Rating Factor? **Yes**

FAQs

☐ *Trading Restrictions Post-Downgrade* — conforms to FAQI (2/23/01), Q6 **Yes**
☐ *Defaulted Security Definition, No Grace Period* — conforms to FAQI (2/23/01), Q9 **Yes**
☐ *Defaulted Security Definition* — conforms to FAQI (2/23/01), Q10 **Yes**
☐ *Defaulted Securities Treatment in Tests* — conforms to FAQIII (3/29/04), Q1 **Yes**
☐ *PIKable Securities* — conforms to FAQIII (3/29/04), Q2 **Yes**
☐ *Non-PIKable Structured Finance Securities* — conforms to FAQIII (3/29/04), Q3 **(?)**
☐ *Uncapped Liabilities* — conforms to FAQIII (3/29/04), Q8 **?**
☐ *Securities on Watch Treated as Downgraded* — conforms to FAQIII (3/29/04), Q11 **Yes**

☐ *Use of Moody's Rating in the Indenture*— applied to (i) portfolio concentration limitations; (ii) definition of OC haircuts; (iii) screening of Combination Securities in the portfolio. **NOT CURRENTLY, HAVE MADE COMMENT.**
☐ *Notching Criteria for SF Securities*: — conforms to criteria "Notching Conventions for Multisector CDOs" dated 7/02 Update and RF Vol. II No. 3 (3/11/05) **Yes**
☐ *Weighted Average Life (declines by period)* — conforms to Checklist II.B.4 **Yes**

☐ *Criteria for Long-Dated Securities* **Yes**
☐ *Definition and Treatment of Synthetic Securities:* Yes
- *Single reference obligation vs. Multi-reference obligation*
- *Treatment for correlation*

☐ *Criteria for Asset-Specific Hedges (Deemed Floaters)* — conforms to "Deemed Fixed and Floating Assets Criteria" compiled by David Teicher **N/A**
☐ *Single-issue concentration and size of equity tranche in high-grade deals* — conforms to Yvonne Fu's email dated 7/21/05
☐ *Hedge Counterparty Standards* — conforms to Special Comment "Moody's Approach for Rating Threshold for Hedge Counterparties in CDO Transactions" (10/23/02) **Yes**

☐ *Currency Mismatch* — conforms to Checklist II.A.1 and Moody's Rating Methodology "Moody's Approach to Rating Multi-Currency CDOs" by Choi and LeHenaff, 9/15/05 **N/A**
☐ *CDOs with Short-Term Tranches* — conforms to "CDOs with Short-Term Tranches: Moody's Approach to Rating Prime-1 CDO Notes" by Mueller-Bharwani-Araya **N/A**
☐ *Trading Gains* — conforms to Checklist III.D.1 **Yes**
☐ *Reinvesting Recoveries* — conforms to Checklist III.E.2 **Yes**
☐ *Defaulting Reinvested Interest Proceeds* — conforms to Checklist IV.C.5
Not applicable
☐ *Events of Default* — conforms to Checklist I.E **Yes**

□ *Tax Opinion Yes*
□ *PIKable and other irregular pay: concentration limit for PIK assets should address Neg Am assets* **Yes**
□ *IO Securities*
NA
□ *Option ARMS*
NA

□ *NIMS* — conforms to Gus Harris e-mail dated 7/3/01 **Yes**
□ *Combination Securities in the collateral pool: see group meeting 11/3/04 (Portfolio Limitations)+ language on Moody's Rating*
Not applicable

2. <u>Key Points</u> (All the following were applicable in the previous transaction and we are currently confirming with UBS)

This deal is very similar to Vertical Virgo. To date, there have been not many changes to the documents and only some changes to the capital structure (TRS used instead of GIC as well as the addition of the Class X Notes instead of a Prepaid Swap to cover expenses).

1.) If UBS defaults, event of the default for the deal and noteholders from each class can majority vote to liquidate the deal.

We have asked for a look through analysis of Vertical's transactions to compare for correlation purposes. The manager complained that it would be too onerous to provide data for all positions in all CDOs. For now, we have asked for the closing date list of assets from the various transactions and ran some correlation stress tests on the CDO bucket (scaled by factor of 1.5) and covenant MAC (Scaled by factor of 1.1). Stressing the CDO bucket did not impact the ratings since the CDO bucket limitation is 10% in the transaction. Stressing the MAC made the Aa2 tranche fail the hurdle (by one notch) though it still passed the geomean.

2.) VFN Noteholder initially needs to be A1/P1 not on watch, but other VFN Noteholders must be Aa3/P1 not on watch (unless they are considered Specific VFN Noteholders).
3.) Can't short cash assets.
4.) If UBS defaults, VFN still on the hook for its obligation to fund.
5.) The CDO's commitment fee obligations will be terminated if the CDS goes away due to a UBS default.
6.) Negative drag concern if the VFN holder is downgraded past the required level. If the VFN holder is downgraded, they have to fund their full commitment in a separate account with Wells Fargo and the deal would continue to pay them the commitment fee (.18%, NOT 1 month libor + .32%). The VFN takes the negative drag risk, not the deal.
7.) Reporting the prices of the underlying reference obligations at the time the CDS is entered into. We requested it, hopefully we can get it into the docs.
8.) Breach of Agreement and Misrepresentation in the TRS and CDS Schedules. Neither party was willing to accept these, but were willing to listen in the future to arguments why they should be included.

debt_num	cusip	isin	org_num	Deal Name	Tranche	curRatg	curRatg_dt	prevRatg	prevRatg_dt	watchlist_	watchlist_	maturity	product_line	initRatg	initRatg_dt
809778409	00075QAN2	US00075QAN25	809727457	ABFC Asset-Backed Certificates, Ser 2006-OPT1	Cl. M-9	Baa3	31-Aug-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa3	31-Aug-06
809778409	00075QAN2	US00075QAN25	809727457	ABFC Asset-Backed Certificates, Ser 2006-OPT1	Cl. M-9	Baa3	31-Aug-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa3	31-Aug-06
808681884	04541GTS1		808615521	Asset Bkd Sec Co Home Eqty Loan Tr 2005-HE6	Cl. M8	Baa2	23-Aug-05					7/25/2035	HEL - Closed-End - Not High LTV	Baa2	23-Aug-05
809405552	04541GXK3		809389151	Asset Bkd Sec Co Home Eqty Loan Tr 2006-HE3	Cl. M7	Baa2	25-Apr-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa2	25-Apr-06
809405552	04541GXK3		809389151	Asset Bkd Sec Co Home Eqty Loan Tr 2006-HE3	Cl. M7	Baa2	25-Apr-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa2	25-Apr-06
809490758	**04544GAP4**	**US04544GAP46**	**809417095**	**Asset Bkd Sec Co Home Eqty Loan Tr 2006-HE4**	**Cl. M7**	**Baa3**	**10-Jul-07**	**Baa2**	**25-May-06**			**5/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa2**	**25-May-06**
809490758	**04544GAP4**	**US04544GAP46**	**809417095**	**Asset Bkd Sec Co Home Eqty Loan Tr 2006-HE4**	**Cl. M7**	**Baa3**	**10-Jul-07**	**Baa2**	**25-May-06**			**5/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa2**	**25-May-06**
809687687	04544PAN9	US04544PAN96	809671064	Asset Bkd Sec Co Home Eqty Loan Tr 2006-HE5	Cl. M8	Baa2	1-Aug-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	1-Aug-06
820045398	04544RAN5	US04544RAN52	820045290	Asset Bkd Sec Corp HEL Trust RFC 2007-HE1	Cl. M9	Baa3	22-Feb-07					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Feb-07
820045398	04544RAN5	US04544RAN52	820045290	Asset Bkd Sec Corp HEL Trust RFC 2007-HE1	Cl. M9	Baa3	22-Feb-07					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Feb-07
820155993	000824AQ5	US000824AQ53	820155934	ACA ABS 2007-1, Ltd.	Class C	Ba2	30-Mar-07					5/14/2047	CDO - Resecuritization	Ba2	30-Mar-07
809846494	000829AE1	US000829AE11	809846477	ACA Aquarius 2006-1, Ltd.	Class B1	Baa1	28-Sep-06					9/12/2046	CDO - Resecuritization - Synthetic	Baa1	28-Sep-06
809036730	004421UK7		809024928	ACE Securities Corp. Home Eqty Ln Tr 2005-HE7	Cl. M-8	Baa2	5-Dec-05					12/25/2035	HEL - Closed-End - Not High LTV	Baa2	5-Dec-05
809436548	004421ZE6		809418082	ACE Securities Corp. HEL Tr 2006-HE2	Cl. M-9	Baa3	8-May-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa3	8-May-06
809875471	00442BAN1	US00442BAN10	809864310	ACE Securities Corp. HEL Tr 2006-HE4	Cl. M-8	Baa2	9-Oct-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Oct-06
809875471	00442BAN1	US00442BAN10	809864310	ACE Securities Corp. HEL Tr 2006-HE4	Cl. M-8	Baa2	9-Oct-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Oct-06
809855398	**00441XAP9**	**US00441XAP96**	**809807082**	**ACE Securities Corp. HEL Tr 2006-NC2**	**Cl. M-9**	**Baa2**	**2-Oct-06**			**DNG**	**10-Jul-07**	**7/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa2**	**2-Oct-06**
809855398	**00441XAP9**	**US00441XAP96**	**809807082**	**ACE Securities Corp. HEL Tr 2006-NC2**	**Cl. M-9**	**Baa2**	**2-Oct-06**			**DNG**	**10-Jul-07**	**7/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa2**	**2-Oct-06**
814974110	00441YAP7	US00441YAP79	814974068	ACE Securities Corp. HEL Tr 2006-OP2	Cl. M-9	Baa2	10-Nov-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa2	10-Nov-06
820094815	05569GAN6	US05569GAN60	820094792	BNC Mortgage Loan Trust 2007-1	Cl. M8	Baa2	16-Mar-07					3/25/2037	HEL - Closed-End - Not High LTV	Baa2	16-Mar-07
814989385	142146AG4	US142146AG49	814989379	Carina CDO Ltd.	Class D-1	Baa1	29-Nov-06					11/10/2046	CDO - Resecuritization - Synthetic	Baa1	29-Nov-06
814989385	142146AG4	US142146AG49	814989379	Carina CDO Ltd.	Class D-1	Baa1	29-Nov-06					11/10/2046	CDO - Resecuritization - Synthetic	Baa1	29-Nov-06
809582795	14453FAM1		809564437	Carrington Mortgage Loan Trust 2006-NC2	Cl. M-8	Baa2	27-Jun-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	27-Jun-06
809582798	14453FAN9		809564437	Carrington Mortgage Loan Trust 2006-NC2	Cl. M-9	Baa3	27-Jun-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa3	27-Jun-06
809395751	144531FW5		809305198	Carrington Mortgage Loan Trust 2006-OPT1	Cl. M-9	Baa3	20-Apr-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa3	20-Apr-06
809512849	14453EAN2		809480245	Carrington Mortgage Loan Trust 2006-RFC1	Cl. M-9	Baa3	2-Jun-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa3	2-Jun-06
809512849	14453EAN2		809480245	Carrington Mortgage Loan Trust 2006-RFC1	Cl. M-9	Baa3	2-Jun-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa3	2-Jun-06
820020602	144526AN0	US144526AN04	820020578	Carrington Mortgage Loan Trust, Ser 2007-RFC1	Cl. M-9	Baa3	7-Feb-07					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	7-Feb-07
809873662	17309PAL0	US17309PAL04	809845043	Citigroup Mortgage Loan Trust 2006-AMC1	Cl. M-8	Baa2	9-Oct-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Oct-06
809873662	17309PAL0	US17309PAL04	809845043	Citigroup Mortgage Loan Trust 2006-AMC1	Cl. M-8	Baa2	9-Oct-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Oct-06
809644665	**172983AP3**	**US172983AP33**	**809547472**	**Citigroup Mortgage Loan Trust 2006-NC1**	**Cl. M-9**	**B1**	**10-Jul-07**	**Baa3**	**18-Jul-06**			**8/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa3**	**18-Jul-06**
809716079	23242EAT6	US23242EAT64	809688786	CWABS Asset-Backed Certificates Trust 2006-13	Cl. MV-8	Baa2	10-Aug-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa2	10-Aug-06
809716079	23242EAT6	US23242EAT64	809688786	CWABS Asset-Backed Certificates Trust 2006-13	Cl. MV-8	Baa2	10-Aug-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa2	10-Aug-06
809531061	22237JAN7	US22237JAN72	809509276	CWABS Asset-Backed Certificates Tr 2006-BC2	Cl. M-8	Baa2	9-Jun-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Jun-06
809531061	22237JAN7	US22237JAN72	809509276	CWABS Asset-Backed Certificates Tr 2006-BC2	Cl. M-8	Baa2	9-Jun-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Jun-06
809013292	28256PBE3		808890774	Encore Credit Receivables Trust 2005-4	Cl. M-9	Baa3	22-Nov-05					1/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Nov-05
820194923	269251AE4	US269251AE43	820194919	E*Trade VI ABS CDO VI, Ltd.	Class B-1	Baa2	25-Apr-07					5/9/2047	CDO - Resecuritization - Synthetic	Baa2	25-Apr-07
809525748	36244KAP0		809506093	GSAMP Trust 2006-HE3	Cl. M-9	Baa3	8-Jun-06					5/25/2046	HEL - Closed-End - Not High LTV	Baa3	8-Jun-06
809525748	36244KAP0		809506093	GSAMP Trust 2006-HE3	Cl. M-9	Baa3	8-Jun-06					5/25/2046	HEL - Closed-End - Not High LTV	Baa3	8-Jun-06
809642236	362439AN1		809607027	GSAMP Trust 2006-HE4	Cl. M-8	Baa2	18-Jul-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	18-Jul-06
809642236	362439AN1		809607027	GSAMP Trust 2006-HE4	Cl. M-8	Baa2	18-Jul-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	18-Jul-06
809642236	362439AN1		809607027	GSAMP Trust 2006-HE4	Cl. M-8	Baa2	18-Jul-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	18-Jul-06
820208838	362440AN9	US362440AN96	820210091	Gsamp Trust 2007-HE2	Cl. M-8	Baa2	26-Apr-07					3/25/2037	HEL - Closed-End - Not High LTV	Baa2	26-Apr-07
809013031	437084QG4	US437084QG49	808876306	CSFB Home Equity Asset Trust 2005-8	Cl. M-8	Baa2	22-Nov-05					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	22-Nov-05
809013031	437084QG4	US437084QG49	808876306	CSFB Home Equity Asset Trust 2005-8	Cl. M-8	Baa2	22-Nov-05					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	22-Nov-05
809367748	437084UZ7		809342961	CSFB Home Equity Asset Trust 2006-3	Cl. M-8	Baa2	7-Apr-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Apr-06
809672515	437096AR1		809627574	Home Equity Asset Trust 2006-5	Cl. B-1	Baa3	26-Jul-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Jul-06
809672515	437096AR1		809627574	Home Equity Asset Trust 2006-5	Cl. B-1	Baa3	26-Jul-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Jul-06
809734890	437097AP3	US437097AP33	809691001	CSFB Home Equity Asset Trust 2006-6	Cl. M-8	Baa2	16-Aug-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa2	16-Aug-06
809734890	437097AP3	US437097AP33	809691001	CSFB Home Equity Asset Trust 2006-6	Cl. M-8	Baa2	16-Aug-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa2	16-Aug-06
809889355	43709NAP6	US43709NAP67	809854151	CSFB Home Equity Asset Trust 2006-7	Cl. M-8	Baa2	13-Oct-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa2	13-Oct-06
815062872	43709QAQ9	US43709QAQ91	815062700	Home Equity Asset Trust 2006-8	Cl. B-1	Baa3	19-Dec-06					3/25/2037	HEL - Closed-End - Not High LTV	Baa3	19-Dec-06
815062872	43709QAQ9	US43709QAQ91	815062700	Home Equity Asset Trust 2006-8	Cl. B-1	Baa3	19-Dec-06					3/25/2037	HEL - Closed-End - Not High LTV	Baa3	19-Dec-06
820004189	43710LAP9	US43710LAP94	820004149	CSFB Home Equity Asset Trust 2007-1	Cl. B-1	Baa3	16-Feb-07					5/25/2037	HEL - Closed-End - Not High LTV	Baa3	16-Feb-07
820004189	43710LAP9	US43710LAP94	820004149	CSFB Home Equity Asset Trust 2007-1	Cl. B-1	Baa3	16-Feb-07					5/25/2037	HEL - Closed-End - Not High LTV	Baa3	16-Feb-07
809823021	43709LAN7	US43709LAN73	809803247	IndyMac HEML Asset-Backed Trust 2006-D	Cl. M-9	Baa3	21-Sep-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa3	21-Sep-06
815075245	43709XAQ4	US43709XAQ43	815075169	IndyMac HEML Asset-Backed Trust 2006-E	Cl. M-9	Baa3	8-Jan-07					4/25/2037	HEL - Closed-End - Not High LTV	Baa3	8-Jan-07
809888096	46602UAM0	US46602UAM09	809863694	IXIS Real Estate Capital Trust 2006-HE3	Cl. B-2	Baa2	12-Oct-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa2	12-Oct-06
809888096	46602UAM0	US46602UAM09	809863694	IXIS Real Estate Capital Trust 2006-HE3	Cl. B-2	Baa2	12-Oct-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa2	12-Oct-06
820033072	45073DAM0	US45073DAM02	820032863	IXIS Real Estate Capital Trust 2007-HE1	Cl. B-2	Baa2	5-Feb-07					5/25/2037	HEL - Closed-End - Not High LTV	Baa2	5-Feb-07
809750383	46629BBB4	US46629BBB45	809740756	J.P. Morgan Mortgage Acquisition Tr 2006-CW2	Cl. MV-9	Baa3	22-Aug-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Aug-06
809750383	46629BBB4	US46629BBB45	809740756	J.P. Morgan Mortgage Acquisition Tr 2006-CW2	Cl. MV-9	Baa3	22-Aug-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Aug-06
809750383	46629BBB4	US46629BBB45	809740756	J.P. Morgan Mortgage Acquisition Tr 2006-CW2	Cl. MV-9	Baa3	22-Aug-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Aug-06
809474574	**46626LJZ4**		**809387384**	**J.P. Morgan Mortgage Acquisition Tr 2006-NC1**	**Cl. M-9**	**Ba1**	**10-Jul-07**	**Baa3**	**19-May-06**			**4/25/2036**	**HEL - Closed-End - High LTV**	**Baa3**	**19-May-06**
809474574	**46626LJZ4**		**809387384**	**J.P. Morgan Mortgage Acquisition Tr 2006-NC1**	**Cl. M-9**	**Ba1**	**10-Jul-07**	**Baa3**	**19-May-06**			**4/25/2036**	**HEL - Closed-End - High LTV**	**Baa3**	**19-May-06**
809793891	46629FAN0	US46629FAN06	809756715	J.P. Morgan Mortgage Acquisition Tr 2006-NC2	Cl. M-9	Baa3	8-Sep-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa3	8-Sep-06
809875890	46629NAP8	US46629NAP87	809850803	J.P. Morgan Mortgage Acquisition Tr 2006-RM1	Cl. M-8	Baa2	9-Oct-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Oct-06
809364385	46626LJD3		809342449	J.P. Morgan Mtge Acquisition Corp. 2006-WMC1	Cl. M-9	Baa3	6-Apr-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa3	6-Apr-06
809855266	46629KAP4	US46629KAP49	809806888	J.P. Morgan Mortgage Acquisition Tr 2006-WMC3	Cl. M-8	Baa2	2-Oct-06					8/25/2036	HEL - Closed-End - High LTV	Baa2	2-Oct-06
809855266	46629KAP4	US46629KAP49	809806888	J.P. Morgan Mortgage Acquisition Tr 2006-WMC3	Cl. M-8	Baa2	2-Oct-06					8/25/2036	HEL - Closed-End - High LTV	Baa2	2-Oct-06
809528826	530150AN1	USG5478YAG55	809528803	Libertas Preferred Funding I, Ltd.	Class E	Baa2	8-Jun-06					12/5/2043	CDO - Resecuritization - Cash Flow	Baa2	8-Jun-06
815063572	576449AN2	US576449AN27	815063217	MASTR Asset Backed Securities Trust 2006-HE4	Cl. M-9	Baa3	19-Dec-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa3	19-Dec-06
815119068	576455AN9	US576455AN93	815119038	MASTR Asset Backed Securities Trust 2006-HE5	Cl. M-9	Baa2	10-Jan-07					11/25/2036	HEL - Closed-End - Not High LTV	Baa2	10-Jan-07
809275055	**57643LNP7**		**809220417**	**MASTR Asset Backed Securities Trust 2006-NC1**	**Cl. M-8**	**Baa2**	**6-Mar-06**			**DNG**	**10-Jul-07**	**1/25/2036**	**HEL - Closed-End - Not High LTV**	**Baa2**	**6-Mar-06**

Permanent Subcommittee on Investigations

EXHIBIT #94e

PSI-MOODYS-000110

debt_num	cusip	isin	org_num	Deal Name	Tranche	curRatg	curRatg_dt	prevRatg	prevRatg_dt	watchlist_	watchlist_	maturity	product_line	InitRatg	InitRatg_dt
809275055	57643LNP7		809220417	MASTR Asset Backed Securities Trust 2006-NC1	Cl. M-8	Baa2	6-Mar-06			DNG	10-Jul-07	1/25/2036	HEL - Closed-End - Not High LTV	Baa2	6-Mar-06
809878332	55275BAP2	US55275BAP22	809838545	MASTR Asset Backed Securities Trust 2006-NC2	Cl. M-9	Baa2	9-Oct-06			DNG	10-Jul-07	8/25/2036	HEL - Closed-End - High LTV	Baa2	9-Oct-06
809878332	55275BAP2	US55275BAP22	809838545	MASTR Asset Backed Securities Trust 2006-NC2	Cl. M-9	Baa2	9-Oct-06			DNG	10-Jul-07	8/25/2036	HEL - Closed-End - High LTV	Baa2	9-Oct-06
815128100	55275RAP7	US55275RAP73	815128030	MASTR Asset Backed Securities Trust 2006-NC3	Cl. M-9	Baa1	8-Jan-07					10/25/2036	HEL - Closed-End - Not High LTV	Baa1	8-Jan-07
809369469	57643LRU2	US57643LRU25	809337689	MASTR Asset Backed Securities Trust 2006-WMC1	Cl. M-8	Baa2	7-Apr-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Apr-06
809369469	57643LRU2	US57643LRU25	809337689	MASTR Asset Backed Securities Trust 2006-WMC1	Cl. M-8	Baa2	7-Apr-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Apr-06
809777110	578325AE2	US578325AE23	809777094	Mayflower CDO I Ltd.	Class B-1L	Baa2	31-Aug-06					6/12/2046	CDO - Resecuritization - Synthetic	Baa2	31-Aug-06
809225833	59020U3Q6		809194695	Merrill Lynch Mortgage Investors Tr 2006-HE1	Cl. B-3A	Baa3	20-Feb-06					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	20-Feb-06
809225833	59020U3Q6		809194695	Merrill Lynch Mortgage Investors Tr 2006-HE1	Cl. B-3A	Baa3	20-Feb-06					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	20-Feb-06
809380981	59020VAN3		809367272	Merrill Lynch Mortgage Investors Tr 2006-HE2	Cl. B-3	Baa3	12-Apr-06					3/25/2037	HEL - Closed-End - Not High LTV	Baa3	12-Apr-06
809380981	59020VAN3		809367272	Merrill Lynch Mortgage Investors Tr 2006-HE2	Cl. B-3	Baa3	12-Apr-06					3/25/2037	HEL - Closed-End - Not High LTV	Baa3	12-Apr-06
809687816	59023EAR9	US59023EAR99	809657568	Merrill Lynch Mortgage Investors Tr 2006-HE4	Cl. B-3	Baa3	1-Aug-06					7/25/2037	HEL - Closed-End - Not High LTV	Baa3	1-Aug-06
809640267	590217AQ8		809590170	Merrill Lynch Mortgage Investors Tr 2006-RM3	Cl. B-3	Baa3	18-Jul-06					6/25/2037	HEL - Closed-End - Not High LTV	Baa3	18-Jul-06
809222120	59020U4K8		809217240	Merrill Lynch Mtge Investors Tr 2006-WMC1	Cl. B-3	Baa3	17-Feb-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa3	17-Feb-06
809222120	59020U4K8		809217240	Merrill Lynch Mtge Investors Tr 2006-WMC1	Cl. B-3	Baa3	17-Feb-06					1/25/2037	HEL - Closed-End - Not High LTV	Baa3	17-Feb-06
808736245	61744CTD8		808671906	Morgan Stanley ABS Cap I Inc Tr 2005-WMC6	Cl. B-3	Baa3	12-Sep-05					7/25/2035	HEL - Closed-End - Not High LTV	Baa3	12-Sep-05
808736245	61744CTD6		808671906	Morgan Stanley ABS Cap I Inc Tr 2005-WMC6	Cl. B-3	Baa3	12-Sep-05					7/25/2035	HEL - Closed-End - Not High LTV	Baa3	12-Sep-05
809592955	61748BAN4		809578200	Morgan Stanley ABS Capital I Inc. Tr 2006-HE4	Cl. B-3	Ba3	10-Jul-07	Baa3	30-Jun-06			6/25/2036	HEL - Closed-End - Not High LTV	Baa3	30-Jun-06
809592955	61748BAN4		809578200	Morgan Stanley ABS Capital I Inc. Tr 2006-HE4	Cl. B-3	Ba3	10-Jul-07	Baa3	30-Jun-06			6/25/2036	HEL - Closed-End - Not High LTV	Baa3	30-Jun-06
809651978	61749NAP2	US61749NAP24	809587016	Morgan Stanley ABS Capital I Inc. Tr 2006-HE5	Cl. B-3	Ba2	10-Jul-07	Baa3	20-Jul-06			8/25/2036	HEL - Closed-End - Not High LTV	Baa3	20-Jul-06
809651978	61749NAP2	US61749NAP24	809587016	Morgan Stanley ABS Capital I Inc. Tr 2006-HE5	Cl. B-3	Ba2	10-Jul-07	Baa3	20-Jul-06			8/25/2036	HEL - Closed-End - Not High LTV	Baa3	20-Jul-06
809888228	61750FAQ3	US61750FAQ37	809857683	Morgan Stanley ABS Capital I Inc. Tr 2006-HE6	Cl. B-3	Ba2	10-Jul-07	Baa3	12-Oct-06			9/25/2036	HEL - Closed-End - Not High LTV	Baa3	12-Oct-06
815032011	61750SAQ5	US61750SAQ57	815031602	Morgan Stanley ABS Cap Inc. Tr 2006-HE8	Cl. B-3	Ba1	10-Jul-07	Baa3	19-Dec-06			10/25/2036	HEL - Closed-End - Not High LTV	Baa3	19-Dec-06
809251831	61744CYK6		809180626	Morgan Stanley ABS Capital I Inc. Tr 2006-NC1	Cl. B-3	Baa3	27-Feb-06					12/25/2035	HEL - Closed-End - Not High LTV	Baa3	27-Feb-06
809604775	61748LAN2		809480242	Morgan Stanley ABS Capital I Inc. Tr 2006-NC4	Cl. B-2	Ba1	10-Jul-07	Baa2	7-Jul-06			6/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Jul-06
809604775	61748LAN2		809480242	Morgan Stanley ABS Capital I Inc. Tr 2006-NC4	Cl. B-2	Ba1	10-Jul-07	Baa2	7-Jul-06			6/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Jul-06
809168551	61744CXW1		809177601	Morgan Stanley ABS Cap I Inc. Tr 2006-WMC1	Cl. B-3	Baa3	1-Feb-06					12/25/2035	HEL - Closed-End - Not High LTV	Baa3	1-Feb-06
809607540	61749KAP8		809587472	Morgan Stanley ABS Cap I Inc. Tr 2006-WMC2	Cl. B-2	Ba3	10-Jul-07	Baa2	7-Jul-06			7/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Jul-06
809607540	61749KAP8		809587472	Morgan Stanley ABS Cap I Inc. Tr 2006-WMC2	Cl. B-2	Ba3	10-Jul-07	Baa2	7-Jul-06			7/25/2036	HEL - Closed-End - Not High LTV	Baa2	7-Jul-06
820053019	61753EAN0	US61753EAN04	820052878	Morgan Stanley ABS Capital I Inc. Tr 2007-HE2	Cl. B-3	Baa3	16-Mar-07	(P)Baa3	28-Feb-07			1/25/2037	HEL - Closed-End - Not High LTV	(P)Baa3	15-Feb-07
820053019	61753EAN0	US61753EAN04	820052878	Morgan Stanley ABS Capital I Inc. Tr 2007-HE2	Cl. B-3	Baa3	16-Mar-07	(P)Baa3	28-Feb-07			1/25/2037	HEL - Closed-End - Not High LTV	(P)Baa3	15-Feb-07
809279875	617451EA3		809266608	Morgan Stanley Capital I Inc. Trust 2006-HE1	Cl. B-3	Baa3	8-Mar-06					1/25/2036	HEL - Closed-End - High LTV	Baa3	8-Mar-06
809373232	61744CYY6		809365229	Morgan Stanley Home Equity Loan Trust 2006-2	Cl. B-3	Baa3	10-Apr-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa3	10-Apr-06
809524889	61749GAN2		809509539	Morgan Stanley Home Equity Loan Trust 2006-3	Cl. B-3	Ba2	10-Jul-07	Baa3	7-Jun-06			4/25/2036	HEL - Closed-End - Not High LTV	Baa3	7-Jun-06
809524889	61749GAN2		809509539	Morgan Stanley Home Equity Loan Trust 2006-3	Cl. B-3	Ba2	10-Jul-07	Baa3	7-Jun-06			4/25/2036	HEL - Closed-End - Not High LTV	Baa3	7-Jun-06
809442326	65536MAN7		809393701	Nomura Home Equity Loan Trust 2006-HE2	Cl. M-9	Baa3	9-May-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa3	9-May-06
820040739	65537MAP1	US65537MAP14	820040174	Nomura Home Equity Loan Trust 2007-2	Cl. M-9	Baa3	15-Feb-07					1/25/2037	HEL - Closed-End - Not High LTV	Baa3	15-Feb-07
809188856	76112BW63		809178294	RAMP Series 2006-EFC1 Trust	Cl. M-8	Baa2	1-Feb-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	1-Feb-06
809188856	76112BW63		809178294	RAMP Series 2006-EFC1 Trust	Cl. M-8	Baa2	1-Feb-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	1-Feb-06
809079369	76110W7L4		809033589	RASC Series 2005-KS11 Trust	Cl. M-8	Baa2	15-Dec-05					12/25/2035	HEL - Closed-End - Not High LTV	Baa2	15-Dec-05
809291308	75406AAL3	US75406AAL35	809228523	RASC Series 2006-EMX2 Trust	Cl. M-8	Baa2	10-Mar-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	10-Mar-06
809413148	76113ACJ8		809393741	RASC Series 2006-EMX3 Trust	Cl. M-8	Baa2	27-Apr-06					4/25/2036	HEL - Closed-End - Not High LTV	Baa2	27-Apr-06
809526661	75406DAM5		809486591	RASC Series 2006-EMX4 Trust	Cl. M-8	Baa2	8-Jun-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	8-Jun-06
809715892	754065AM2	US754065AM24	809671932	RASC Series 2006-EMX6 Trust	Cl. M-8	Baa2	10-Aug-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	10-Aug-06
809536044	75406EAM3		809506933	RASC Series 2006-KS4 Trust	Cl. M-8	Baa2	12-Jun-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	12-Jun-06
809536044	75406EAM3		809506933	RASC Series 2006-KS4 Trust	Cl. M-8	Baa2	12-Jun-06					6/25/2036	HEL - Closed-End - Not High LTV	Baa2	12-Jun-06
809726430	75406WAN1	US75406WAN11	809685988	RASC Series 2006-KS6 Trust	Cl. M-9	Baa3	14-Aug-06					8/25/2036	HEL - Closed-End - Not High LTV	Baa3	14-Aug-06
814973329	75406YAN7	US75406YAN76	814973069	RASC Series 2006-KS9 Trust	Cl. M-8	Baa2	8-Nov-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa2	8-Nov-06
820080788	74924WAN7	US74924WAN74	820080718	RASC Series 2007-KS2 Trust	Cl. M-8	Baa2	8-Mar-07					2/25/2037	HEL - Closed-End - Not High LTV	Baa2	8-Mar-07
809809998	86361KAM9	US86361KAM99	809762278	Structured Asset Investment Loan Tr 2006-BNC3	Cl. M7	Baa2	15-Sep-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa2	15-Sep-06
809809998	86361KAM9	US86361KAM99	809762278	Structured Asset Investment Loan Tr 2006-BNC3	Cl. M7	Baa2	15-Sep-06					9/25/2036	HEL - Closed-End - Not High LTV	Baa2	15-Sep-06
809666760	86360RAN3		809635545	Structured Asset Securities Corp Tr 2006-EQ1	Cl. M8	Baa2	25-Jul-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	25-Jul-06
809666760	86360RAN3		809635545	Structured Asset Securities Corp Tr 2006-EQ1	Cl. M8	Baa2	25-Jul-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	25-Jul-06
820036515	86362PAQ8	US86362PAQ81	820036469	Structured Asset Securities Corp Tr 2007-BC1	Cl. M9	Baa2	7-Feb-07					2/25/2037	HEL - Closed-End - Not High LTV	Baa2	7-Feb-07
809947745	80556AAM9	US80556AAM99	809947700	Saxon Asset Securities Trust 2006-3	Cl. B-2	Baa2	24-Oct-06					11/25/2036	HEL - Closed-End - Not High LTV	Baa2	24-Oct-06
809947443	80918HAJ4	US80918HAJ41	809947436	Scorpius CDO, Ltd.	Class F	Baa2	30-Nov-06					11/7/2046	CDO - Resecuritization - Synthetic	Baa2	30-Nov-06
809233442	84751PKN8		809220995	SURF Trust 2006-BC1	Cl. B-3A	Baa3	22-Feb-06					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Feb-06
809233442	84751PKN8		809220995	SURF Trust 2006-BC1	Cl. B-3A	Baa3	22-Feb-06					12/25/2036	HEL - Closed-End - Not High LTV	Baa3	22-Feb-06
809287585	83611MLG1		809227432	Soundview Home Loan Trust 2006-1	Cl. M-7	Baa2	9-Mar-06					2/25/2036	HEL - Closed-End - Not High LTV	Baa2	9-Mar-06
809410111	83611MNR5		809367576	Soundview Home Loan Trust 2006-2	Cl. M-9	Baa3	26-Apr-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Apr-06
809410111	83611MNR5		809367576	Soundview Home Loan Trust 2006-2	Cl. M-9	Baa3	26-Apr-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Apr-06
809838623	83612JAN4	US83612JAN46	809810845	Soundview Home Loan Trust 2006-EQ1	Cl. M-9	Baa3	26-Sep-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Sep-06
809838623	83612JAN4	US83612JAN46	809810845	Soundview Home Loan Trust 2006-EQ1	Cl. M-9	Baa3	26-Sep-06					10/25/2036	HEL - Closed-End - Not High LTV	Baa3	26-Sep-06
809312548	83611MMF2		809295207	Soundview Home Loan Trust 2006-OPT1	Cl. M-7	Baa2	20-Mar-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa2	20-Mar-06
809312548	83611MMF2		809295207	Soundview Home Loan Trust 2006-OPT1	Cl. M-7	Baa2	20-Mar-06					3/25/2036	HEL - Closed-End - Not High LTV	Baa2	20-Mar-06
809384534	83611MMT2		809324770	Soundview Home Loan Trust 2006-OPT2	Cl. M-7	Baa2	13-Apr-06					5/25/2036	HEL - Closed-End - Not High LTV	Baa2	13-Apr-06
809583269	83612CAN9		809546887	Soundview Home Loan Trust 2006-OPT5	Cl. M-8	Baa2	27-Jun-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	27-Jun-06
809583269	83612CAN9		809546887	Soundview Home Loan Trust 2006-OPT5	Cl. M-8	Baa2	27-Jun-06					7/25/2036	HEL - Closed-End - Not High LTV	Baa2	27-Jun-06
814986943	87337WAE0	US87337WAE03	814986985	TABS 2006-5, Ltd.	Class B1L	Baa1	22-Dec-06			DNG	11-Jul-07	9/12/2046	CDO - Resecuritization - Synthetic	Baa1	22-Dec-06
815041099	87337YAE6	US87337YAE68	815041104	TABS 2006-6, Ltd.	Class B1	Baa1	27-Dec-06					11/16/2047	CDO - Resecuritization - Synthetic	Baa1	27-Dec-06
820134028	87215BAJ7	US87215BAJ75	820134020	TABS 2007-7, Ltd.	Class C	Ba2	30-Mar-07					4/10/2047	CDO - Resecuritization	Ba2	30-Mar-07
820030352	89608XAH9	US89608XAH98	820030346	Tricadia CDO 2006-7, Ltd.	Class E	Baa3	28-Feb-07					10/1/2051	CDO - Resecuritization - Synthetic	Baa3	28-Feb-07
815096522	55313HAD0	US55313HAD08	815096518	MKP Vela CBO, Ltd.	Class D	Baa2	27-Dec-06			DNG	11-Jul-07	12/10/2046	CDO - Resecuritization - Synthetic	Baa2	27-Dec-06
815078867	94769WAL7	US94769WAL72	815078859	Webster CDO I, Ltd.	Class B-1L	Baa2	21-Dec-06					4/13/2047	CDO - Resecuritization - Synthetic	Baa2	21-Dec-06

PSI-MOODYS-000111

debt_num	cusip	isin	org_num	Deal Name	Tranche	curRatg	curRatg_dt	prevRatg	prevRatg_dt	watchlist_	watchlist_maturity	product_line	initRatg	initRatg_dt
809572594	93934JAN4	US93934JAN46	809477008	WaMu Mortgage Pass-Thru WMABS Ctfs 2006-HE2	Cl. M-9	Baa3	23-Jun-06				5/25/2036	HEL - Closed-End - Not High LTV	Baa3	23-Jun-06
815141928	93935KAM2	US93935KAM27	815141913	WaMu Asset-Backed Certificates WMABS 2007-HE1	Cl. M-8	Baa2	22-Jan-07				11/25/2036	HEL - Closed-End - Not High LTV	Baa2	22-Jan-07

PSI-MOODYS-000112

DATE: 10/24/2007
TIME: 17:49:21 GMT
AUTHOR: Polansky, Jonathan
RECEIPIENT: Park, John; Kolchinsky, Eric; Fu, Yvonne; Choi, Eun; Bunja, Rudolph; Araya, Rodrigo; Yoshizawa, Yuri; Hu, Jian; Chen, Karie
CC: Wyszomierski, Teresa
SUBJECT: RE: Updated: Rating Review Committee - Vertical ABS CDO 2007-1 EOD

Eric and I spoke to UBS. They said that they still have not decided whether to liquidate or keep the deal as is (being reviewed at sr levels at UBS). They felt that acceleration was not a viable option as all proceeds would be used to pay the funded notes and not the super senior swap (at least the way they interpret the language). As a result, my recommendation is to take the actions described below under proposed rating action. The press release will need to address the various options under the EOD. In the event of a liquidation, given the volatility of the underlying prices as well as other termination costs, the ratings (as a result of a liquidation) may differ from the current action and direction will most likely vary by tranche.

Please let me know if you agree with the proposed actions or have any comments. Thanks.

Jon

Tranche	Original (Rated) Balance	Current (Rated) Balance	Def Int	Rate	Orig Public Rating/ Orig Shadow	Last Rating Action Date	Curr Public Rating/ Curr Shadow	Proposed Rating Action	Run B
U.S. $873,000,000 Class A1S Variable Funding Senior Secured Floating Rate Notes Due 2047	873,000,000	873,000,000		L+ .32	Aaa	4/26/2007	Aaa	Ba1(WD)	Ba2
U.S. $229,000,000 Class A1J Senior Secured Floating Rate Notes Due 2047	229,000,000	229,000,000		L+ .75	Aaa	4/26/2007	Aaa	B2(WD)	B3
U.S. $157,000,000 Class A2 Senior Secured Floating Rate Notes Due 2047	157,000,000	157,000,000		L+ .95	Aa2	4/26/2007	Aa2(WD)	Caa1 (WD)	Caa1
U.S. $57,000,000 Class A3 Secured Deferrable Interest Floating Rate Notes Due 2047	57,000,000	57,000,000		L+ 3.5	A2	4/26/2007	A2(WD)	Caa3 (WD)	Caa3
U.S. $70,000,000 Class B1 Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047	70,000,000	69,300,000		L+ 6	Baa2	4/26/2007	Baa2(WD)	Ca	Ca
U.S. $32,000,000 Class B2 Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047	32,000,000	31,680,000		L+ 7	Baa3	4/26/2007	Baa3(WD)	Ca	Ca
U.S. $22,000,000 Class C Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047	22,000,000	22,000,000		L+ 9.25	Ba2	4/26/2007	Ba2(WD)	Ca	Ca
U.S. $50,000,000 Class I Subordinated Notes Due 2047	50,000,000	44,574,180	6		NR	4/26/2007	NR	NR	
U.S. $10,000,000 Class II Subordinated Notes Due 2047	10,000,000	10,000,000	0		NR	4/26/2007	NR	NR	
U.S. $42,000,000 Class X Senior Secured Fixed Rate Notes Due 2013	42,000,000	40,009,243		5.46	Aaa	4/26/2007	Aaa	Aaa	
Total	1,542,000,000	1,533,563,423							

Permanent Subcommittee on Investigations
EXHIBIT #94f

PSI-MOODYS-000108

DATE: 10/26/2007
TIME:
AUTHOR: Jill Zelter
RECEIPIENT: Vincent Matsui
CC:
BCC: John Schiavetta
SUBJECT: Re: Fw: Vertical Capital

he has a good point.- what if we revised it and took at names- but just described the practices until the air clears.

Vincent Matsui/LP/NYC/F-I
10/26/2007 04:47 PM

To
jill.zelter@fitchratings.com
cc

Subject
Fw: Vertical Capital

fyi.
----- Forwarded by Vincent Matsui/LP/NYC/F-I on 10/26/2007 04:46 PM -----

Vincent Matsui/LP/NYC/F-I
10/26/2007 04:31 PM

To
Roger Merritt/CF/NYC/F-I
cc
john.schiavetta@fitchratings.com, kim.slawek@fitchratings.com
Subject
Re: Vertical Capital

Roger -

To be fair to Vertical, and the 21 other managers we are currently reviewing, I think we should stay with the process of collective performance assessment - Vertical has over a dozen CDOs outstanding. Most of the 2007 deals we are reviewing are rapidly encountering serious difficulties - GE Asset Management, another CAM2 SF manager feels its 2007 deal (barely 6 months old) is at risk of an EoD. For all managers with 2007 deals, we need to balance

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PSI-FITCH-VCDO-000001

the performance of this catastrophic vintage with the more favorable performance of earlier CDOs. Our updated performance opinion on all of these managers will be out in about 3 weeks.

Concerning the Best Practices piece, it speaks to particular infrastructure/personnel/process strengths of a manager, but is silent on performance. We've had close to 900 external downloads of this report since it's posting in July so it continues to strike a chord. Of course, if the collective wisdom is that's it's best to remove, I'm happy to make that happen.

Vince

Roger Merritt/CF/NYC/F-I
10/26/2007 03:11 PM

To
Vincent Matsui/LP/NYC/F-I@F-I
cc
john.schiavetta@fitchratings.com, kim.slawek@fitchratings.com
Subject
Vertical Capital

Vince
FYI, Moody's today lowered a Vertical AAA SF CDO tranche to BBB-.
I saw we have a CAM 2 on Vertical and cite them in our Best Practices report for CDO CAMs.
Any thoughts Vertical's CAM rating?
Should this go on RW given this event? I know we have a review underway.
I wonder if we should pull the best practices report insomuch as three of the managers cited - Vertical, GSC and C-BASS -- all have issues.
Roger

PSI-FITCH-VCDO-000002

From: Bryan, Andrea
Sent: Friday, October 26, 2007 12:04 PM
To: Hu, Bujiang; Ghetti, Belinda; Jordan, Pat; Tesher, David; Anderberg, Stephen; O'Keefe, Brian; Kambeseles, Peter; Wong, Elwyn
Cc: De Diego Arozamena, Alfredo; Guadagnuolo, Lapo; Guarnuccio, Keith; Halprin, James; Radziul, Robert
Subject: RE: PRIVILEGED AND CONFIDENTIAL: FW: (BMP) Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further

Very severe and what's up with the A1S class??
Andrea.

-----Original Message-----
From: Hu, Bujiang
Sent: Friday, October 26, 2007 9:23 AM
To: Ghetti, Belinda; Jordan, Pat; Tesher, David; Bryan, Andrea; Anderberg, Stephen; O'Keefe, Brian; Kambeseles, Peter; Wong, Elwyn

Cc: De Diego Arozamena, Alfredo; Guadagnuolo, Lapo; Guarnuccio, Keith; Halprin, James; Radziul, Robert
Subject: RE: PRIVILEGED AND CONFIDENTIAL: FW: (BMP) Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further

Let me know if I can help.
How do we feel about the magnitude of their actions?

-----Original Message-----
From: Ghetti, Belinda
Sent: Friday, October 26, 2007 9:21 AM
To: Hu, Bujiang; Jordan, Pat; Tesher, David; Bryan, Andrea; Anderberg, Stephen; O'Keefe, Brian; Kambeseles, Peter; Wong, Elwyn

Cc: De Diego Arozamena, Alfredo; Guadagnuolo, Lapo; Guarnuccio, Keith; Halprin, James; Radziul, Robert
Subject: RE: PRIVILEGED AND CONFIDENTIAL: FW: (BMP) Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further

All right, I will take a stab at the article this weekend anyway. Will send it to you on Monday.

-----Original Message-----
From: Hu, Bujiang
Sent: Thursday, October 25, 2007 11:19 PM Eastern Standard Time
To: Jordan, Pat; Tesher, David; Bryan, Andrea; Anderberg, Stephen; O'Keefe, Brian; Kambeseles, Peter; Wong, Elwyn
Cc: De Diego Arozamena, Alfredo; Ghetti, Belinda; Guadagnuolo, Lapo; Guarnuccio, Keith; Halprin, James; Radziul, Robert

Subject: PRIVILEGED AND CONFIDENTIAL: FW: (BMP) Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further

Oh, well. The cat is out of the bag.

Permanent Subcommittee on Investigations
EXHIBIT #94h

PSI-SP-000395

-----Original Message-----
From: YUNFEI XU, BLOOMBERG/ 731 LEXIN [mailto:yunfeixu@bloomberg.net]
Sent: Thursday, October 25, 2007 11:12 PM Eastern Standard Time
To: Hu, Bujiang
Subject: (BMP) Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further

Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further Downg
2007-10-25 18:46 (New York)

New York New York
Yuri Yoshizawa Evan Tepper
Managing Director Analyst
Structured Finance Group Structured Finance Group
Moody's Investors Service Moody's Investors Service
JOURNALISTS: 212-553-0376 JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653 SUBSCRIBERS: 212-553-1653

Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further Downgrades Possible

New York, October 25, 2007 -- Moody's Investors Service announced today that it has downgraded and placed on review for further possible downgrade the following classes of notes issued by Vertical ABS CDO 2007-1, Ltd.:

(1) $873,000,000 Class A1S Variable Funding Senior Secured Floating Rate Notes Due 2047

Prior Rating: Aaa

Current Rating: Ba1, on review for possible downgrade

(2) $229,000,000 Class A1J Senior Secured Floating Rate Notes Due 2047

Prior Rating: Aaa

Current Rating: B2, on review for possible downgrade

(3) $157,000,000 Class A2 Senior Secured Floating Rate Notes Due 2047

PSI-SP-000396

Prior Rating: Aa2, on review for possible downgrade

Current Rating: Caa1, on review for possible downgrade

(4) $57,000,000 Class A3 Secured Deferrable Interest Floating Rate Notes Due 2047

Prior Rating: A2, on review for possible downgrade

Current Rating: Caa3, on review for possible downgrade

(5) $70,000,000 Class B1 Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047 Prior Rating: Baa2, on review for possible downgrade

Current Rating: Ca

(6) $32,000,000 Class B2 Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047 Prior Rating: Baa3, on review for possible downgrade

Current Rating: Ca

(7) $22,000,000 Class C Mezzanine Secured Deferrable Interest Floating Rate Notes Due 2047 Prior Rating: Ba2, on review for possible downgrade

Current Rating: Ca

(8) $42,000,000 Class X Senior Secured Fixed Rate Notes Due 2013

Prior Rating: Aaa

Current Rating: Aaa, on review for possible downgrade

The rating actions reflect severe deterioration in the credit quality of the underlying portfolio, as well as the occurrence on October 17, 2007 of an event of default caused by a failure of the senior credit test per Section 5.1(h) of the Indenture, dated April 10, 2007.

PSI-SP-000397

Vertical ABS CDO 2007-1, Ltd. is a collateralized debt obligation backed primarily by a portfolio of RMBS securities, CMBS securities and synthetic securities in the form of credit default swaps. Reference obligations for the credit default swaps are RMBS securities, CMBS securities and CDO securities.

The senior credit test requires that the net outstanding portfolio collateral balance adjusted for ratings-based haircuts equal or exceed the sum of the outstanding Class A1S Notes (including all unfunded

commitments) and the Class A1J Notes. A high number of recent ratings downgrades on the underlying portfolio magnified the impact of the ratings-based haircuts, causing the senior credit test failure. On October 11, 2007, 74% of the underlying portfolio was downgraded or placed on review for possible downgrade by Moody's.

Under an event of default in this transaction, a majority of the controlling class will be entitled to determine the remedies to be exercised under the indenture. The controlling class consists solely of the Class A1S Notes. Liquidation of the underlying portfolio is one possible remedy; however, it is not clear at this time whether the controlling class will choose to exercise this option.

The rating downgrades taken today reflect the increased expected loss associated with each tranche. Losses are attributed to diminished credit quality on the underlying portfolio. The expected losses of certain tranches may be different, however, depending on the timing and choice of remedy to be pursued by the controlling class. Because of this uncertainty, the Class X, the Class A1S Notes, the Class A1J Notes, the Class A2 Notes and the Class A3 Notes remain on review for possible downgrade pending the receipt of definitive information.

PSI-SP-000398

DATE: 10/26/2007
TIME: 18:25:15 GMT
AUTHOR: Brennan, James
RECEIPIENT: Sean Perkins
CC:
SUBJECT: RE: Debtwire: (DW) ABS CDOs begin to liquidate; rating agency downgrades 'detonating' market, source says

Thanks for sending. I will give you a call to catch up. I am in meetings all day today, but the picture is not pretty.

James M Brennan
Moody's Investors Service
Phone: 212-553-1407
Fax: 212-298-6735

-----Original Message-----
From: Sean Perkins [mailto:sperkins@Kstreetcap.com]
Sent: Friday, October 26, 2007 2:17 PM
To: Brennan, James
Subject: FW: Debtwire: (DW) ABS CDOs begin to liquidate; rating agency downgrades 'detonating' market, source says

Sean Perkins
Investment Analyst

Kamunting Street Capital (K-Street)
Direct: 212.490.4358
Trading: 212.490.4343

E-Mail: sperkins@kstreetcap.com
AOL IM: SeanPerkins99

-----Original Message-----
From: Debtwire US Alert [mailto:info@debtwire.com]
Sent: Friday, October 26, 2007 1:38 PM
To: Sean Perkins
Subject: Debtwire: (DW) ABS CDOs begin to liquidate; rating agency downgrades 'detonating' market, source says

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1. (DW)
ABS CDOs begin to liquidate; rating agency downgrades 'detonating' market, source says

Main body :

At least three ABS CDOs are liquidating after buckling under the weight of rating agency downgrades within their underlying subprime mortgage collateral, according to two buyside sources. UBS' Vertical ABS CDO 2007-1 and RBS Greenwich Capital's Gulf Stream-Atlantic CDO 2007-1 are rumored among those liquidating, according to the sellsider. UBS and RBS are holding the super senior notes to those deals, the sellsider said.

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EXHIBIT #94i

PSI-MOODYS-000106

Pending rating agency downgrades are causing the secondary market for ABS CDO notes to seize up after a revival in recent weeks. The threat of CDO

liquidations is causing the secondary market valuation of anything but super senior bonds to fall drastically, the sources said. If super senior noteholders exercise the option to liquidate a given deal, holders of CDO notes subordinate to that tranche are not assured to get any money back -

even mezzanine and junior AAA noteholders, the sellsider said.

UBS declined to comment and RBS did not return a request for comment.

So far, the liquidations are being triggered by rating agency actions alone. Event of default triggers in the deals are being tripped because the value of bonds within the deals' portfolios are cut following the rating agency downgrades. Those cuts cause the ratio of senior tranche credit enhancement to collateral equity to falter. The controlling class -

typically super senior noteholders, but sometimes junior AAA and AA classes - often has the option to liquidate the deal's collateral in such an event.

Since triggers are being hit by downgrades and not necessarily credit quality deterioration, some market participants say the rating agencies may be acting prematurely.

"The rating agencies just kind of detonated the entire market," said the

sellsider. "I think they are completely out of line. They hypocritically

built this business with the underwriters, and now are saying we got it wrong," the sellsider said. There is a wide disparity between when ratings-based triggers in CDOs - particularly in high grade deals backed

by senior subprime bonds - will be hit versus when the underlying collateral will actually deteriorate, said a second sellsider.

Moody's Investor's Service is threatening ABS CDO downgrades all the way

up to the senior AAA level.

PSI-MOODYS-000107

From: Warner, Ernestine
Sent: Monday, October 29, 2007 11:46 AM
To: Rivera, John
Cc: Giudici, Andrew
Subject: FW: Vertical CDO 2007-1

Attachments: Dan Vertical ABS CDO 2007-1_10-3-2007 Portfolio_RMBS.xls

John, you may need this too.

EW

-----Original Message-----
From: Zhang, Jennifer (Lei)
Sent: Monday, October 29, 2007 11:41 AM
To: Warner, Ernestine; Giudici, Andrew
Cc: Gillis, Tom; D'Erchia, Peter; Muthukrishnan, Ramki; Kobylinski, Jimmy; Scanlin, Kate; Anderberg, Stephen
Subject: RE: Vertical CDO 2007-1

Hi, Ernestine/Andrew,

Please see the attached file for the collateral portfolio in this deal. And just let me know if anything else you need from me.

Thanks, Jen

-----Original Message-----
From: Anderberg, Stephen
Sent: Monday, October 29, 2007 11:23 AM
To: Warner, Ernestine; Zhang, Jennifer (Lei); Giudici, Andrew
Cc: Gillis, Tom; D'Erchia, Peter; Muthukrishnan, Ramki; Kobylinski, Jimmy; Scanlin, Kate
Subject: FW: Vertical CDO 2007-1

Hello Ernestine,

Sorry to create more work, but this is fairly urgent - can you have someone review the RMBS tranches in this portfolio to estimate the most conservative potential rating outcomes for the bonds in the portfolio? We want to review this transaction and see the results under the worst possible outcome.

Thanks! Jen, can you forward the portfolio?

Steve

-----Original Message-----
From: Zhang, Jennifer (Lei)
Sent: Monday, October 29, 2007 10:49 AM
To: Anderberg, Stephen; Muthukrishnan, Ramki
Subject: RE: Vertical CDO 2007-1

Hi,Steve/Ramki,

In case you are interested, please see the attached spreadsheet on the EOD OC (Senior Adjusted Credit Test) calculation we have got from the trustee.

Permanent Subcommittee on Investigations
EXHIBIT #94j

PSI-SP-000400

Thanks, Jen

-----Original Message-----
From: Zhang, Jennifer (Lei)
Sent: Saturday, October 27, 2007 9:53 PM
To: Anderberg, Stephen; Muthukrishnan, Ramki
Subject: RE: Vertical CDO 2007-1

Hi, Steve,

Sorry for late reply. I have just got your message from my treo. Based on the trustee's calculation on the EOD OC (i.e. Junior AAA OC ratio), the ratings haircut is $340.87 mm, about 22.74% of the total par. The haircut using S&P ratings is only 11.40% based on our calculation. So the trustee is definitely taking Moody's haircut for the EOD OC calculation. Currently we do not have detailed information on the ratings haircut, i.e. we do not know the exact breakdown of the Ba, B and Caa bucket in the portfolio. But we do know Moody's haircut should be 10% for below Baa3, 30% for below Ba3 and 50% for below B3. So by doing reverse calculation and assuming the current collateral portfolio is carrying the same percentage of B and Caa, then Moody's CCC bucket should be about 28.43%. Again, it is just some back-the-envelop calculation as we do not know the exact ratings breakdown and we only know the total ratings haircut amount.

In addition, the trustee is also carrying the defaulted securities for the amount of $140 mm, about 9.34% of the total par. We do not have any defaulted securities using S&P ratings. So I think probably the defaulted securities are using Moody's ratings. This might be another reason why Moody's has downgraded the super senior from AAA to BB+. For your information, the calculation on the EOD OC has not been in any kinds of reports yet. We contacted the trustee and that is why we have got a spreadsheet of simple calculation but not with the ratings details.

Please let me know if anything else you need from me.

Have a nice trip to India!

Thanks, Jen

-----Original Message-----
From: Anderberg, Stephen
Sent: Saturday, October 27, 2007 3:43 PM
To: Zhang, Jennifer (Lei); Muthukrishnan, Ramki
Subject: RE: Vertical CDO 2007-1

Thanks, Jen. Can you tell what the size of the CCC bucket is using the Moody's ratings?

Sent from my GoodLink synchronized handheld (www.good.com)

-----Original Message-----
From: Zhang, Jennifer (Lei)
Sent: Friday, October 26, 2007 04:23 PM Eastern Standard Time
To: Anderberg, Stephen; Muthukrishnan, Ramki
Subject: Vertical CDO 2007-1

In addition, I have assumed that the waterfall will go strictly sequential after confirming with Jake who has reviewed the Indenture based on EOD. So all the classes below Class A-1S (Super Senior) are not getting paid on interest and principal until the super senior is completely paid down. I think the reasons why Moody's has taken the Senior AAA to BB+ could be 1) different CCC bucket based on their underlying asset ratings; 2) taking market values into consideration.

Using our own S&P ratings, the CCC rated assets only account for 6.34% of the total portfolio. In the liability structure, the

PSI-SP-000401

super senior AAA account for 60.68%. So that is why our BEs are still showing o.k. results for the senior AAAs.

Anything else I can do, just let me know.

Thanks, Jen

-----Original Message-----
From: Anderberg, Stephen
Sent: Friday, October 26, 2007 3:44 PM
To: Zhang, Jennifer (Lei)
Subject: What is the size of the CDO bucket...

...in the Vertical CDO 2007 deal?

Thanks!

Steve

Sent from my GoodLink synchronized handheld (www.good.com)

PSI-SP-000402

Vertical ABS CDO 2007-1, Ltd.

Moody's Org ID: 715131483

Closing Date: **10 Apr 2007**
Current Total Deal Size(Mil): **1535.0**
Pay Frequency: **Not Applicable**

Market Segment: **Structured Finance**
Collateral Type: **CDO - Cash ABS - Mezzanine**
Location of Assets: **UNITED STATES**

Collateral Manager: **Vertical Capital, LLC**
Trustee: **Wells Fargo Bank, National Association**
Underwriter: **UBS Investment Bank**

Research | Ratings | Related Parties | View CDO EMS Data

Deal Research | Asset Class Research | Indices & Data | Methodology

Results 1 - 15 of 15 Page 1 of 1

Date	Document Type	Title
24 Oct 2008	Performance Overview	Vertical ABS CDO 2007-1, Ltd. View data in **Performance Data Services**
11 Sep 2008	Rating Action	Moody's withdraws ratings of Notes issued by 34 ABS CDOs
23 Jun 2008	Rating Action	Moody's downgrades ratings of Notes issued by Vertical ABS CDO 2007-1, Ltd.
21 Jan 2008	Performance Report - EMS	Vertical ABS CDO 2007-1 Ltd.
14 Jan 2008	Rating Action	Moody's downgrades ratings of Notes issued by Vertical ABS CDO 2007-1, Ltd.
26 Dec 2007	Performance Report - EMS	Vertical ABS CDO 2007-1 Ltd
26 Nov 2007	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd
08 Nov 2007	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd
25 Oct 2007	Rating Action	Moody's Downgrades Vertical ABS CDO 2007-1 Notes; Further Downgrades Possible
18 Sep 2007	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd.
21 Aug 2007	Performance Report - EMS	Vertical ABS CDO 2007-1 Ltd
13 Aug 2007	Rating Action	Moody's places notes issued by Vertical ABS CDO 2007-1, Ltd. on watch for possible downgrade
21 Jul 2007	Performance Report - EMS	Vertical ABS CDO 2007-1 Ltd.
20 Jul 2007	Performance Report - EMS	Vertical ABS CDO 2007-1, Ltd.
26 Apr 2007	Rating Action	Moody's Rates the Vertical ABS CDO 2007-1, Ltd. Offering from UBS Investment Bank

Results 1 - 15 of 15 Page 1 of 1

Permanent Subcommittee on Investigations
EXHIBIT #94k

X05CV084013452S : Superior Court

Pursuit Partners, LLC et al : Complex Litigation Docket at Stamford

v.

UBS AG et al : September 8, 2009

MEMORANDUM OF DECISION ON PLAINTIFFS' APPLICATION FOR A PREJUDGMENT REMEDY (#124)

Introduction

This is a case involving allegations of securities fraud and related causes of action. It has been brought by a hedge fund against a financial institution whose businesses include the creation and marketing of securities in the form of a series of notes. These notes constitute a complex financial investment product known generically in the securities industry as collateralized debt obligations (Notes or CDOs). CDOs are a type of structured credit product in the world of asset-backed securities. CDOs lump various types of debt - from the very safe to the very risky - into one bundle. The various types of debt are known as tranches.[1] The purpose of these products is to create tiered cash flows for various groups of investors holding the different tranches. These cash flows come from mortgages and other debt obligations that have been pooled together. These Notes are customarily marketed and sold to institutional investors and hedge funds, the types of entities which are considered generally self-sufficient in the area of due diligence.

Pursuit Partners, LLC is a hedge fund based in Stamford, Connecticut. This hedge fund is managed by Pursuit Investment Management, LLC, and includes two investment

[1] "Tranche" is the French word for "slice." A tranche is a piece, portion or slice of a deal or structured financing. Different tranches have different risks, rewards and/or maturities.

Permanent Subcommittee on Investigations
EXHIBIT #941

funds known as the Pursuit Opportunity Fund I Master Ltd. and the Pursuit Capital Master (these entities collectively referred to as Pursuit or the Plaintiffs). The defendant UBS AG is a Swiss Bank with a securities affiliate known as UBS Securities, LLC. (collectively referred to as UBS). The principal United States offices for UBS are located in Stamford, Connecticut and New York, New York. At the operative times in this case, the co-defendant Robert T. Morelli (Morelli) was employed as the head of the UBS syndicate desk.

The remaining two defendants, Moody's Corporation (Moody's) and the McGraw-Hill Companies, Inc, d/b/a Standard and Poor's (S & P), are both credit-ratings agencies. Ratings agencies are a vital part of the securities market, and their ratings greatly influence the market. To help investors assess risks, ratings agencies analyze and rate companies and the fixed-income securities they issue, using risk profiles to determine the likelihood that issuers will default on their loans. Markets react, often dramatically, to the increased or decreased likelihood of default when a rating changes. Moody's and S & P were responsible for rating the credit worthiness of the collateral underlying the CDOs sold to Pursuit by UBS and at issue in this case. In fact, the credit ratings for these CDOs changed in an adverse manner shortly after UBS sold the Plaintiffs some $35,573,904.53 worth of Notes, Notes then rated some form of "Investment Grade," in a series of transactions between late July 2007 and October 1, 2007.[2]

It is the credit ratings downgrades publicly announced by Moody's and S & P later in the month of October 2007, a short time after the last Note was purchased from UBS by

[2] For purposes of the PJR hearing, the parties have agreed that this is the amount at issue. The original claim totaled over $40 million, but at the PJR hearing, the Plaintiffs withdrew their claims in connection with two of the CDOs they had purchased from UBS. (Transcript [Tr.] 4/7/09, p. 87). Therefore, the Plaintiffs' application for a PJR is based on its purchases of four classes of Notes in three different CDOs arranged by UBS, as follows: Vertical ABS CDO 2007-1, ACA ABS 2007-2 Ltd., and TABS 2007-7 CDO.

Pursuit, and the adverse effect that such changes to those credit ratings had on the value of the Notes held by Pursuit due to certain "trigger" language contained in each of the CDOs, and UBS's earlier role in marketing and soliciting purchases of such Notes by the Plaintiffs, and finally (and most importantly), UBS's degree of knowledge of such impending ratings changes, and representations made by UBS to Pursuit in written, oral and email communications, that are at the heart of this case.

On January 21, 2009, the Plaintiffs filed a thirty count Second Amended Complaint, stating claims of relief against UBS, Morelli, Moody's and S & P. The allegations center on a fraud allegedly committed by UBS upon Pursuit in connection with Pursuit's purchase of CDOs from UBS. The Plaintiffs also moved for the issuance of a prejudgment remedy (PJR) solely against the UBS defendants, which resulted in an evidentiary hearing on the application. Following the hearing, the parties submitted their proposed findings of fact and conclusions of law.[3]

The issue facing this court is simple, even if some of the nuances of the securities purchased and sold in this case are complex. Have the Plaintiffs presented sufficient evidence to warrant the granting of a PJR?[4] At the hearing held on the application for a PJR, the court heard witnesses from both sides, and it received into evidence numerous, if not voluminous, documents relating to the transactions between the parties and the Notes

[3] Prior to this memorandum of decision as to the PJR, the court, *Blawie, J.*, granted the defendants' motion to strike the counts in the Plaintiffs' complaint sounding in negligent concealment, negligent supervision, breach of contract, breach of duty of good faith and fair dealing, civil conspiracy and breach of fiduciary duty. Therefore, the court will not address those allegations in this decision.

[4] The court declines the Plaintiffs' request to consider evidence of UBS's uncharged misconduct as evidence of a common scheme or plan for purposes of ruling upon this application for a PJR. This is in reference to the fact that in February 2009, UBS agreed to pay $780 million to United States authorities to settle accusations that it helped wealthy Americans illegally evade taxes through secret offshore bank accounts that went undeclared to the Internal Revenue Service. UBS has admitted to conspiracy to defraud the I.R.S, and the Plaintiffs may renew their motion to introduce such evidence at a trial on the merits of their allegations, but it played no part in this court's decision on the PJR.

probable cause as a condition of obtaining a prejudgment remedy is not as demanding as proof by a fair preponderance of the evidence." (Internal quotation marks omitted.) *Kosiorek* v. *Smigelski*, 112 Conn. App. 315, 319, 962 A.2d 880, cert. denied, 291 Conn. 903, 967 A.2d 113 (2009); see *36 DeForest Avenue, LLC* v. *Creadore,* 99 Conn.App. 690, 698, 915 A.2d 916, cert. denied, 282 Conn. 905, 920 A.2d 311 (2007) (stating that the burden of proof at a probable cause hearing is a low one). "At a probable cause hearing on a prejudgment remedy, a trial court may properly consider all evidence presented, including testimony of witnesses, documentary evidence, and affidavits." *Fleet Bank of Connecticut* v. *Dowling,* 28 Conn. App. 221, 225, 610 A.2d 707, cert. granted on other grounds, 223 Conn. 921, 614 A.2d 821 (1992).

Facts

With this standard in mind, and for the purposes of this application, the court finds the following facts based on the evidence and testimony it finds credible. In the spring 2007, UBS marketed certain CDO[7] Notes to Pursuit. (Transcript [Tr.] 4/6/09, pp. 110-11). Pursuit, although not a regular investor in "synthetic" CDOs[8], was familiar with the CDO market from prior investments. (Tr., 4/7/09, pp. 91-92). In early 2007, UBS solicited Pursuit with CDO Notes for sale. (Tr., 4/7/09, pp. 110-11). The Plaintiffs inquired with UBS about purchasing CDO Notes at a discount that were both "investment

[7] The complaint defines "CDO" or collateralized debt obligation as a vehicle which allows investors to invest in the future performance of either actual or referenced mortgages that act as the underlying collateral. A CDO allows an investor to purchase a position whose return profile is based upon the performance of a security with a defined risk and reward, without actually purchasing the mortgages themselves.

[8] Unlike CDOs that may be backed by actual mortgages or underlying collateral, synthetic CDOs are usually backed by credit derivatives such as credit default swaps. At its most basic, a credit default swap is similar to an insurance contract. The swap provides the buyer with protection and coverage against specific risks in exchange for a periodic fee paid to the counterparty who "buys" that risk. The protection "buyer" is paid a set amount if there is a triggering event that is a specified risk, such as a default or a credit rating downgrade.

grade" and "triggerless."[9] It is the ratings "triggers" embedded in the transaction documents and credit default swaps that made millions of dollars in future payments to Pursuit and UBS dependent upon how Moody's and S & P labeled certain credit risks. With such heavy reliance upon these ratings, the court finds that it created a bit of a ratings trap, due to the catastrophic consequences of a downgrade.

While there are varying degrees of investment grade, a Note rated as investment grade by Moody's and/or S & P is reserved for the highest end of the credit spectrum. As such, it is deemed to have the most predictable cash flow and is usually deemed to carry the lowest risk of default. Pursuit informed UBS that although it was willing to make an investment in the mortgage market, it was unwilling to take the extra-market risk of an investment that was subject to unilateral termination by a senior investor (such as UBS). Pursuit further informed UBS that it would only purchase Notes that: (1) were investment grade; (2) "triggerless"; (3) not subject to an over collateralization test (O.C. test); (4) bore a substantial discount from par; and (5) would perform based upon market, rather than extra-market conditions. (Tr., 4/7/09, p. 91). All of these conditions were designed to ensure the safety and security of any investment by Pursuit. In the spring of 2007, UBS informed Pursuit that based upon the pre-drafted Offering Memoranda for the CDOs, it would not meet Pursuit's conditions for sale of the Notes. (Tr., 4/7/09, pp. 110-11).

Soon after, as a result of certain meetings with Moody's, the court finds probable cause to sustain the claim that UBS became privy to material non-public information regarding a pending change in Moody's ratings methodology. (Exhibits [Exhs.] 11, 17).

[9] In paragraph sixty-eight of the Second Amended Complaint, the Plaintiffs state that "[i]t is generally accepted in the CDO investment community that the term 'triggerless' means that the O.C. test [Over Collateralization test] or Senior Credit test - which otherwise would allow the super-senior Noteholder to trigger or initiate a liquidation of the less senior positions in order to protect the super-senior Noteholder's investment – is inapplicable." Canales testified that triggers put the purchaser of a Note at a disadvantage, and can shut off the cash flow. (Tr. 4/6/09, p. 95).

This change in ratings methodology, when implemented, would cause the Notes that UBS had previously offered and sold as investment grade to no longer receive the same investment grade ratings. (Exhs. 11, 17, 22, 25). Due to the way the CDOs at issue were structured, such a change would effectively render the Notes, and Pursuit's investment in them, worthless. Thus, in the summer of 2007, UBS was aware that the Notes they were currently marketing for sale in their CDOs were Notes for which the ratings agencies would soon no longer be giving investment grade ratings. At that time, UBS was holding a significant amount of unsold Notes in inventory that would lose a significant amount of value when such a ratings downgrade occurred, (Tr., 4/7/09, pp. 140-41), and therefore had an incentive to lower UBS's inventory of these Notes and their corresponding exposure.

In late summer 2007, UBS again contacted Pursuit and offered to sell the same Notes that Pursuit had rejected several months earlier. UBS, without disclosing the information regarding the ratings of the Notes, represented to Pursuit that UBS would now meet Pursuit's aforementioned terms in a "no trigger deal." (Exh. 32). This is significant, because the terms and conditions of the Notes purchased by the Plaintiffs were by that point fixed and immutable, just as they had been the first time such Notes were pitched by UBS. That included such details as trigger vs. triggerless and/or the types of triggers each CDO contained, all of which were contained in the respective offering memorandum. The only feature *not* spelled out was the actual purchase price to be paid for the Notes, which was subject to negotiation. The offering memoranda for each CDO was received into evidence. As to the TABS 2007-7 CDO, the offering memorandum was dated March 17, 2007. (Exh. T). The offering memorandum for Vertical ABS CDO 2007-1 was dated

April 6, 2007 (as supplemented April 9, 2007). (Exh. FF). The offering memorandum for ACA ABS 2007-2 was dated June 27, 2007. (Exh. AA).

With the exception of the ACA ABS 2007-2 CDO, which was not finalized until June 2007, the court finds that what had changed between UBS's first unsuccessful pitch and its second, successful pitch to the Plaintiffs was not the presence or absence of triggers, or the structures of the CDOs themselves, but UBS's awareness that these high grade securities on its hands would soon turn into financial toxic waste. Shortly after selling Pursuit the subject Notes, UBS diverted the cash waterfall payments after a ratings agency downgrade . UBS triggered a termination and liquidation of the Notes, wiping out Pursuit's entire investment. Between July 26, 2007, and October 1, 2007, Pursuit purchased the Notes that are the subject of this litigation.

UBS sent the Offering Memoranda for the Vertical ABS CDO 2007-1,[10] ACA ABS 2007-2 Ltd.[11] and TABS 2007-7 CDOs[12] to Pursuit in summer and fall 2007 by cover emails. These emails contain certain "transaction highlights" for each CDO. (Exhs. 32, 45, 83). Pursuit confirmed that at least two of its employees read the Offering Memoranda, and that Pursuit would not have relied on a one- or two-page transaction highlights email to invest tens of millions of dollars, but instead would have relied on the transaction documents for each CDO. (Tr. 4/6/09, p. 208; 4/7/09, pp. 5, 39). To do otherwise would

[10] The closing date on the Vertical CDO was April 10, 2007 and Pursuit purchased Notes in Vertical's B2 class on July 26, 2007, and in Vertical's B1 Notes on August 7, 2007.
[11] The closing date on the ACA CDO was June 28, 2007 and Pursuit purchased Notes in ACA's B1class on September 6, 2007.
[12] The closing date on the TABS CDO was March 20, 2007 and Pursuit purchased Notes in TABS' B3 class on October 1, 2007. As to the TABS CDO, the court finds that the "no trigger" language was specifically couched by UBS in favorable terms for prospective investors in the Notes, as it meant that coupon interest would be "unaffected by rating agency downgrades actions in the underlying collateral pool." (Exh. 55).

have been unreasonable and contrary to the standard of care in the CDO industry. (Tr. 4/8/09, p. 87).

It is true that there had already been a public disclosure on May 15, 2007 by Moody's that it was "re-examining its correlation assumptions for ABS [asset backed securities] CDO tranches" due to "increasing overlaps in the securities underlying ABS CDOs" traceable to a "growing proportion of synthetic transactions." The disclosure noted that, "Moody's expects to complete its correlation analysis over the next couple of months." (Exh. O). It is also true that the Plaintiffs purchased these Notes at a deep discount. However, in July 2007, the court finds probable cause to sustain the claim that UBS, as a large player in the CDO market (Tr. 4/8/09, p. 34), one that "worked very closely with the CDO analysts at the ratings agencies," (Tr. 4/7/09, pp. 211-212), failed to advise Pursuit that it in fact knew material nonpublic information about the ratings agencies and their methods,[13] and that the ratings agencies were going to downgrade the Notes UBS was selling. This change was material, as it essentially was a shift from a performance-based rating methodology to a market-based ratings methodology. Given the deteriorating conditions in this sector of the market at that time, such ratings changes as to these Notes were universally negative. On July 11, 2007, the day that Moody's publicly announced it was putting 184 CDO tranches on review for possible downgrade, Morelli sent an email stating simply "put today in your calendar." (Exh. 24). In explaining the context of that email, the significance of that day was described to the court by Morelli as, "Today was

[13] For example, a July 31, 2007 email from Vab Kumar, Director, Global CDO Group for UBS Securities LLC was received into evidence (Exh. 38) The email was sent to both UBS employees working the CDO desk as well as certain Moody's CDO ratings analysts, with a copy to Morelli. The email concerns the Vertical 2007-2 CDO, which was purchased by the Plaintiffs. It starts out by stating that "*There have been a number of things that have been asked by Moodys on the above mentioned deal that are not market* and not your criteria in deals we have closes in the past week."(Emphasis added.) As the Senior Structurer at UBS, Kumar had extensive interactions with the ratings agencies.

essentially the beginning of the end of the CDO business, meaning the bonds were getting downgraded, they were probably going to get downgraded further and we [UBS] were going to lose a lot of money." (Tr. 4/7/09, p. 213).

UBS failed to disclose and actively concealed the fact that based upon this change, the Notes being marketed by UBS would *not* maintain their investment grade rating, and would lose a significant amount of value, if not the liquidation of the entire investment. After the July 2007 action by Moody's, it was followed by the "massive mortgage bond downgrades" which were publicly announced October 11-19, 2007. (Exh. 78). By the time Moody's publicly announced these ratings downgrade, the court concludes that probable cause exists to sustain a belief that UBS had known that Moody's was not just "re-examining assumptions," but was changing its methodology, and that the collateral underlying the Notes would therefore no longer be rated investment grade. Had Pursuit been aware of this, it would not have invested in the subject Notes.

In sum, the court finds probable cause to sustain the claim that UBS sold the Notes to Pursuit without disclosing the following material non-public information: (1) that the Notes would soon no longer carry an investment grade rating, as the ratings agencies intended to withdraw these ratings as a result of a change in methodology; and (2) that once the investment grade rating was withdrawn, the CDO Notes sold by UBS to Pursuit, being valued in the tens of millions of dollars, would thereby become worthless.

Fraud in the Inducement

Under New York law, "The required elements of a cause of action for fraud are representation, falsity, scienter, deception, and injury. . . . In order to establish deception, any reliance upon the false representation must be "justifiable under all the circumstances"

It is clear that that from the parties' extensive contact, UBS knew that Pursuit was only interested in investing in Notes that carried an "investment grade." (Tr., 4/6/09, p.91). The Plaintiffs presented evidence suggesting that UBS, from their dealings with the ratings agencies, had reason to believe that certain collateral would be downgraded in the near future and their "investment grade" rating would be withdrawn. The Plaintiffs' submitted multiple emails from UBS employees. These emails constitute both direct and circumstantial evidence of UBS's knowledge of a change in Moody's ratings methodology, and the likelihood, if not certainty, that this change in methodology would cause Moody's to downgrade the subject CDO Notes. (Exhs. 11, 17). As early as May 17, 2007, UBS had reason to believe that Moody's was changing its methodology and that would result in the downgrading of certain asset-backed securities. (Exhs. 11, 17). UBS's emails show that its employees met with Moody's representatives to discuss the impact of the downgrades and when they should start downgrading.[17] (Exh. 17). Thereafter on July 11, 2007, UBS employees had knowledge that Moody's was going to downgrade CDOs by the end of the day.[18] On July 26, 2007, UBS instructed its employees to "reduce cdos . . . no need to publicly relay this, but if you are close on something, [please] close it . . .[thanks] for your discretion." (Exh. 34). In response to that email, Morelli stated "[P]ursuit has dry gun powder but not tons of it."[19] Soon after on August 28, 2008, Morelli sent an email referencing the subject Notes, stating that he had "sold more crap to Pursuit." (Exh. 49). The court finds that the problem was not confined to only the CDOs at issue in this PJR. For instance, on September 24, 2007, as

[17] "It sounds like Moodys is trying to figure out when to start downgrading, and how much damage they're going to cause – they're meeting with various investment banks." (Exh. 17).
[18] "FW: hearing moody's will announce a bunch of CDO downgrades in the next hourish." Morelli's response was: "[I'm] going out for lunch . . . do not call the police if I never return." (Exh. 22).
[19] The term "dry gun powder" refers to funds available for purchases of securities. (Tr., 4/6/09, p. 142).

the clock was running out on the investment grade ratings for its products, another UBS employee sent an email to a UBS director referencing another supposed "investment grade"-rated CDO in their inventory, writing, "OK still have this vomit?" (Exh. 62).

Based on the above-mentioned evidence, the court finds that the Plaintiffs' have presented sufficient evidence to satisfy the probable cause standard with respect to their claim that UBS was in possession of superior knowledge that was not readily available to the Plaintiffs. This material nonpublic information related to rating agency downgrades that would significantly decrease, if not render worthless, the CDO Notes it was selling Pursuit. Further, UBS was aware the Pursuit was only seeking to invest in CDO Notes rated "investment grade," and UBS knew that by investing in the subject CDO Notes, Pursuit was acting on the basis of misleading information. Moreover, because UBS was in the position of "Super-senior Noteholder" in the structure of these CDOs, such ratings downgrades, while working to the detriment of buyers like the Plaintiffs, could work to the benefit of sellers like UBS in the super-senior position, because super-seniors have first dibs on whatever payments are made on a CDO. A UBS Securities LLC credit analyst explained it in an October 16, 2007 email sent to Morelli and others. Writing about the billions of dollars in Moody's downgrades, downgrades that were now public knowledge, the UBS analyst wrote, "These bonds [subject to downgrades] appear in countless CDOs. The downgrades were more severe than what the market seemed to anticipate !!! And !!! The downgrades could constitute a triggering event that would be an Event of Default for various for various CDOs. . . If this occurs, then it may prove salutary for the Super-senior holders [like UBS] as more cash flow would be preserved for their protection." (Exh. 91). A November 21, 2007 email from a UBS senior structurer on its CDO desk stated it more succinctly. Writing to Morelli, Kumar and the head of UBS's CDO group, and ending with a smiley face, the email says "we protect our super seniors the best :)."

Connecticut Uniform Securities Act (CUSA)

General Statutes § 36b-29 provides in relevant part: "(a) Any person who . . . (2) offers or sells or materially assists any person who offers or sells a security by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they are made, not misleading, who knew or in the exercise of reasonable care should have known of the untruth or omission, the buyer not knowing of the untruth or omission, and who does not sustain the burden of proof that he did not know, and in the exercise of reasonable care could not have known, of the untruth or omission, is liable to the person buying the security . . . ." With respect to this claim pursuant to CUSA, the court adopts and incorporates its reasoning regarding Pursuit's fraudulent omissions claim.

Unjust Enrichment

The elements of unjust enrichment are "that: (1) the defendant benefited; (2) the benefit was at the expense of the plaintiff; and (3) that equity and good conscience require restitution." *Mazzaro de Abreu* v. *Bank of America Corp.*, 525 F. Sup. 2d 381, 397 (S.D.N.Y. 2007). With respect to this claim, the court adopts and incorporates its reasoning regarding Pursuit's fraudulent omissions claim. Moreover, in light of the alternate grounds articulated to sustain the application for a PJR, the court will not address the remaining allegations of negligence.

Frank Canelas

From: evan.malik@ubs.com
Sent: Wednesday, August 01, 2007 9:50 AM
To: Anthony Schepls
Subject: FW: Mezz CDO Offerings

Here is some new stuff we would offer the vertical that bot the b2 at 34 this is one notch higher and morelli thinks it should get 3/4 of year of io more he would sell it to at FORTY no FIFTY this is a good block.
If we get that done then I wil get better offers on the others Ignore the tabs I know u don't like it Go phatty this is FIRM and its morelli

-----Original Message-----
From: Morelli, Robert
Sent: Wednesday, August 01, 2007 9:41 AM
Subject: Mezz CDO Offerings

Size	Bond	Rating	Type	Trig	BB	B	<=CCC		Offer	Price	
$ 7mm	NAUT 2007-5A BV	- / - / BBB	PRIME	Yes	4.16%	0.00%	0.00%		600dm	$92.75	
$11mm	CRNMZ 2007-4A B1	Baa2 / BBB	Mezz	No	0.00%	0.00%	0.00%		1000dm	$82.00	no downgrades or watchlisted secs
$25mm	VERT 2007-1A B1	Baa2 / BBB	Mezz	No	14.04%	1.00%	0.00%	4.5yrs IO		$50.00	see below
$25mm	TABS 2007-7A B3	Baa3 / BBB-	Mezz	No	8.74%	0.00%	0.27%	4.5yrs IO		$57.00	see below
$19mm	CABAY 2006-1A B	Baa2 / BBB	Mezz	Yes	3.71%	2.50%	0.00%	3.0yrs IO		$25.00	

watchlisted securities are counted at two notches lower

VERT 2007-1A B1 a lot of excess spread. portfolio would need to write down by 24% before the Class B1 Note coupon was impaired
TABS 2007-7A B3 a lot of excess spread. portfolio would need to write down by 22% before the Class B3 Note coupon was impaired

Call desk with ANY feedback on levels.

Call Rob Morelli or Jared Menzel for any additional info on any of these offerings.

Rob Morelli
Executive Director
UBS Investment Bank
1285 Ave of the Americas
11th Floor
New York, NY 10019
Tel (212) 713-4972
Cell (917) 658-7705
Fax (203) 719-8439

PP0018479

Permanent Subcommittee on Investigations
EXHIBIT #94m

policies designed to negate conflicts of interest. This e-mail is not an official confirmation of terms and unless stated, is not a recommendation, offer or solicitation to buy or sell. Any prices or quotations contained herein are indicative only. Communications may be monitored.

From: Malik, Evan
Sent: Tuesday, August 28, 2007 12:37 PM
To: Corcoran, Hugh
Subject: Re: 95pts Wine Spec, Best Tignanello since 1997!

Kewl. Sold some more crap to pursuit. Brock close to getting money in for distressed cdo fund. 500mmish
----
Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Corcoran, Hugh
To: Malik, Evan
Sent: Tue Aug 28 12:32:18 2007
Subject: RE: 95pts Wine Spec, Best Tignanello since 1997!

Yes -talked to ximo

-----Original Message-----
From: Malik, Evan
Sent: Tuesday, August 28, 2007 12:26 PM
To: Corcoran, Hugh
Subject: Re: 95pts Wine Spec, Best Tignanello since 1997!

Cheap 53ish 58 a bottle? was it 01 or 00 I forgot. ? Did u c my bbeerg about barclays
----
Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Corcoran, Hugh
To: Malik, Evan
Sent: Tue Aug 28 12:23:22 2007
Subject: FW: 95pts Wine Spec, Best Tignanello since 1997!

what did we buy the 2000 for

From: Jeff Daniels - The Wine Club SF [mailto:jeffdaniels@thewineclub.com]
Sent: Tuesday, August 28, 2007 12:02 PM
To: undisclosed-recipients
Subject: 95pts Wine Spec, Best Tignanello since 1997!

Best Since 1997!
95pts Wine Spectator
2004 Antinori Tignanello IGT
Tuscany, Italy
Offers aromas of blackberry, with hints of raisin and lots of spices. Full and velvety, with wonderful concentration and a long, rich finish. Very stylish and exciting. Sangiovese, Cabernet Sauvignon and Cabernet Franc. Best after 2012.-J.S. Wine Spectator Advance Oct 15.

1

Permanent Subcommittee on Investigations
EXHIBIT #94n

UBS-CT 0032302

From: McCleary, Jack
Sent: Thursday, July 05, 2007 3:57 PM
To: Corlito, Dayna; Morelli, Robert; Patel, Malay; Grimaldi, Keith; Tsai, Lirenn
Cc: Martin, David-S; Stehli, James
Subject: Re: ABS Subprime & Moody's downgrades

I am not aware of this meeting but we did host a moodys meeting a few months ago with the desk on this topic. Assuming they initiated this and want all points of view.

Sent from my BlackBerry Wireless Handheld

-----Original Message-----
From: Corlito, Dayna
To: McCleary, Jack; Morelli, Robert; Patel, Malay; Grimaldi, Keith; Tsai, Lirenn
CC: Martin, David-S; Stehli, James
Sent: Thu Jul 05 14:45:14 2007
Subject: FW: ABS Subprime & Moody's downgrades

FYI. You may already be in the loop but wanted to pass the info just in case.

Dayna Corlito
UBS Investment Bank
MBS/ABS Business Manager
(212) 713-3216
Dayna.Corlito@ubs.com

From: Goldsteen, David
Sent: Thursday, July 05, 2007 2:34 PM
To: Corlito, Dayna
Subject: ABS Subprime & Moody's downgrades

Hi Dayna

I just got off the phone with David Oman in CRC, who reports to David Bawden. Apparently they're meeting w/ Moodys to discuss impacts of ABS subprime downgrades, etc. Has he been in contact with the Desk?

It sounds like Moodys is trying to figure out when to start downgrading, and how much damage they're going to cause -- they're meeting with various investment banks.

David

UBS-CT 021485

Permanent Subcommittee on Investigations
EXHIBIT #94o

DATE: Tuesday, July 17, 2007
TIME: 8:54 PM (GMT)
AUTHOR: Rekeda, Alexander
RECEIPIENT: Kolchinsky, Eric
CC:
SUBJECT: Analyst for Brighton

Eric:

Can you pls assign analysts for Brighton ABS CDO. We□re planning to price it in the late August. Yuri Chumak is a transactor on this deal.

Btw, as a way of feedback, I should say that Marc Leibert had a pretty good grip on our last deal, but Sindhu Veluri (his modeling colleague) is not as experienced. I figured since the new deal pipeline is dramatically down and more experienced analysts may be available, it would be great to have someone more experienced for Brighton. The reason is that Delphinus was a mezz deal with a lot of cushion, so we did not really care that much. Brighton is a SHG deal with WARF of 15, so we may not have that luxury. Someone like Qi Wang, Yu Sung, or someone with similar experience would be perfect. Btw, pls don□t say anything to Sindhu □ I think she is genuinely trying to do her best, but it does take some experience with these deals.

Thanks,
Alex

From: Sprinkle, Lauren
Sent: Monday, August 20, 2007 11:51 AM
To: Mooney, Shannon
Subject: RE: Delphinus closing date vs effective date
Thank you Shannon.

-----Original Message-----
From: Mooney, Shannon
Sent: Monday, August 20, 2007 11:36 AM
To: Sprinkle, Lauren
Subject: RE: Delphinus closing date vs effective date

Hey, let the higher ups handle this. I have spoken with Keith and given him the details. He will speak with Bruce and will let you know if he needs anything from you.

Thanks,

Shannon Mooney
Ratings Analyst, Global CDO Group
Structured Finance Ratings

Standard & Poor's
55 Water Street, 41st Floor
New York, NY 10041
Phone: 212-438-7447
Fax: 212-438-2650
shannon_mooney@standardandpoors.com

From: Sprinkle, Lauren
Sent: Monday, August 20, 2007 10:57 AM
To: Zhao, Bruce
Cc: Cheng, Lois; Mooney, Shannon; Guarnuccio, Keith
Subject: Delphinus closing date vs effective date

Bruce,

Regarding Delphinus, it appears that the closing date portfolio they gave us for analysis and the effective date portfolio (closing date=effective date) were not the same. It appears that the 25ish assets that they included in our closing date portfolio that were dummies were replaced in less than 24 hours with assets that would have been notched and made the portfolio worse. The issue is that given they would have provided us with this portfolio at closing date, the SDR's would have gone up and they would not have been able to close as they would not have been passing. They are, however, passing effective date with the effective date portfolio. Do you want to address this with them, or let it go?

Thanks
Lauren

Permanent Subcommittee on Investigations
EXHIBIT #95b

PSI-SP-000358

-----Original Message-----
From: Cheng, Lois
Sent: Monday, August 20, 2007 10:48 AM
To: Sprinkle, Lauren
Cc: Mooney, Shannon
Subject: RE:

Yes, the concern is that the deal would've never passed (and actually would've been worse) if they included the assets that they claimed they are dummies. Yet in less than 24 hrs later they were able to purchase all these dummy assets and declared effective date on closing date. I don't know how you want to handle it but I would tell the primary analyst about the situation and see how he wants to deal with it. I mean, the deal closed and it is passing effective date monitor test, so we have to issue Effective Date Rac.

Lois Cheng
Global CDO Group
Structured Finance Ratings

Standard and Poor's
55 Water Street, 41 Floor
New York, NY 10041-0003
212-438-1898
lois_cheng@sandp.com

From: Sprinkle, Lauren
Sent: Monday, August 20, 2007 10:44 AM
To: Cheng, Lois
Cc: Mooney, Shannon
Subject: RE:

Ok, but if you notched, you should unotched those assets. But since you're using current ratings, it really doesn't matter

-----Original Message-----
From: Cheng, Lois
Sent: Monday, August 20, 2007 10:40 AM
To: Sprinkle, Lauren
Cc: Mooney, Shannon
Subject: RE:

We do not notch anything on effective date. We use current ratings and that is how this deal passes effective date. We ran the monitor with the notched ratings just to see and it is failing several tranches (Junior AAA, A, BBB+ and BBB-)

Lois Cheng
Global CDO Group
Structured Finance Ratings

Standard and Poor's
55 Water Street, 41 Floor
New York, NY 10041-0003
212-438-1898
lois_cheng@sandp.com

From: Sprinkle, Lauren
Sent: Monday, August 20, 2007 10:38 AM
To: Cheng, Lois
Cc: Mooney, Shannon
Subject: RE:

PSI-SP-000359

Lois,

At effective date, are you notching everything per the press release or are you just using the current rating at effective date. Becuase if you're notching everything, surveillance went over this deal and unnotched a bunch of assets which is going to affect the SDR's. Please see the attached.

All the assets highlighted in yellow between surveillance scrub and rating after surveillance scrub (hence they were dragged from one column to another) were said to be OK by surveillance and don't need to be notched.

*unhide the columns.

Call to discuss. 201[redacted]

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Thx,
lauren

-----Original Message-----
From: Cheng, Lois
Sent: Monday, August 20, 2007 10:27 AM
To: Sprinkle, Lauren
Cc: Mooney, Shannon
Subject: RE:

Um.. looks like the remaining portion is actually all sub-prime (57 asset code vs all 56s in closing date portfolio), less principal, and worse ratings (mostly BBBs but closing date has more A-'s). Let me come over and discuss...

From: Sprinkle, Lauren
Sent: Monday, August 20, 2007 10:13 AM
To: Cheng, Lois
Cc: Mooney, Shannon
Subject: RE:

Hi Lois,

This is the closing date portfolio I received on 7.18.07 from the banker. It has 26 dummy assets. So unless they ramped up overnight (when we stayed up working until past midnight on the 19th)....

Thanks
Lauren

-----Original Message-----
From: Cheng, Lois
Sent: Monday, August 20, 2007 10:06 AM
To: Sprinkle, Lauren
Cc: Mooney, Shannon
Subject:

PSI-SP-000360

Hi Lauren,

This is the ramped up collateral as of 7.19.07. You can take a look and see if it is different from the closing date portfolio you received from the banker.

Lois Cheng
Global CDO Group
Structured Finance Ratings

Standard and Poor's
55 Water Street, 41 Floor
New York, NY 10041-0003
212-438-1898
lois_cheng@sandp.com

PSI-SP-000361

Main Rating Change Report

Rating Change Report

Start: 1/1/08
End: 1/31/08

Generate Report

Region	Action Date	Deal Name	Tranche	Original Balance	Prior Rating	Current Rating	Action	Publish Indc	Not-ches	Closing Date	Product Line Description	Rolled Up Description	Calced Notches
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $131,000,000 Class B Senior Floating Rate Notes Due October 2047	$131,000,000	A3	Caa1	DNG	Y	10	7/19/07	CDO - Resecuritization	CDO	-10
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $138,500,000 Class A-3 Senior Floating Rate Notes Due October 2047	$138,500,000	Aaa	B3	DNG	Y	15	7/19/07	CDO - Resecuritization	CDO	-15
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $144,500,000 Class A-2 Senior Floating Rate Notes Due October 2047	$144,500,000	Aaa	B1	DNG	Y	13	7/19/07	CDO - Resecuritization	CDO	-13
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $15,000,000 Class D-3 Mezzanine Floating Rate Deferrable Notes Due October 2047	$15,000,000	Caa3	Ca	DNG	Y	1	7/19/07	CDO - Resecuritization	CDO	-1
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $15,000,000 Class E Mezzanine Floating Rate Deferrable Notes Due October 2047	$15,000,000	Caa3	Ca	DNG	Y	1	7/19/07	CDO - Resecuritization	CDO	-1
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $160,000,000 Class A-1C Senior Floating Rate Notes Due October 2047	$160,000,000	Aaa	Ba2	DNG	Y	11	7/19/07	CDO - Resecuritization	CDO	-11
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $30,500,000 Class D-2 Mezzanine Floating Rate Deferrable Notes Due October 2047	$30,500,000	B1	Ca	DNG	Y	6	7/19/07	CDO - Resecuritization	CDO	-6
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $48,000,000 Class D-1 Mezzanine Floating Rate Deferrable Notes Due October 2047	$48,000,000	Ba2	Ca	DNG	Y	8	7/19/07	CDO - Resecuritization	CDO	-8
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $73,500,000 Class A-1A Senior Floating Rate Notes Due October 2047	$73,500,000	Aaa	Ba1	DNG	Y	10	7/19/07	CDO - Resecuritization	CDO	-10
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $77,500,000 Class C Mezzanine Floating Rate Deferrable Notes Due October 2047	$77,500,000	Baa3	Ca	DNG	Y	10	7/19/07	CDO - Resecuritization	CDO	-10
Americas	1/18/08	Delphinus CDO 2007-1, Ltd.	U.S. $86,500,000 Class A-1B Senior Floating Rate Notes Due October 2047	$86,500,000	Aaa	Ba1	DNG	Y	10	7/19/07	CDO - Resecuritization	CDO	-10
Americas	1/23/08	Delphinus CDO 2007-1, Ltd.	U.S. $640,000,000 Super Senior Swap dated as of July 19,2007	$640,000,000	Aaa	Baa3	DNG	Y	9	7/19/07	CDO - Resecuritization	CDO	-9

Permanent Subcommittee on Investigations
EXHIBIT #95c

MIS-OCIE-RMBS-0382557

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Delphinus CDO 2007-1, Ltd.

Moody's Org ID: 720276636

Closing Date: 19 Jul 2007
Current Total Deal Size(Mil): 1641.0
Pay Frequency: Monthly

Market Segment: Structured Finance
Collateral Type: CDO - Cash ABS - Mezzanine
Location of Assets: UNITED STATES

Collateral Manager: Delaware Asset Advisers
Trustee: Wells Fargo Bank, N.A.
Underwriter: Mizuho International plc

Research | Ratings | Related Parties

Deal Research | Asset Class Research | Indices & Data | Methodology

Results 1 - 34 of 34

Date	Document Type	Title
22 Mar 2010	Performance Overview	Delphinus CDO 2007-1, Ltd. View data in **Performance Data Services**
24 Feb 2010	Performance Report - EMS	Delphinus CDO 2007-1, Ltd
20 Jan 2010	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
15 Dec 2009	Announcement	Moody's: Delphinus CDO ratings unaffected by sale of Delaware
22 Oct 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
19 Sep 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
27 Aug 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
25 Jul 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
17 Jun 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
04 May 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
24 Mar 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
23 Feb 2009	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
25 Dec 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
20 Nov 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd
17 Oct 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
17 Sep 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
26 Aug 2008	Rating Action	Moody's downgrades ratings of Notes issued by 30 ABS CDOs
17 Aug 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
17 Jul 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
18 Jun 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
15 May 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
30 Apr 2008	Rating Action	Moody's takes action on Delphinus CDO 2007-1, Ltd.
30 Apr 2008	Rating Action	Moody's takes action on Delphinus CDO 2007-1, Ltd.
22 Apr 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.

Permanent Subcommittee on Investigations
EXHIBIT #95d

	21 Mar 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	25 Feb 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	23 Jan 2008	Rating Action	Moody's downgrades rating assigned to Swap Transaction enter
	21 Jan 2008	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	18 Jan 2008	Rating Action	Moody's downgrades ratings assigned to Notes issued by Delphi
	26 Dec 2007	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	26 Nov 2007	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	26 Nov 2007	Performance Report - EMS	Delphinus CDO 2007-1, Ltd.
	07 Nov 2007	Rating Action	Moody's Takes Neg Action on Delphinus CDO 2007-1
	31 Jul 2007	Rating Action	Moody's rates the Delphinus CDO 2007-1, Ltd. offering from Miz

Results 1 - 34 of 34

Credit Ratings:
Delphinus CDO 2007-1 Ltd
US$987 mil Delphinus CDO 2007-1 Ltd

This Export copy displays all available data for the selected tab(s), including filtered data that may not currently appear on the screen.

Last Updated: 18-Apr-2010 17:20:17 EST

	Type	Rating Date	Rating Action	Rating	CreditWatch/Outlook	CreditWatch/Outlook Date
Tranche: A-1A	Local Long-Term	25-Sep-2008	Downgrade, CreditWatch/Outlook	CC	NM	25-Sep-2008
Tranche: A-1A	Local Long-Term	20-Feb-2008	CreditWatch/Outlook	CCC	Watch Neg	16-Apr-2008
Tranche: A-1A	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CCC	NM	20-Feb-2008
Tranche: A-1A	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	08-Jan-2008
Tranche: A-1A	Local Long-Term	02-Aug-2007	New Rating	AAA		
Tranche: A-1B	Local Long-Term	25-Sep-2008	Downgrade, CreditWatch/Outlook	CC	NM	25-Sep-2008
Tranche: A-1B	Local Long-Term	20-Feb-2008	CreditWatch/Outlook	CCC	Watch Neg	16-Apr-2008
Tranche: A-1B	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CCC	NM	20-Feb-2008
Tranche: A-1B	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	08-Jan-2008
Tranche: A-1B	Local Long-Term	02-Aug-2007	New Rating	AAA		
Tranche: A-1C	Local Long-Term	25-Sep-2008	Downgrade, CreditWatch/Outlook	CC	NM	25-Sep-2008
Tranche: A-1C	Local Long-Term	20-Feb-2008	CreditWatch/Outlook	CCC-	Watch Neg	16-Apr-2008
Tranche: A-1C	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CCC-	NM	20-Feb-2008
Tranche: A-1C	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	AA+	Watch Neg	08-Jan-2008
Tranche: A-1C	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	AA+	NM	21-Dec-2007
Tranche: A-1C	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	18-Dec-2007
Tranche: A-1C	Local Long-Term	02-Aug-2007	New Rating	AAA		
Tranche: A-2	Local Long-Term	25-Sep-2008	Downgrade, CreditWatch/Outlook	CC	NM	25-Sep-2008
Tranche: A-2	Local Long-Term	20-Feb-2008	CreditWatch/Outlook	CCC-	Watch Neg	16-Apr-2008
Tranche: A-2	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CCC-	NM	20-Feb-2008
Tranche: A-2	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	AA+	Watch Neg	08-Jan-2008
Tranche: A-2	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	AA+	NM	21-Dec-2007
Tranche: A-2	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	18-Dec-2007
Tranche: A-2	Local Long-Term	02-Aug-2007	New Rating	AAA		

Permanent Subcommittee on Investigations
EXHIBIT #95e

Tranche: A-3	Local Long-Term	20-Feb-2008		CC		
Tranche: A-3	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: A-3	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	A+	Watch Neg	08-Jan-2008
Tranche: A-3	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	A+	NM	21-Dec-2007
Tranche: A-3	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	18-Dec-2007
Tranche: A-3	Local Long-Term	02-Aug-2007	New Rating	AAA		
Tranche: B	Local Long-Term	20-Feb-2008		CC		
Tranche: B	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: B	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	BBB+	Watch Neg	08-Jan-2008
Tranche: B	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	BBB+	NM	21-Dec-2007
Tranche: B	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AA	Watch Neg	18-Dec-2007
Tranche: B	Local Long-Term	02-Aug-2007	New Rating	AA		
Tranche: C	Local Long-Term	20-Feb-2008		CC		
Tranche: C	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: C	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	BBB-	Watch Neg	08-Jan-2008
Tranche: C	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	BBB-	NM	21-Dec-2007
Tranche: C	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	A	Watch Neg	18-Dec-2007
Tranche: C	Local Long-Term	02-Aug-2007	New Rating	A		
Tranche: D-1	Local Long-Term	20-Feb-2008		CC		
Tranche: D-1	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: D-1	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	B+	Watch Neg	08-Jan-2008
Tranche: D-1	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	B+	NM	21-Dec-2007
Tranche: D-1	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	BBB+	Watch Neg	18-Dec-2007
Tranche: D-1	Local Long-Term	02-Aug-2007	New Rating	BBB+		
Tranche: D-2	Local Long-Term	20-Feb-2008		CC		
Tranche: D-2	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: D-2	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	CCC+	Watch Neg	08-Jan-2008
Tranche: D-2	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	CCC+	NM	21-Dec-2007
Tranche: D-2	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	BBB-	Watch Neg	18-Dec-2007
Tranche: D-2	Local Long-Term	02-Aug-2007	New Rating	BBB-		
Tranche: D-3	Local Long-Term	20-Feb-2008		CC		
Tranche: D-3	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CC	NM	20-Feb-2008
Tranche: D-3	Local Long-Term	21-Dec-2007	CreditWatch/Outlook	CCC	Watch Neg	08-Jan-2008
Tranche: D-3	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	CCC	NM	21-Dec-2007

Tranche: D-3	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	BBB-	Watch Neg	18-Dec-2007
Tranche: D-3	Local Long-Term	02-Aug-2007	New Rating	BBB-		
Tranche: E	Local Long-Term	21-Dec-2007		CC		
Tranche: E	Local Long-Term	21-Dec-2007	Downgrade, CreditWatch/Outlook	CC	NM	21-Dec-2007
Tranche: E	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	BB	Watch Neg	18-Dec-2007
Tranche: E	Local Long-Term	02-Aug-2007	New Rating	BB		
Tranche: Pref Shrs	Local Long-Term	02-Aug-2007	Not Rated	NR		
Tranche: S	Local Long-Term	25-Sep-2008	Downgrade, CreditWatch/Outlook	CC	NM	25-Sep-2008
Tranche: S	Local Long-Term	20-Feb-2008	CreditWatch/Outlook	CCC	Watch Neg	16-Apr-2008
Tranche: S	Local Long-Term	20-Feb-2008	Downgrade, CreditWatch/Outlook	CCC	NM	20-Feb-2008
Tranche: S	Local Long-Term	02-Aug-2007	CreditWatch/Outlook	AAA	Watch Neg	08-Jan-2008
Tranche: S	Local Long-Term	02-Aug-2007	New Rating	AAA		

From: Loken, Andrew
Sent: Tuesday, August 07, 2007 10:10 AM
To: Mooney, Shannon
Subject: RE: Fw: S&P CDO Monitor Kodiak CDO I: Urgent

Back in May, the deal had 2 assets default, which caused it to fail. We tried some things, and it never passed anything I ran. Next thing I know, I'm told that because it had gone effective already, it was surveillance's responsibility, and I never heard about it again. Anyway, because of that, I never created a new monitor.

-----Original Message-----
From: Mooney, Shannon
Sent: Tuesday, August 07, 2007 9:53 AM
To: Loken, Andrew
Subject: FW: Fw: S&P CDO Monitor Kodiak CDO I: Urgent
Importance: High

Do you have final docs for Kodiak CDO I? Email below is claiming that the note balance in the monitor is incorrect. Yay monitors...

Thanks,

Shannon Mooney
Ratings Analyst, Global CDO Group
Structured Finance Ratings

Standard & Poor's
55 Water Street, 41st Floor
New York, NY 10041
Phone: 212-438-7447
Fax: 212-438-2650
shannon_mooney@standardandpoors.com

-----Original Message-----
From: Keisha.M.Gray@BANKOFNY.COM [mailto:Keisha.M.Gray@BANKOFNY.COM]
Sent: Monday, August 06, 2007 1:33 PM
To: Mooney, Shannon
Subject: RE: Fw: S&P CDO Monitor Kodiak CDO I: Urgent
Importance: High

Shannon,
We are receiving a fail on the Class H notes for Kodiak CDO I. I just want to verify with you that the monitor is calculating accurately.

Here is the asset file.

The monitor is still pulling in the wrong par for the Class A-1 notes, the accurate par is 306,625,000.

(See attached file: Kodiak I assets 080107.xls)

Regards,

Permanent Subcommittee on Investigations
EXHIBIT #96a

PSI-SP-000035

Keisha M. Gray
The Bank of New York Trust Company, N.A.
Global Corporate Trust – CDO Group
601 Travis Street Floor 16
Houston, TX 77002
(P) 713-483-6223
(F) 713-483-6660
keisha.m.gray@bankofny.com

Shannon, is this the new input file that calculates with the correct par? If so, then it is still showing the A-1 par as $293MM when it is actually 306,625,000.

Regards,

Keisha M. Gray
The Bank of New York Trust Company, N.A.
Global Corporate Trust – CDO Group
601 Travis Street Floor 16
Houston, TX 77002
(P) 713-483-6223
(F) 713-483-6660
keisha.m.gray@bankofny.com

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"Mooney, Shannon"

<shannon_mooney@standardan To: <Ying.H.Zhang@BANKOFNY.COM>, "Loken, Andrew"

dpoors.com> <andrew_loken@standardandpoors.com>

cc: <Keisha.M.Gray@BANKOFNY.COM>, <S&P.Model@bankofny.com>

05/09/2007 02:11 PM Subject: RE: Fw: S&P CDO Monitor Kodiak CDO I: Urgent

PSI-SP-000036

Please see attached.

Regards,
Shannon Mooney
Ratings Analyst, Global CDO Group
Structured Finance Ratings

Standard & Poor's
55 Water Street, 41st Floor
New York, NY 10041
Phone: 212-438-7447
Fax: 212-438-2650
shannon_mooney@standardandpoors.com

-----Original Message-----
From: Ying.H.Zhang@BANKOFNY.COM [mailto:Ying.H.Zhang@BANKOFNY.COM]
Sent: Thursday, May 03, 2007 10:22 AM
To: Loken, Andrew; CDOmonitor@sandp.com; Mooney, Shannon; Cheng, Lois; cdoeffectivedateportfolios@sandp.com
Cc: Keisha.M.Gray@BANKOFNY.COM; S&P.Model@bankofny.com
Subject: Re: Fw: S&P CDO Monitor Kodiak CDO I: Urgent

Attached is the S&P CDO Monitor Detail Report for Kodiak CDO I. The payment of this deal will be end of this week.

Please provide us with the S&P Monitor ASAP, and please let me if you have question.

Thanks,

Ying Zhang
The Bank of New York, N.A.
Global Corporation Trust

Tel: 713-483-6202
Email: Ying.H.Zhang@bankofny.com

Keisha M. Gray

To: Ying H.
Zhang/TX/DOMESTIC/BNY@BNY
05/03/2007 09:18 cc:

AM Subject: Fw: S&P CDO

PSI-SP-000037

Monitor Kodiak CDO I: Urgent

Thanks, Ying.

Regards,

Keisha M. Gray
The Bank of New York Trust Company, N.A.
Global Corporate Trust – CDO Group
601 Travis Street Floor 16
Houston, TX 77002
(P) 713-483-6223
(F) 713-483-6660
keisha.m.gray@bankofny.com

----- Forwarded by Keisha M. Gray/TX/DOMESTIC/BNY on 05/03/2007 09:17 AM

Keisha M. Gray

To: Alan B.
Rubino/TX/DOMESTIC/BNY@BNY
04/16/2007 04:31 cc:

PM Subject: S&P CDO Monitor
Kodiak CDO I

Hi Alan,
Please request an input file for Kodiak CDO I.

(See attached file: KODIAK CDO I_SP CDO Monitor Asset Information.xls)

Regards,

Keisha M. Gray
The Bank of New York Trust Company, N.A.
Global Corporate Trust – CDO Group
601 Travis Street Floor 16
Houston, TX 77002
(P) 713-483-6223

PSI-SP-000038

(F) 713-483-6660
keisha.m.gray@bankofny.com

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(See attached file: utKodiak CDO I, Ltd.InputFile1.0.1.zip)

PSI-SP-000039

Kodiak CDO I, Ltd.

Moody's Org ID: 400044439

Closing Date:	19 Sep 2006	Market Segment:	Structured Finance
Current Total Deal Size(Mil):	759.0	Collateral Type:	CDO - Trust Preferred CDO
Pay Frequency:	Quarterly	Location of Assets:	UNITED STATES

Collateral Manager: **Kodiak CDO Management LLC**
Trustee: **JPMorgan Chase Bank, National Association**
Underwriter: **Barclays Capital**

Research | **Ratings** | **Related Parties**

Deal Research | Asset Class Research | Methodology

Results 1 - 4 of 4 Page 1 of 1

Date	Document Type	Title
09 Apr 2009	Rating Action	Moody's downgrades TRUP CDOs exposed to REITs
24 Apr 2008	Rating Action	Moody's downgrades Notes issued by 11 REIT-related CDOs
30 Nov 2007	Announcement	Moody's puts or leaves on review for downgrade Notes issued by 11 REIT-related CDOs
28 Sep 2006	Rating Action	Moody's assigns ratings to notes issued by Kodiak CDO I, Ltd

Results 1 - 4 of 4 Page 1 of 1

Permanent Subcommittee on Investigations
EXHIBIT #96b

Credit Ratings:
Kodiak CDO I, Ltd.
US$774.7 mil Kodiak CDO I, Ltd.

This Export copy displays all available data for the selected tab(s), including filtered data that may not currently appear on the screen.

Last Updated: 18-Apr-2010 17:14:10 EST

	Type	Rating Date	Rating Action	Rating	CreditWatch/Outlook	CreditWatch/Outlook Date
Tranche: A-1	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	A+	Watch Neg	17-Sep-2009
Tranche: A-1	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	A+	NM	02-Apr-2009
Tranche: A-1	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AAA	Watch Neg	16-Jul-2008
Tranche: A-1	Local Long-Term	02-Oct-2006	New Rating	AAA		
Tranche: A-2	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	BB	Watch Neg	17-Sep-2009
Tranche: A-2	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	BB	NM	02-Apr-2009
Tranche: A-2	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AAA	Watch Neg	16-Jul-2008
Tranche: A-2	Local Long-Term	02-Oct-2006	New Rating	AAA		
Tranche: B	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	B-	Watch Neg	17-Sep-2009
Tranche: B	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	B-	NM	02-Apr-2009
Tranche: B	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AA	Watch Neg	16-Jul-2008
Tranche: B	Local Long-Term	02-Oct-2006	New Rating	AA		
Tranche: C	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	CCC	Watch Neg	17-Sep-2009
Tranche: C	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	CCC	NM	02-Apr-2009
Tranche: C	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AA	Watch Neg	16-Jul-2008
Tranche: C	Local Long-Term	02-Oct-2006	New Rating	AA		
Tranche: D-1	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	CCC-	Watch Neg	17-Sep-2009
Tranche: D-1	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	CCC-	NM	02-Apr-2009
Tranche: D-1	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AA-	Watch Neg	30-Apr-2008
Tranche: D-1	Local Long-Term	02-Oct-2006	New Rating	AA-		
Tranche: D-2	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	CCC-	Watch Neg	17-Sep-2009
Tranche: D-2	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	CCC-	NM	02-Apr-2009
Tranche: D-2	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AA-	Watch Neg	30-Apr-2008
Tranche: D-2	Local Long-Term	02-Oct-2006	New Rating	AA-		
Tranche: D-3	Local Long-Term	02-Apr-2009	CreditWatch/Outlook Downgrade,	CCC-	Watch Neg	17-Sep-2009
Tranche: D-3	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	CCC-	NM	02-Apr-2009
Tranche: D-3	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	AA-	Watch Neg	30-Apr-2008
Tranche: D-3	Local Long-Term	02-Oct-2006	New Rating Downgrade,	AA-		
Tranche: E-1	Local Long-Term	02-Apr-2009	CreditWatch/Outlook	CC	NM	02-Apr-2009

Permanent Subcommittee on Investigations
EXHIBIT #96c

57321.559

Tranche: E-1	Local Long-Term	13-Sep-2007	CreditWatch/Outlook	A-	Watch Neg	30-Apr-2008
Tranche: E-1	Local Long-Term	13-Sep-2007	Downgrade	A-	NM	13-Sep-2007
Tranche: E-1	Local Long-Term	02-Oct-2006	New Rating	A		
Tranche: E-2	Local Long-Term	02-Apr-2009	Downgrade, CreditWatch/Outlook	CC	NM	02-Apr-2009
Tranche: E-2	Local Long-Term	13-Sep-2007	CreditWatch/Outlook	A-	Watch Neg	30-Apr-2008
Tranche: E-2	Local Long-Term	13-Sep-2007	Downgrade	A-	NM	13-Sep-2007
Tranche: E-2	Local Long-Term	02-Oct-2006	New Rating	A		
Tranche: F	Local Long-Term	02-Apr-2009	Downgrade, CreditWatch/Outlook	CC	NM	02-Apr-2009
Tranche: F	Local Long-Term	13-Sep-2007	CreditWatch/Outlook	BBB	Watch Neg	30-Apr-2008
Tranche: F	Local Long-Term	13-Sep-2007	Downgrade	BBB	NM	13-Sep-2007
Tranche: F	Local Long-Term	02-Oct-2006	New Rating	BBB+		
Tranche: G	Local Long-Term	02-Apr-2009	Downgrade, CreditWatch/Outlook	CC	NM	02-Apr-2009
Tranche: G	Local Long-Term	13-Sep-2007	CreditWatch/Outlook	B+	Watch Neg	30-Apr-2008
Tranche: G	Local Long-Term	13-Sep-2007	Downgrade, CreditWatch/Outlook	B+	NM	13-Sep-2007
Tranche: G	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	BBB	Watch Neg	09-Aug-2007
Tranche: G	Local Long-Term	02-Oct-2006	New Rating	BBB		
Tranche: H	Local Long-Term	02-Apr-2009	Downgrade, CreditWatch/Outlook	CC	NM	02-Apr-2009
Tranche: H	Local Long-Term	13-Sep-2007	CreditWatch/Outlook	CCC	Watch Neg	30-Apr-2008
Tranche: H	Local Long-Term	13-Sep-2007	Downgrade, CreditWatch/Outlook	CCC	NM	13-Sep-2007
Tranche: H	Local Long-Term	02-Oct-2006	CreditWatch/Outlook	BB+	Watch Neg	09-Aug-2007
Tranche: H	Local Long-Term	02-Oct-2006	New Rating	BB+		
Tranche: Income	Local Long-Term	02-Oct-2006	Not Rated	NR		

Moody's Investors Service

January 30, 2006

99 Church Street
New York, New York 10007

James Mark, First Vice President
Washington Mutual Commercial Capital Markets
1201 Fifth Avenue -13th Floor
Seattle, WA 98101

Dear Mr. Mark,

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-WL3
ASSET-BACKED CERTIFICATES, SERIES 2006 WL3**

Moody's Investors Service has assigned the following ratings to the certificates issued in the above-referenced transaction:

Class I-A, rated Aaa
Class II-A1, rated Aaa
Class II-A2, rated Aaa
Class II-A3, rated Aaa
Class II-A4, rated Aaa
Class M-1, rated Aa1
Class M-2, rated Aa2
Class M-3, rated Aa3
Class M-4, rated A1
Class M-5, rated A2
Class M-6, rated A3
Class M-7, rated Baa1
Class M-8, rated Baa2
Class M-9, rated Baa3
Class B-1, rated Ba1

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

Please send monthly monitoring information to the following address:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

- 00056 - 500040627

Permanent Subcommittee on Investigations
EXHIBIT #97a

Moody's Investors Service

April 6, 2006

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

99 Church Street
New York, New York 10007

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-3**
ASSET-BACKED CERTIFICATES, SERIES 2006-3

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the notes issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
B	Ba2

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RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 4 - 00003 - 500042088

Moody's Investors Service

May 9, 2006

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

99 Church Street
New York, New York 10007

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-4**
ASSET-BACKED CERTIFICATES, SERIES 2006-4

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the notes issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
M-11	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

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RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - S - 00008 - 500042970

MAY-10-2006 11:38 MOODYS INVESTOR 212 533 0958 P.02/03

Moody's Investors Service

99 Church Street
New York, New York 10007

May 10, 2006

James Mark
First Vice President
Washington Mutual Commercial Capital Markets
1201 Third Avenue, WMT1041
Seattle, WA 98101

Dear Mr. Mark,

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-A**
ASSET-BACKED CERTIFICATES, SERIES 2006-A

Moody's Investors Service has assigned the following ratings to the certificates issued in the above-referenced transaction:

		Rating
Class	A-1	Aaa
Class	A-2	Aaa
Class	A-3	Aaa
Class	M-1	Aa2
Class	M-2	Aa3
Class	M-3	A2
Class	M-4	A3
Class	M-5	Baa1
Class	M-6	Baa2
Class	M-7	Baa3
Class	B-1	Ba1
Class	B-2	Ba2

Moody's will publicly disseminate the assigned ratings as well as any revisions therein or withdrawals, through normal print and electronic media and in response to requests to Moody's rating desk. Moody's may publish information relating to the transaction including information on the underlying collateral/assets. The ratings are not recommendations to buy, sell or hold securities. The ratings may be changed at any time without notice. The ratings are subject to our receipt of final, signed documents and legal opinions, as previously agreed, within 30 days of the closing of the deal.

RMBS - 2006 - 5 - 00014 - 500043121

PAGE 2/3 * RCVD AT 5/10/06 9:19:56 AM [Pacific Daylight Time] * SVR:SECS01/3 * DNIS:8944 * CSID:212 533 0958 * DURATION (mm-ss):00-54

MAY-10-2006 11:38 MOODYS INVESTOR 212 533 0958 P.03/03

Moody's Investors Service

99 Church Street
New York, New York 10007

Please send monthly monitoring information to the following address:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Debash Chatterjee

Debash Chatterjee
VP/ Senior Analyst

RMBS - 2006 - 5 - 00014 - 500043121

PAGE 3/3 * RCVD AT 5/10/06 9:19:56 AM [Pacific Daylight Time] * SVR:SECS01/3 * DNIS:8944 * CSID:212 533 0958 * DURATION (mm-ss):00-54 TOTAL P.03

Moody's Investors Service

June 15, 2006

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

99 Church Street
New York, New York 10007

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-5**
ASSET-BACKED CERTIFICATES, SERIES 2006-5

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the notes issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
B-1	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

Please send monthly monitoring information to the following address:

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RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 6 - 00016 - 500043858

Moody's Investors Service

July 26, 2006

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

99 Church Street
New York, New York 10007

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-6**
ASSET-BACKED CERTIFICATES, SERIES 2006-6

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the certificates issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
M-11	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

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RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 7 - 00032 - 500045417

AUG-29-2006 23:27 MOODYS INVESTMENT SRVCS 212 553 7811 P.02

Moody's Investors Service

August 30, 2006

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-7**
ASSET-BACKED CERTIFICATES, SERIES 2006-7

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the certificates issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
M-11	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

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RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 8 - 00077 - 500046047

PAGE 2/2 * RCVD AT 8/30/06 8:24:13 AM [Pacific Daylight Time] * SVR:SECS01/1 * DNIS:8881 * CSID:212 553 7811 * DURATION (mm-ss):00-40 TOTAL P.02

SEP-19-2006 23:48 MOODYS INVESTMENT SRVCS 212 553 7811 P.02

Moody's Investors Service

September 21, 2006

Mr. James Mark, First Vice President
Long Beach Mortgage Company
1201 Third Avenue, 10th Floor
Seattle, WA 98101

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-8**
ASSET-BACKED CERTIFICATES, SERIES 2006-8

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the certificates issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
M-11	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

Please send monthly monitoring information to the following address:

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RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 9 - 00034 - 500046720

PAGE 2/2 * RCVD AT 9/20/06 8:44:40 AM [Pacific Daylight Time] * SVR:SECS01/0 * DNIS:8944 * CSID:212 553 7811 * DURATION (mm-ss):00-42 TOTAL P.02

Moody's Investors Service

October 12, 2006

99 Church Street
New York, New York 10007

Mr. James Mark, First Vice President
Washington Mutual Bank
1301 Second Avenue, 15th Floor
Seattle, WA 98101

Re: **LONG BEACH MORTGAGE LOAN TRUST 2006-9**
ASSET-BACKED CERTIFICATES, SERIES 2006-9

Dear Mr. Mark,

Moody's Investors Service has assigned the following rating to the certificates issued in the above-referenced transaction:

Class	Rating
I-A	Aaa
II-A1	Aaa
II-A2	Aaa
II-A3	Aaa
II-A4	Aaa
M-1	Aa1
M-2	Aa2
M-3	Aa3
M-4	A1
M-5	A2
M-6	A3
M-7	Baa1
M-8	Baa2
M-9	Baa3
M-10	Ba1
B	Ba2

The ratings are subject to Moody's receipt of all final fully executed documents and legal opinions in a form acceptable to Moody's within 30 days of closing. Moody's may withdraw or change the ratings at any time. The ratings will be monitored and may appear in publications along with related research and commentary.

Please send monthly monitoring information to the following address:

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RMBS Monitoring Department
99 Church Street – 4th Floor
New York, NY 10007
ServicerReports@moodys.com
212-298-7139 (fax)

Thank you for using Moody's Investors Service.

Sincerely,

Odile Grisard
Associate Analyst

RMBS - 2006 - 10 - 00177 - 500047751

NOV-08-2006 16:19 212 553 4773 212 553 4773 P.02/02

Moody's Corporation

99 Church Street
New York, New York 10007

November 6, 2006

Mr. Thomas G. Lehmann
Washington Mutual Mortgage Securities Corp.
1301 Second Avenue, WMC 1501
Seattle, WA 98101

Re: Long Beach Mortgage Loan Trust 2006-10
Asset-Backed Certificates, Series 2006-10

Dear Mr. Lehmann:

Moody's Investors Service has assigned the following ratings in connection with the above-referenced transaction:

Class	Amount	Rating	Class	Amount	Rating
I-A	$ 288,380,000	Aaa	M-4	$ 16,635,000	A1
II-A1	212,803,000	Aaa	M-5	16,131,000	A2
II-A2	95,210,000	Aaa	M-6	15,123,000	A3
II-A3	157,760,000	Aaa	M-7	14,115,000	Baa1
II-A4	54,928,000	Aaa	M-8	8,570,000	Baa2
M-1	32,262,000	Aa1	M-9	8,066,000	Baa3
M-2	30,750,000	Aa2	M-10	6,049,000	Ba1
M-3	18,652,000	Aa3	B	10,082,000	Ba2

These ratings are subject to Moody's receipt of all final, fully-executed documents, mortgage loan lists, appropriate legal opinions, and officers' certificates, executed as previously agreed. The ratings so assigned, as well as any revisions therein or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to oral requests to Moody's ratings desk. Moody's may publish information relating to the transaction including information on the underlying collateral/assets. Please send information necessary to monitor this rating on a monthly basis to:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street
New York, NY 10007
(212) 298-7139 (fax)
ServicerReports@moodys.com

Thank you for using Moody's.

Sincerely,

Ketut Ariadi Kusuma
Associate Analyst

RMBS - 2006 - 11 - 00016 - 809968839

PAGE 2/2 * RCVD AT 11/8/06 1:31:16 PM [Pacific Standard Time] * SVR:SECS01/3 * DNIS:8808 * CSID:212 553 4773 * DURATION (mm-ss):01-02 TOTAL P.02

DEC-14-2006 09:45 212 553 4773 212 553 4773 P.02/02

Moody's Corporation

99 Church Street
New York, New York 10007

December 14, 2006

Mr. Thomas G. Lehmann
Washington Mutual Bank
1301 Second Avenue, WMC 1501
Seattle, WA 98101

Re: Long Beach Mortgage Loan Trust 2006-11
Asset-Backed Certificates, Series 2006-11

Dear Mr. Lehmann:

Moody's Investors Service has assigned the following ratings in connection with the above-referenced transaction:

Class	Amount	Rating	Class	Amount	Rating
I-A	$408,047,000	Aaa	M-4	$24,750,000	A1
II-A-1	332,114,000	Aaa	M-5	23,250,000	A2
II-A-2	136,392,000	Aaa	M-6	22,500,000	A3
II-A-3	243,208,000	Aaa	M-7	19,500,000	Baa1
II-A-4	91,489,000	Aaa	M-8	11,250,000	Baa2
M-1	48,750,000	Aa1	M-9	12,000,000	Baa3
M-2	44,250,000	Aa2	B-1	8,250,000	Ba1
M-3	27,750,000	Aa3	B-2	15,000,000	Ba2

These ratings are subject to Moody's receipt of all final, fully-executed documents, mortgage loan lists, appropriate legal opinions, and officers' certificates, executed as previously agreed. The ratings so assigned, as well as any revisions therein or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to oral requests to Moody's ratings desk. Moody's may publish information relating to the transaction including information on the underlying collateral/assets. Please send information necessary to monitor this rating on a monthly basis to:

Moody's Investors Service
RMBS Monitoring Department
99 Church Street
New York, NY 10007
(212) 298-7139 (fax)
ServicerReports@moodys.com

Thank you for using Moody's.

Sincerely,

Ketut Ariadi Kusuma
Associate Analyst

RMBS - 2006 - 12 - 00039 - 815048870

PAGE 2/2 * RCVD AT 12/14/06 6:58:35 AM [Pacific Standard Time] * SVR:SECS01/3 * DNIS:8944 * CSID:212 553 4773 * DURATION (mm-ss):00-42 TOTAL P.02

2006 Transaction Statistics

	2006-1	2006-2	2006-3	2006-4	2006-5	2006-6	2006-7	2006-8	2006-9	2006-10	2006-11
Issue Date	Feb 7, 2006	Mar 7, 2006	Apr 6, 2006	May 9, 2006	Jun 15, 2006	Jul 26, 2006	Aug 30, 2006	Sep 21, 2006	Oct 12, 2006	Nov 9, 2006	Dec 14, 2006
Aggregate Pool Size (billions)	$ 2.50	$ 3.00	$ 1.74	$ 1.92	$ 1.93	$ 1.69	$ 1.60	$ 1.38	$ 1.52	$ 1.01	$ 1.50
Average Loan Size	$ 221,218	$ 203,813	$ 213,779	$ 194,309	$ 200,960	$ 212,127	$ 212,882	$ 214,166	$ 217,404	$ 215,152	$ 235,110
Weighted Average Coupon	8.25%	8.54%	8.51%	8.55%	8.60%	8.39%	8.39%	8.46%	8.53%	8.47%	8.20%
ARM Gross Margin	5.11%	5.10%	5.10%	5.10%	5.10%	5.10%	5.09%	5.11%	5.10%	5.11%	5.11%
FICO	633	632	634	635	631	639	638	639	639	635	639
FICO < 600	26.7%	25.7%	23.0%	20.0%	23.1%	18.7%	18.8%	18.7%	18.9%	21.2%	21.1%
Original Loan to Value Ratio	79.7%	80.9%	80.7%	80.8%	80.9%	80.9%	80.8%	81.2%	81.8%	81.7%	81.3%
Combined Loan to Value Ratio	90.7%	90.8%	90.6%	92.4%	89.2%	90.2%	89.7%	89.9%	89.9%	88.9%	87.7%
Debt to Income Ratio	41.6%	41.7%	41.4%	41.7%	41.0%	41.5%	41.5%	39.4%	39.5%	39.5%	39.3%
1st Liens	100.0% 633	96.3% 631	96.0% 633	95.0% 633	95.0% 630	95.0% 638	94.6% 637	94.0% 638	93.9% 637	93.8% 634	93.6% 639
2nd Liens	0.0% na	3.7% 659	4.0% 661	5.0% 660	5.0% 657	5.0% 658	5.4% 658	6.0% 658	6.3% 658	6.2% 655	6.3% 659
1sts Liens with 2nd Liens (Total	58.4% 653	52.5% 654	53.1% na	61.1% 650	44.1% 651	48.3% 657	46.2% 657	44.7% 657	41.8% 657	37.3% 654	32.9% 657
1sts Liens with 2nd Liens (% of	58.4% 653	54.5% 654	55.4% na	64.3% 650	46.4% 651	50.9% 657	48.9% 657	47.6% 657	44.5% 657	39.6% 654	35.1% 657
Adjustable Rate Mortgages	91.3% 633	88.1% 632	87.3% 633	85.9% 634	82.8% 630	83.9% 638	83.9% 636	82.6% 636	81.9% 636	78.8% 631	75.9% 634
Fixed Rate Mortgages	8.7% 628	11.9% 632	12.7% 638	14.1% 639	17.3% 637	16.2% 643	16.1% 646	17.4% 655	18.2% 653	21.2% 652	24.2% 657
Loans with Prepay Penalties	67.8% 633	66.1% 632	67.9% 634	67.3% 636	67.9% 631	71.7% 640	69.1% 640	75.1% 640	74.9% 641	75.5% 637	79.5% 640
Interest Only Loans	7.6% 674	8.5% 667	8.1% 664	7.1% 662	7.3% 668	6.4% 669	6.3% 668	7.5% 668	8.3% 671	8.5% 669	5.8% 665
40 Year Amortization	44.6% 648	45.0% 645	44.9% 649	41.7% 652	45.0% 640	52.8% 647	52.1% 648	46.3% 648	49.3% 646	43.9% 640	49.9% 642
Full Documentation	46.3% 610	43.6% 609	42.6% 612	44.0% 614	48.7% 617	51.0% 624	53.6% 628	52.3% 629	52.5% 628	57.7% 626	60.3% 632
Stated Income	49.2% 655	52.5% 652	53.6% 653	52.4% 652	46.8% 648	44.2% 656	41.4% 653	41.9% 654	42.1% 653	38.3% 649	34.9% 652
Limited Documentation	4.6% 616	3.9% 616	3.8% 614	3.7% 629	4.5% 621	4.8% 634	5.0% 632	5.8% 629	5.5% 631	4.0% 630	4.9% 630
Owner Occupied	89.6% 631	89.1% 630	88.7% 632	90.6% 634	89.2% 628	91.4% 636	91.4% 636	91.1% 637	89.7% 636	90.5% 632	91.4% 638
Non-owner Occupied	9.1% 649	9.6% 646	9.8% 649	8.6% 646	9.2% 660	7.4% 665	7.1% 665	7.5% 669	8.5% 665	7.9% 662	7.3% 670
2nd Home	1.3% 641	1.3% 650	1.5% 642	0.8% 644	1.6% 645	1.2% 643	1.4% 641	1.4% 650	1.8% 638	1.7% 660	1.3% 649
Purchase	63.2% 649	61.9% 650	60.7% 652	68.3% 649	56.8% 647	56.2% 654	52.3% 656	51.7% 657	49.5% 655	46.0% 654	40.1% 657
Cashout	33.2% 604	34.2% 603	35.5% 606	28.6% 605	39.7% 611	39.4% 619	43.9% 619	41.3% 619	42.0% 619	45.8% 617	52.3% 625
Rate/Term Refi	3.7% 607	3.8% 602	3.9% 613	3.1% 602	3.6% 609	4.4% 617	3.8% 611	6.9% 631	8.5% 640	8.2% 632	7.6% 639
California	39.9% 644	39.8% 643	41.4% 645	38.2% 647	38.2% 641	41.8% 648	39.5% 648	39.6% 648	40.1% 647	35.9% 645	45.5% 649
Florida	8.2% 629	7.5% 632	8.7% 626	9.1% 636	9.8% 628	10.4% 636	11.6% 633	11.8% 635	9.8% 635	10.3% 630	7.1% 627
Illinois	6.7% 639	5.5% 633	4.6% 639	5.6% 632	4.7% 632	4.0% 645	4.8% 636	2.9% 639	4.5% 641	3.5% 632	3.3% 639
Texas	4.8% 610	4.5% 617	4.2% 613	5.3% 623	5.5% 620	5.1% 624	5.2% 629	4.6% 631	4.6% 630	4.9% 637	3.8% 624

Washington Mutual

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Permanent Subcommittee on Investigations
EXHIBIT #97b

Confidential Treatment Requested by JPMC

JPM_WM02555142

Long Beach Mortgage Loan Trust 2006-4

Moody's Org ID:400042970

Closing Date:09 May 2006
Current Total Deal Size(Mil):669.0
Pay Frequency:Monthly

Market Segment:Structured Finance
Collateral Type:HEL - Closed-End - Not High LTV
Location of Assets:UNITED STATES

Trustee:Deutsche Bank National Trust Company
Primary Servicer:Washington Mutual Bank
Underwriter:Lehman Brothers Inc., WaMu Capital

Debt ID	Tranche	Rating Description	Current Rating	Watch Status	Last Rating Action	Rating Date	Face Amount(Mil) Original	Current	Maturity	Currency
CUS:54251MAS3	Cl. B	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	19	0	25 May 2036	USD
MDY:809478281	Cl. C	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	33	0	25 May 2036	USD
CUS:54251MAA2	Cl. I-A	PASS-THRU CTFS	Caa2	Possible Downgrade	Downgrade	20 Mar 2009	787	316	25 May 2036	USD
CUS:54251MAB0	Cl. II-A1	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Jun 2008	325	0	25 May 2036	USD
CUS:54251MAC8	Cl. II-A2	PASS-THRU CTFS	A2	Possible Downgrade	Downgrade	20 Mar 2009	130	1	25 May 2036	USD
CUS:54251MAD6	Cl. II-A3	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	213	214	25 May 2036	USD
CUS:54251MAE4	Cl. II-A4	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	56	57	25 May 2036	USD
CUS:54251MAF1	Cl. M-1	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	66	40	25 May 2036	USD
CUS:54251MAQ7	Cl. M-10	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Jul 2008	13	0	25 May 2036	USD
CUS:54251MAR5	Cl. M-11	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 May 2008	19	0	25 May 2036	USD
CUS:54251MAG9	Cl. M-2	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	59	0	25 May 2036	USD
CUS:54251MAH7	Cl. M-3	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	37	0	25 May 2036	USD
CUS:54251MAJ3	Cl. M-4	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	31	0	25 May 2036	USD
CUS:54251MAK0	Cl. M-5	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	33	0	25 May 2036	USD
CUS:54251MAL8	Cl. M-6	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	28	0	25 May 2036	USD
CUS:54251MAM6	Cl. M-7	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Oct 2008	25	0	25 May 2036	USD
CUS:54251MAN4	Cl. M-8	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Sep 2008	22	0	25 May 2036	USD
CUS:54251MAP9	Cl. M-9	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Aug 2008	17	0	25 May 2036	USD
MDY:809478286	Cl. P	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	0	1.0E-4	25 May 2036	USD

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MDY:809478247	Cl. R	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	0	0	25 May 2036	USD
MDY:809478252	Cl. R-CX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	0	0	25 May 2036	USD
MDY:809478277	Cl. R-PX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	22 May 2006	0	0	25 May 2036	USD

Long Beach Mortgage Loan Trust 2006-10

Moody's Org ID:709968839

Closing Date:09 Nov 2006
Current Total Deal Size(Mil):532.0
Pay Frequency:Monthly

Market Segment:Structured Finance
Collateral Type:HEL - Closed-End - Not High LTV
Location of Assets:UNITED STATES

Trustee:Deutsche Bank National Trust Company
Primary Servicer:Washington Mutual Bank
Underwriter:Lehman Brothers Inc., WaMu Capital

Debt ID	Tranche	Rating Description	Current Rating	Watch Status	Last Rating Action	Rating Date	Face Amount(Mil) Original	Current	Maturity	Currency
CUS:54251YAR9	Cl. B	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Aug 2008	10	0	25 Nov 2036	USD
MDY:814997773	Cl. C	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	14 Nov 2006	22	0	25 Nov 2036	USD
CUS:54251YAA6	Cl. I-A	PASS-THRU CTFS	Caa2	Possible Downgrade	Downgrade	20 Mar 2009	288	173	25 Nov 2036	USD
CUS:54251YAB4	Cl. II-A1	PASS-THRU CTFS	A2	Possible Downgrade	Downgrade	20 Mar 2009	212	0	25 Nov 2036	USD
CUS:54251YAC2	Cl. II-A2	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	95	86	25 Nov 2036	USD
CUS:54251YAD0	Cl. II-A3	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	157	158	25 Nov 2036	USD
CUS:54251YAE8	Cl. II-A4	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	54	55	25 Nov 2036	USD
CUS:54251YAF5	Cl. M-1	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	32	30	25 Nov 2036	USD
CUS:54251YAQ1	Cl. M-10	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Sep 2008	6	0	25 Nov 2036	USD
CUS:54251YAG3	Cl. M-2	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	30	0	25 Nov 2036	USD
CUS:54251YAH1	Cl. M-3	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	18	0	25 Nov 2036	USD
CUS:54251YAJ7	Cl. M-4	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	16	0	25 Nov 2036	USD
CUS:54251YAK4	Cl. M-5	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	16	0	25 Nov 2036	USD
CUS:54251YAL2	Cl. M-6	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	15	0	25 Nov 2036	USD
CUS:54251YAM0	Cl. M-7	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	14	0	25 Nov 2036	USD
CUS:54251YAN8	Cl. M-8	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	8	0	25 Nov 2036	USD
CUS:54251YAP3	Cl. M-9	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Sep 2008	8	0	25 Nov 2036	USD
MDY:814997774	Cl. P	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	14 Nov 2006	0	1.0E-4	25 Nov 2036	USD
MDY:814997775	Cl. R	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	14 Nov 2006	0	0	25 Nov 2036	USD

MDY:814997776	Cl. R-CX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	14 Nov 2006	0	0	25 Nov 2036	USD
MDY:814997777	Cl. R-PX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	14 Nov 2006	0	0	25 Nov 2036	USD

Long Beach Mortgage Loan Trust 2006-11

Moody's Org ID:715048870

Closing Date:14 Dec 2006
Current Total Deal Size(Mil):793.0
Pay Frequency:Monthly

Market Segment:Structured Finance
Collateral Type:HEL - Closed-End - Not High LTV
Location of Assets:UNITED STATES

Trustee:Deutsche Bank National Trust Company
Primary Servicer:Washington Mutual Bank
Underwriter:Goldman Sachs & Co., WaMu Capital

Debt ID	Tranche	Rating Description	Current Rating	Watch Status	Last Rating Action	Rating Date	Face Amount(Mil) Original	Current	Maturity	Currency
CUS:542512AQ1	Cl. B-1	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Aug 2008	8	0	25 Dec 2036	USD
CUS:542512AR9	Cl. B-2	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Jul 2008	15	0	25 Dec 2036	USD
MDY:815088823	Cl. C	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	02 Jan 2007	31	0	25 Dec 2036	USD
CUS:542512AA6	Cl. I-A	PASS-THRU CTFS	Caa2	Possible Downgrade	Downgrade	20 Mar 2009	408	250	25 Dec 2036	USD
CUS:542512AB4	Cl. II-A1	PASS-THRU CTFS	Ba3	Possible Downgrade	Downgrade	20 Mar 2009	332	15	25 Dec 2036	USD
CUS:542512AC2	Cl. II-A2	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	136	136	25 Dec 2036	USD
CUS:542512AD0	Cl. II-A3	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	243	243	25 Dec 2036	USD
CUS:542512AE8	Cl. II-A4	PASS-THRU CTFS	Ca	Possible Downgrade	Downgrade	20 Mar 2009	91	91	25 Dec 2036	USD
CUS:542512AF5	Cl. M-1	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	48	29	25 Dec 2036	USD
CUS:542512AG3	Cl. M-2	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	44	0	25 Dec 2036	USD
CUS:542512AH1	Cl. M-3	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	27	0	25 Dec 2036	USD
CUS:542512AJ7	Cl. M-4	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	24	0	25 Dec 2036	USD
CUS:542512AK4	Cl. M-5	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	23	0	25 Dec 2036	USD
CUS:542512AL2	Cl. M-6	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	22	0	25 Dec 2036	USD
CUS:542512AM0	Cl. M-7	PASS-THRU CTFS	C	Not on Watch	Downgrade	16 Oct 2008	19	0	25 Dec 2036	USD
CUS:542512AN8	Cl. M-8	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	17 Oct 2008	11	0	25 Dec 2036	USD
CUS:542512AP3	Cl. M-9	PASS-THRU CTFS	WR	Not on Watch	Withdrawn	25 Sep 2008	12	0	25 Dec 2036	USD
MDY:815088819	Cl. P	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	02 Jan 2007	0	1.0E-4	25 Dec 2036	USD
MDY:815088820	Cl. R	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	02 Jan 2007	0	0	25 Dec 2036	USD

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MDY:815088821	Cl. R-CX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	02 Jan 2007	0	0	25 Dec 2036	USD
MDY:815088822	Cl. R-PX	PASS-THRU CTFS	NR	Not on Watch	Decision not to Rate	02 Jan 2007	0	0	25 Dec 2036	USD

From: Collins, Dana [redacted]
Sent: Tuesday, September 11, 2007 10:16 PM (GMT)
To: McDaniel, Raymond [redacted] Clarkson, Brian [redacted] Mahoney, Christopher [redacted] Kimball, Andrew [redacted] Westlake, Lisa [redacted] Huber, Linda [redacted] Kriegler, Andrew J. [redacted] Almeida, Mark [redacted] Rotella, Perry [redacted] Kimon, Noel [redacted] Robinson, Claire [redacted] Dering, Jeanne [redacted] Laserson, Fran [redacted] Mirenda, Anthony (Tony) [redacted]
Subject: MD Town Hall Meeting Survey Results
Attach: 886543f-stt.doc;MD Town Hall Feedback - 9-07.doc

All,

To date, 31 participants have responded to our survey requesting feedback on yesterday's MD Town Hall Meeting (a roughly 30% response rate).

Some quick stats:

- 77% of respondents said that the meeting addressed the topics of greatest concern
- 94% of respondents found the answers during the Q&A either informative or extremely informative

Attached is a transcript from the meeting. Also attached is a document called MD Town Hall Feedback - 9-07.doc which summarizes the write-in comments related to these questions:

- Did you have questions following the meeting? If so, what are they?
- What topics discussed did you find most important to your area of the business?
- What else would you like management to address at Friday's company-wide Town Hall Meeting?
- How do you plan to relay the information from the meeting to your team?

You may also access these results by clicking this link:
[redacted]

Please let me know if you have any questions about this information.

Thanks,
Dana

CONFIDENTIAL & PROPRIETARY MOODY'S-COGR-0052080

Permanent Subcommittee on Investigations
EXHIBIT #98

at&t

Final Transcript

MOODY'S INVESTORS SERVICE: Managing Director's Town Hall Meeting

September 10, 2007/9:00 a.m. EDT

PRESENTATION

(Poor audio made transcription difficult.)

Raymond First of all, thank you all for joining this morning. The purpose of this town hall, there are actually a couple of purposes, but we wanted to have a meeting with the management team specifically so that we can speak as candidly as possible about what's going on in the subprime market, with the structured finance market, with our own business, and our role and position around that. I'm certainly happy to talk about what we are doing at Moody's in terms of trying to control messages, the messages we're trying to communicate, and then also talk about some of the broader themes and concerns and anxieties that are going on in the marketplace itself, sort of a roundup. So we can talk at a Moody's specific level and at a market level both.

We do have some prepared slides that we'll probably depart from these as we go along because there are a number of messages that we just frankly didn't want to write down. If you have questions, certainly with this group, raise your hand. I'm happy to take questions as we go along. We'll also do some Q&A at the end, so if you have questions that you want to save, that's fine as well.

I'm going to kick this off with a couple of comments and then turn it over to Brian. But there are really a couple of themes that I think are probably most on your mind and you will, I'm sure, inform me if there are additional issues.

First of all, in terms of some principals that we're trying to follow, proactively participate in the discussion around what's going on in subprime and this broader credit crunch. An important part of what we have to do at this point is educate markets about what the ratings do and don't do. Now I'm sure you've all seen literally almost on a daily basis various critiques, criticism, observations about the credit rating agencies, how we do what we're doing, whether we're doing a good job or a bad job.

And it has frankly been difficult for us to control a lot of that messaging. We have had extensive outreach to the media, both the print and electronic media. I think we've had very good success with our experts, people like John Lanski and Mark Zandy. Chris Mahoney has been on at least the radio several times. I don't know if he's been invited to be on TV, but I think we've had very good outreach with our technical experts.

We've frankly been somewhat less successful in controlling messages about Moody's and getting our point of view into the marketplace, and it's not for lack of trying. We have reached out to all of the significant media: *New York Times*, *FT*, *Wall Street Journal*, *Bloomberg*, *Reuters*, etc.

And right now, the message that we are communicating about, one, the fact that we are independent and, two, that we are competent. It's not a message they really want to hear. It's not the editorial theme that they want to pursue. These stories are being written, in my opinion, largely around the facts, and we are having trouble getting some balanced commentary into the marketplace. That's the bad news.

The good news is, at a one-on-one level with regulatory authorities, with staffers and senate and house, I think we've had much, much better success. The regulatory meetings that I participated in last week in Europe went well. They were not hostile. They were not accusatory. The regulators were very much interested in our thoughts about solutions and looking for market based solutions. And warning us that one of the biggest challenges we face is whether or not this becomes a more purely political issue.

And cautioning us saying, we need you, Moody's, we need you, the ratings industry, to come up with your own solution, your own credible answers to solving what's going on in the subprime market and with the credit crunch because, if you don't, then it's going to move into the political sphere, and there's going to be blunt instrument kind of reactions. Overreaching regulation becomes or legislation becomes a risk. And the regulators were saying, frankly we'd rather you come up with a solution because it's going to be better than what the politicians can come up with. And in effect, inviting us to give them the tools to help respond to a lot of the accusations that are going on.

So among the things that we are doing is preparing a fairly detailed set of analysis or diagnosis of the current situation in a frequently asked questions format that will be made available for the regulatory authorities, particularly the Fenway Regulatory Authorities, and allow them to help us with the political side of this equation. So I think that's the more effective outreach that we have been doing to date, and a lot of what you're seeing in the paper is the side of this that has been the less effective outreach.

Now why has it been less effective? Well, Brian will give you probably a ten-minute harangue on why it's been less effective. He's thought about this much more deeply than I have. But I think, at a summary level, we have a number of either natural forces or situational forces that are not operating in our favor.

First of all, we are an umpire in the market, and umpires, at best, are not favored. They're considered a necessary evil to the game. Secondly, we are really not a very large or powerful industry. Moody's is a profitable company. It's a lucrative business, but it's not a large business, and the ratings industry is not a large industry. And there are forces around us that have motivation to find someone to blame. And so part of who is to blame can be attributed to who can we get away with blaming and where are the more powerful and less powerful players in the marketplace.

Why do folks need to blame someone? Well, if you're a hedge fund, for example, taking 2 and 20, and you're under-performing the S&P 500, you have to have some reason for explaining to people who have given you lots and lots of money why it was a bad idea that they gave you that money. You an either say, well, I wasn't very good at my job, or you can say, it's somebody else's fault. That's just an example of what I think we're facing.

We also have, I think, a real challenge as far as communicating what our ratings are measuring. What they are meant to do. What our role and function in the market is oriented for, and what it isn't. You can see that much of the criticism about our rating has revolved around the rating, these high rating assignments on structured securities have failed to capture the changes in price movements. The market value of these transactions has plummeted and the rating agencies got it wrong because they assigned investment grade, in many cases high investment grade ratings.

We can talk about the fact that we are measuring credit losses and not market value losses. But it is an issue that broadly the market does not want to hear because the market doesn't have another alternative for measuring value of these illiquid opaque instruments. So they default to using ratings, even if we say it's not the best tool to use or it's not a good tool to use, even if there isn't a better … so that kind of criticism comes up.

As far as what else we can do, we've been having those discussions. I'm of the opinion right now that we are probably best off continuing to emphasize the one-on-one with the regulatory authorities, with the major buy side institutions, with the investment banks and sponsors of the transactions that we rate to help look for solutions. Without those solutions or the debate playing out … I don't think that's a particularly helpful place for the discussion to go on.

What does that mean? Frankly, I think it means we are going to continue to have negative media. The subprime price is going to play out over some period of time, at a minimum another six months or so. We are not going to be able to control the fact that lots of mortgages have to reach that. We're not going to be able to control the fact that housing prices are in decline in many areas of the country. That people overreached, which is a nice way of saying lied in their mortgage application. And that they won't be able to either refinance or sell or afford their current mortgage, so they've got some interesting problems that are not going to play out quickly.

Looking at the subprime crisis specifically, I won't go through all of this, this is a summary of what we've been communicating, again to regulatory authorities. We had historically low rates. We had very easy credit conditions for a number of years. We had official and market based support for adjustable rate mortgages. It created what I think is an overdone condition for the U.S. housing. This was a condition that was supported by U.S. public policy in favor of home ownership. And as I said, once housing prices started to fall, we got into a condition in which people can't refi, can't sell, can't afford their current mortgage. That's why this is going to play out over some period of time.

Now I'm going to stop my comments there, and I know you're going to have questions that are more particular to what's the outlook for Moody's, what are we doing about this, how are we managing expenses, how are we thinking about hiring. All of those questions, I'm happy to talk about, but I want to let Brian and then Gene, Linda, talk about some of the other aspects around the current environment situation that we're facing, and then happy to talk about some of these more specific questions related to Moody's. So let me turn it over to Brian.

Brian — Thanks, Ray. A couple things: The first thing is that we're doing a big town hall on Friday. It's extremely important for each of you to understand what it is we're doing and how we're doing it because the message is only going to get out from you. I'm going to be up here as a talking head. Ray is going to be a talking head, and Linda. We'll be up here talking about things. People are going to want to know what's going on, so you have to satisfy yourselves what's going on, so ask whatever questions you want. We'll try to answer them as best we possibly can.

Ray mentioned that there are different reasons for what's going on. I'm big in this conspiracy theory, to be perfectly honest with you. Anybody watch *Conspiracy Theory*, the movie? I can't believe people actually admit that. That's really....

There's a lot to that. I was actually talking to Ray this morning about that, and last night, and Saturday. Friday, I called him from Australia. The question is – one of the questions everybody asks is why does everybody hate us so much. I mean it's clear that they do. It's clear that we're hated in the marketplace. I'm sure that people are very frustrated with respect to what it is we do. I've got a number of theories.

Certainly none of them are ... short sellers, the people that are actually shorting bonds. We know that. They're trying for desired outcomes.

There's the people that are shorting Moody's ... looking to sort of make money by ... our stock price.

But the theory that I've come up with lately is the fact that it's perfect. It's perfect to be able to blame us for everything. Part of what Ray said is the fact that we're incredibly small. Ray actually mentioned the fact that the entire rating industry revenues for a year don't even equal one quarter's operating income for Goldman Sachs is very telling to me.

The other reason is that by blaming us, you don't have to blame anybody else. If you take a look at the players in the marketplace, the politicians can't blame the borrower because that's their constituent. The borrowers did no wrong.

The investment bankers, well, you can't blame the investment bankers. They're big. They're powerful. They know what's going on. They've got clout, and they're also regulated.

You can't blame the mortgage brokers because, if you blame the brokers, then that means the state regulators sort of were asleep at the switch, and you certainly can't blame investors. Investors should be able to get whatever yield they want, whatever rating they want with respect to that. So we're very easy in the fact that no one controls us, which, by the way, drives people insane.

Just so you know, I spend a lot of time talking to folks in the market. I had a conversation with a big hedge fund a couple weeks ago. He came in with a list of securities he wanted me to downgrade. He had a list in his hand. He said, "I want you to look at these securities because they're rated too high." I said, "How many have you shorted?" He said all of them. It's true. It's the honest to God truth.

He said, "Do you want the list?" I said, "No, I don't want the list." I'm not trying to make light of this, but at the end of the day, the good news is it's all about money. That's what it's about. Everybody is trying to control money and everybody wants to blame people.

If you invested in a hedge fund and you wound up taking it back, it's a lot easier for the hedge fund managers to say, "I relied on the rating." And we know that's not true. One of the things that we're looking to do, and I don't mean to make light of any of this, I want you to understand exactly what's going on in the market. It's all about money.

When Ray was talking about the misuse of ratings, they're doing it intentionally. Now we feel as thought there are big steps that we have to take, and I'll talk about that in just a minute, but one of the things that we're doing is ... is actually working on a market value rating system or symbol we can actually use. We're fairly certain that even if we get something that works, they're not going to use it.

Bank financial strength ratings, for example. We carved that out 12, 13 years ago because we didn't feel as though the alphanumeric system we had covered that, and people don't use it. I was involved in JDA. You talked about people, I said, well do you focus on the bank financial strength ratings? No. We use the alphanumeric.

We've talked to people about the fact that the ratings only represent credit risk. It had nothing to do with market value risk whatsoever. They don't care because it's easy to rely on.

Now it's a defensive move with respect to what we're doing. We feel as though we have to have a product out there because one of the questions that the regulators ask us, okay, you're on notice now that people are misusing your rating system. What are you doing about? And so we feel like we have to be able to provide that.

Now take a step back. Ray talked a little bit about what happens. At the end of the day, I think that we did an okay job in identifying the risk, but we didn't do a very good job of measuring the magnitude. I've been saying that in private meetings. Obviously I'm not going to say that to the press, but what happened was what we did, we talked about early on how we actually sort of changed our … level with respect to subprime mortgages, 30% over three years. We saw the risk coming. We identified the risk. We just missed the magnitude.

What's happening in the credit market completely swamped everything that was done from an analytical standpoint. And three things happened:

cheap credit, a decline in housing prices, and tightening credit. The only thing that we sort of controlled a little bit was the cheap credit and sort of the underwriting standards that sort of went lack. We should have done a better job of monitoring that.

But the housing price decline and the tightening of credit completely swamped everything else. If either one of those had remained, if housing prices still went up, or if cheap credit, the tightening of underwriting standards or loosening of underwriting standards was still around, there wouldn't have been any problem because, at the end of the day, the bad underwriting, the cheap credit, and housing prices were there in '03, '04, '05. What happened was that the music stopped in '06.

What are we doing? We're doing what we think we should be doing, and that's monitoring the ratings on a going forward basis. We spent a lot of time in the last few months in defensive mode. That's defending our position, defending the ratings, defending our process, defending what the ratings mean. Now we have to sort of figure out what we're going to do. We've got to get into the solutions mode.

I will tell you that we have had meetings with investors. We've had meetings with issuers. We've had meetings with intermediaries, regulators, and they all come up with the same question – What are you going to do about this? How are you going to fix it? – because they don't have any idea.

Interestingly enough, what issuers want to do, and they've told us specifically is they want us to sort of tighten things up to a point where the market still has confidence in the ratings and in the products, but don't cost us any money. That's true. You guys have been at those meetings.

What investors want is they want total transparency. They want us to impose total transparency on the marketplace. One of the things that we've found that investors – there's no sort of uniform investor anymore. We've got buy and hold investors. We've got marked to market investor, and never between shall meet.

If we talk to the regulators and what Ray said was true, they all said, "How are you going to fix it? What are you going to do?" One of the things that we have to do, while we've done a lot of things with respect to tweaking and changing our methodology and standards, we've got to be more vocal and we have to be more decisive with respect to what we're doing.

The market is looking for something very visual for us to do. They want to see something. They want to see us take bold steps to cure the problem. And just so you know, we're all working on that.

Some of the other things that we're actually doing, there's really a three-pronged process. They said, "What are you doing?" The first thing I talked about were change in methodology, and that's what we're doing. We're certainly changing methodologies. We're on notice that a lot of things that we relied on before just weren't true. The problem is, what are you going to do. At the end of the day, we relied on reps and warrantees that no loans were originated in violation of any state or federal law. We know that's a lie. If none were originated in violation of any predatory lending law, we know that's a lie. So what are you going to do about it? We can't rely on what people tell us anymore, and so we've got to figure out, do we rely on third party oversight? We have to have post-closing audits. We've got to be very public about the things that we actually see.

The second thing is what I refer to as checks and balances. Ray didn't get into this, but regulators want to know two things from the rating agency, just two. They want to make sure that we're not corrupt, and they want to make sure that we do our job as well as we can do our job. And so we have to demonstrate not just inwardly, but outwardly, those two things.

Checks and balances, what we've talked about is how we've sort of broken the company in two parts. We've got Moody's analytics. We've got the ratings business. We have our credit function that now reports up to the board of directors from the credit standpoint administratively to me, and other things that we're actually doing, making sure that MDs aren't involved in fee schedules. That analysts aren't involved in fee discussions with respect to people.

We have to be very visible with respect to the things that we're actually doing. They want to see that. They don't want us to just tell them about our code of conduct.

Then the third thing that we've been talking about are new products that actually address the risks that aren't covered in the ratings. The thing is that we have to make pretty bold strokes for people to see what we're actually doing because they don't like status quo. They want to see something that they can say, okay, I see that. I mean some of the things have been suggested, an oversight board. Shouldn't there be a rating agency oversight board independent of what the rating agencies actually do? Maybe. Maybe that's something we should consider.

I will say that some of the regulators talked about what are you doing as an industry and, frankly, not a lot. They said, we don't want a Moody's solution, just like we don't want an S&P solution or a Fitch solution. What are the rating agencies doing as an industry, because actually at the FSA in Tokyo, which, by the way, was just like testifying for two hours except for the oath, it was. They said, we want to know what the industry is doing.

Let's say that you do everything you're supposed to, but yet people just go down the street, go to your competitors. What are you going to do about that? And so what they're looking for is they're looking for a solution to things that they kind of know. Nobody knows what we do and how we do it. What they do know is they know accounting firms, and that's what they're using. They're using that as a proxy for the ratings business, but some of those things we're going to have to consider and think about on a going forward basis.

I know we've only got an hour, and I know we want to have a lot of time for questions. I'll leave you with this though is that we're in this together in that how the rest of the company actually reacts will be a direct reflection on how you actually deal.... And what I mean by that is ask whatever it is you want to ask. We'll tell you whatever it is you need to know because, at the end of the day, the analysts and the staff are going to rely a lot more on what you're telling them than what we're telling them. And so don't be shy about what it is you want to know. If you want to know about hiring freezes, we'll tell you about hiring freezes. If you want to know about expenses, you want to know what we're seeing towards the end of the year, we're going to get into that.

If there are things that we don't cover that you want to know that are going to cause people to have angst and worry about what's going on, ask the question because what I don't want to have is everybody behind closed doors talking about the stuff that we can provide answers to. You're all managers. You'll need to run this like a business, and to the extent that we can sort of belay fears and get people the information, that's what we want to. It's okay to be nervous about the stuff you know, but the stuff that you don't know that we can provide you information for, just ask the question.

I didn't do any slides, did I?

Raymond — No, but we can skip … covered the stuff … so we'll skip ahead to—

We're going to go ahead. Just in the interest of time, we're going to go ahead up to the communication update, and I think Linda is going to talk to us about that. Then quickly, both communications and the regulatory side, we will try to do quickly so we can leave time for Q&A. Linda, to you.

Linda — After Gene speaks, I'm going to come back and talk a little bit also about the investor perspective, but in terms of the communication perspective, now that's fall and everybody is back from Labor Day, we think the right thing to do is a proactive and assertive media strategy, so we're not just sitting back and taking all this stuff as it happens. We're out there. We're talking to everybody. We're highly visible, and we're working through a number of different strategies.

The first tier is focus on key strategic media. What does that mean? Who are the decision makers and who can really understand what we're trying to say? And that's not such an easy thing to do. I've had people, when I try to explain what this company does, say to me, "What's a bond?" Those people are not going to be particularly helpful in getting our message across. We have to be very careful about....

Special comments as news hooks – journalists are looking for new things to write about, and we have to make sure that we are putting out there things that are interesting and new for the media, so we have to keep working on that, and I'll talk a bit more about that as we go forward here.

Continue reacting quickly to requests for information and commentary. On Friday, we got a call from the *Wall Street Journal*, on Friday, that they were contemplating writing a story about our ... what was going to be examined in some of the regulatory hearings, and they wanted to get into ... compensation and average compensation. We spent a lot of time on Friday going through what are the accurate numbers for this company from our public filings to make sure that we have it right. Oftentimes we have less than an hour to turn around very complicated points of view from people who already have a position that they want to take and it has to be done quickly and it has to be done well, and I think that the team is doing a pretty good job. It's a tough road....

As we said, concentrate on ... media outlets in the next few weeks ... with a second push in the fall. So in other words, we're going to do one wave now. We're going to do another wave later because we think the market may have ... factors, which happen in the next few weeks. So after things settle down, we'll come back and we'll do it again. And we'll continue distributing special comments and material to people so that they understand what it is we're trying to do.

What are the special comments? You see here from illiquidity to liquidity, the path towards credit market normalization, which will be published this week. Chris and Pierre worked on that. Financial innovation in its ... and then how fair is the blame on rating agencies the third week. So three very proactive pieces that are well thought out that are interesting to read that actually provide something for reporters....

We're going to do an op ed. piece targeted to the *Financial Times* because it has the most sophisticated view of what's going on. We've got to make sure that's written in clear language. Having trained as a journalist, some of the things that we write are opaque. Some of the acronyms that we use are very difficult ... we have to do a better job boiling down our message to something that is completely understood.

And then frequently asked questions, as Ray talked about, we're working on those to be written primarily for the regulators, and then to be used in other forums as well as kind of....

The *Financial Times*, Julian Teskin interviewed Brian this week. We're doing an op ed. contribution ... column, and then we're going to have Ray and the view from the top, which is the Friday Q&A. You probably saw David O'Reilly last week ... Barclays a couple weeks ago. This is a very positive CEO forum that also is videotaped and it's on the FT Web site as well.

With the *Wall Street Journal*, Serena Eng is going to interview Brian ... mid September, and for the *New York Times*, which is perhaps one of the more difficult media outlets, we will continue to send special comments to Gretchen Morgenson. Again, this may be, as Woody Allen says, the triumph hope over experience that we will keep at it. And we will invite various people to talk with us on a continuing basis. And we will consider an editorial and board meeting after the earnings, which will be October 24th. So those are the things that we have underway.

We keep at it. We stay focused. We stay energetic. We stay positive. And we've just got to keep walking through this every day and we can't let any one-day's press coverage have you overreact.

Broadcast and teleconferences with the media, we need to move more effectively into TV. We are putting together a TV station in … it will be ready in mid October. That will provide us with the opportunity to have a live feed onto CNBC, Bloomberg Television, and other TV outlets. We have to think more about who is going to do that, what we're going do, how we're going to handle it, but we will have the capability to do it. Some of you have commented that the SEC is more aggressive in terms of using television…. We need to think that through a little bit more. We'll be doing that in the next few weeks.

You see here the capital markets initiative, which increased our presence on … Bloomberg, and…. We'll consider Ray and Brian for those pieces, and you have seen very effective outreach, for example CNBC on Friday

… number came out. Mark Sandy participated very effectively with the group there, and he and Don … been very effective for us….

What are we doing also in terms of running the communication function? We have put together, under my oversight … ratings communications and also corporate communications. It's very important that we're coordinating globally as to what we're all doing and we all know what each other are doing daily because it changes hour-to-hour and moment-to-moment. We are looking for a new VP of … Richard continue to do what they're doing. Their teams continue to do what they're doing, but we think we might need somebody who has clout and perhaps experience with financial services…. Some of you will be looking to interview these candidates as they come through, and we hope to get that done quickly. We have a search firm doing that now. We're getting good response, and you'll be hearing more about that.

Externally, we're doing a communications audit led by a group called Selmen & Partners. This guy is well known in the media space and in the top 25 reporters and editors. What do they think about what we're doing? What do they think would be better? How could we handle this more effectively? What's our positioning? What's our competitive positioning and so on? That's the external piece.

On the internal piece, a number of you have been surveyed about what you think about ratings communications, how is that working, how is it working globally, what could we do better. We need your input. Everybody in this room is part of the solution and have to drive what we're doing going forward. We need your help with writing things. We need your help … observations and criticism. We need to know what you're hearing, and we need to have a two-way discussion about what's going on here.

Then on the next front, Gene is leading the regulatory piece, which fits in with what we're doing in communications, putting together one overview calendar of everything that's working together, so we can see what's happening when. With that, I'll turn it over to Gene.

Gene — Thanks, Linda. I think fortunately for the group, Ray and Brian have covered most of the messages in the regulatory section, so I can go through this quickly. I thought I would at least lay out for you on one piece of paper, and we just have … one piece of paper.

Many of the observations, criticisms, misinformation that we're hearing, as we meet with regulators, with politicians, and I think as Ray said, meetings with regulators are generally very salient. They have some sense of what we do, of our role in the financial markets. Politicians are a little bit more challenging. Certainly one reason is there are a lot more of them in the U.S. We have about 500 politicians that we could potentially be dealing with in Washington whereas there may be five regulatory and policy making authorities.

But these are some of the things that we're hearing: the role and meaning of ratings, as Ray mentioned. There appears to be quite a lot of misunderstanding about what our ratings do and don't do. Accuracy of ratings, especially in the subprime area, didn't you get it wrong … questions about that? The ratings process and especially what they think of as due diligence. Are you skeptical enough when you are receiving information from issuers? What are you doing to verify that information, etc.?

Lots of questions about monitoring: What is our process? Is it robust enough? Do we have enough resources? Have our rating changes in the subprime area been timely enough?

Transparency, which I think is a particularly difficult criticism because we believe that we've made great strides in the last several years in increasing the transparency of our methodology for rating actions, etc. I think it turns out that maybe not enough people are reading what we publish, and some regulators that we meet with are actually surprised that we publish our methodology.

So one of the struggles I think we're going to have is thinking about how do we take all of this information that we have really published to focus on the technical experts and the practitioners in the market and how do we transform these things or at least supplement them with communications that all of the other constituents can understand, and that they'll actually take the time to read it.

Conflicts of interest is another big theme. The issuer pays model continues to be a subject of debate, although a very important point we've been making is that as long as rating agencies get paid by somebody who has a position in the capital markets that are going through conflict and the real question the people should be thinking about is how we manage the conflicts, not who pays us.

And there has been a lot of discussion about the so called iterative nature of structured finance, the fact that there may be some back and forth on structured finance transactions, as issuers or arrangers are presenting their transaction structures, and we're giving feedback on the rating implication, and doesn't this kind of interaction with an issuer compromise your independence. These are some of the issues that we're dealing with, and we are, as Linda mentioned, working on a set of FAQs that is targeted initially to regulators that will address all of these type questions we're getting.

Now I'll just very quickly go through with you the landscape and the key geographies in which we operate, so you can get a better understanding of what we're dealing with. Brian mentioned, we spent a lot of time in Washington meeting with the key congressional offices that deal with rating agencies and that's ... members of the senate banking committee and house. It's the members of the financial services committee, so those are the people who are the influencers, the decision makers who are going to be crafting whatever legislation may, over time, come at us.... We've been spending a lot of time meeting with the congressional offices and a lot of it is educational, again explaining our role, explaining what happens in the subprime area, talking about what we are trying to do to enhance our processes.

But importantly, also advising. We find that in a lot of meetings, people ask us, what ideas do you have on how we can solve these problems. So we are trying very hard to be in the role of an advisor as opposed to being a target in a congressional hearing. I don't think we can completely escape being a target, but hopefully ... a number of targets.

We've already participated in two hearings, and Warren Cornfield is no worse for the wear, I'm happy to report. He represented Moody's in both hearings. And there are probably going to be more hearings. There will be a hearing in the house. I believe it will be conducted by the subcommittee that's handling the subprime issues as opposed to the full committee, which we think is ... subcommittee level. That hearing will probably be end of September, early October, based on what we're hearing at the moment.

And there will probably be another hearing in the senate in which rating agencies will participate as witnesses. So those are very important opportunities to get our messages across, but also to directly address some of the ... that we're getting. And I think Warren would tell you, it's a little bit difficult sometimes to get our messages across in the hearings because often the members who are asking questions are happy to get their sound byte into the press and then move onto the next issue without ever focusing on the substance, so we're trying there.

And right now there is proposed legislation, both in the house and the senate, relating to subprime. At this point, the proposed legislation deals mainly with the mortgage lending process, as opposed to the securitization process or anything that has to do with rating agencies. There will probably be more legislative proposals that are offered by various members of these committees over the next few months.

At the SEC, as we all know, the ink is barely dry on the rating agency reformat, and the SEC has not yet approved ... NRSROs under the new laws. That will be happening in late September. So the SEC is going through the process of reviewing rating agency applications, and we're still frankly talking with them on how to implement some of the rules with some of the record keeping requirements. But on the other hand, they're also focusing on the subprime issues, looking broadly at market participants, including rating agencies. And I should note that the SEC has always had infection authority over rating agencies … previously registered as an NRSRO under the investment advisor … so they can use the infection authority they have … have discussions with us, etc.

There's also another group involved, the president's working group on financial markets … potentially chaired by the heads of the SEC, the … the major policy making agencies that deal with the financial markets. President Bush has now asked them to review the subprime issue and its affect on the financial markets, including the role of securitization and the role of rating agencies, so there may be some additional meetings and questions that we get in that regard.

In Europe, I guess over the last few weeks were a flurry of press reports about a special investigation that has been initiated in Europe. And as you note on the last bullet point on this chart, and I think we've put this in an internal communication, there is no special investigation, contrary to the implications in the press reports. What's happening in Europe is that the European Commission for 2006 provisionally endorsed a self-regulatory model for rating agencies based on the … code. And although there's been an awful lot of attention on rating agencies, political as well as regulatory, at this point the European Commission, we believe, is refraining from further action. They're going to let their established processes work their course, so CESR, the Committee of European Securities Regulators is in the process of conducting their second annual review of rating agencies.

We've been working with them, responding to questions. They have previously announced they would specifically focus on structured finance. They published a survey back in June for any interested party to respond to. And they've since extended the survey deadline twice. I think it's expiring today, we hear because they've gotten very little in the way of responses. So we'll see what the responses to the market survey are when they're published on the CESR Web site.

We're going to be meeting with the CESR rating agency group in the beginning of October, as will each other rating agency that they're reviewing. And they're going to publish a report in April of 2008, and we would guess that the European Commission would hope to wait until CESR publishes their report before they decide what else they should be doing.

There has been talk in parliament about rating agencies. We have some national regulators who have gone on record criticizing rating agencies, but I think, more importantly, expressing concerns about transparency in the financial markets, and we were just sort of an add-on to the transparency....

So in Europe, we are really waiting until the CESR process is finished. We hope we will wait until then to see what the European Commission and other policymakers think about rating agencies at that point in time.

Japan, the financial regulator there, the FSA, announced earlier this year that they were considering greater oversight of rating agencies and that they would observe the U.S. process. We still think that's what they're doing. Certainly there's additional focus on subprime, a little more political pressure than there had been. But we believe they are still observing the U.S. SEC process and then deciding what....

I think that, as Ray said, the regulators tend – they don't want to overreact and implement new regulation without thinking about what it means and what the consequences will be. The politicians are a little bit harder ... and we're still focusing on the one-on-one meetings, as Ray said, to try to get our story across in a non-public way, and in a way in which people have a chance to ask questions and understand.

IOSCO is another key part of this. IOSCO, earlier in 2007, did what I think of as a desktop review of rating agency compliance with their code. They essentially took any rating agency that had a published code of conduct and compared it with the IOSCO code. And they issued a consultation report with largely favorable conclusions. Based on what we've heard, they will not issue a final report until they conduct their review of rating agency's role in structured finance, which again they have announced earlier in 2007. So this is not precipitated by the subprime issue, but it certainly is good timing in their view.

And they're doing that review in conjunction with the BIS, the taskforce on the global financial markets. They're starting their review in mid September. We're having the first meeting is in Washington, and each rating agency will make a brief presentation on the structured finance process and rating agency's role in structured finance. And we hope that the IOSCO process will be a cooperative one, as was the process … IOSCO code was developed. And I think a big objective in the IOSCO process is to think about whether any modifications to the IOSCO code might be required to deal with the structured finance rating process as opposed to the fundamental process. So we hope we can participate in that process, as they're thinking about all this.

Then another thing that's happening is the G-7 meeting in October in Washington. An important topic of discussion again will be the transparency of the financial markets, and they have indicated that they will include a discussion of rating agencies. So a lot of what we're doing right now is pursuing dialog with all of these interested parties. We have the securities and financial markets, regulators. We have the finance ministries in advance of the G-7 meeting. We have the legislators and politicians, which are a little bit more difficult to reign in, and importantly, our senior business line and executive management have been very involved in this.

Members of our structured finance, senior management have been ... looks very tired, but they've been to the SEC. They've been to congressional offices. Brian was in Japan, Australia. Ray and Brian were in Europe. ...Kreegler and Don Carter were at the Ontario Securities Commission with me, as well as ... Michael Kane, whatever he is. He's been traveling a lot. So we are getting the right people in front of these parties so that we can explain things from a perspective of how we operate our business and give them whatever information they might be interested in, as they're asking their questions. So this is taking a significant investment in senior management time, but it's certainly something we have do.

And importantly, as Brian said, one of our main objectives is to participate in ... solution, which we think we're making progress, but we certainly have a lot of work left for us to do. Now I'm going to turn the podium back over to Linda in our tag team. Should you tag me, Linda, before you come up?

Linda

Investor relations update, Lisa Westlake is presently out in Singapore. She and I and various other people are speaking with investors in Asia. This week, we are hitting Singapore, Hong Kong where Jennifer will join us. We're going to Soul, and then we're going to Japan where Kay will join us, and we'll be speaking with literally dozens of investors.

We're interested in going to Asia because Asia investors tend to be longer-term focused. They ask us hard questions like what are going to do in the next three to five years, instead of what are you going to do in the next three to five minutes. U.S. investors are primarily interested in the next quarter. ...going to Canada, going to Europe, which we're going to do again in the first week of October. It's very, very beneficial, and we've had very good success in leading the efforts to get international investors in our stock, which is very important to counteract the activity of the shorts, which I'll talk about more in a minute.

Now how is the Street viewing Moody's right now? People usually find these slides interesting. We have previews here from Goldman, Morgan Stanley, and William Blaire. Goldman has a balanced view that in a context, Peter Rapid says, of flowing new issue volume, uncertain credit market environment, and decelerating earnings growth. They don't see rush to own the shares, despite what they think is an attractive valuation and a solid business model, so Peter is a little bit on the fence here.

The next major conference that we have is September 19th. It's the Goldman conference here in New York where Ray will be doing a sort of Q&A, fireside chat format with Peter Rapid. Now that date, September 19th, is very important. It follows the Fed meeting by one day. So Ray is going to have to have support and interesting things to say about what is said and done the day before. So another example of how we have to be prepared to ... very quickly.

Lisa Monaco from Morgan Stanley believes that we're well positioned, but that she has underestimated the near term impact on rating agencies, and she says that the next few quarters will be challenging, which I think is exactly correct.

Then lastly, getting onto the more bullish side, John Metts with William Blaire believes that this is an interesting valuation at this point. I like his quote particularly that we believe this too shall pass, and the fundamental story has not changed. And he sees that here an uncertainty provides an opportunity to buy a premier global franchise at what we believe to be a significant discount to intrinsic value.

So those are three different views. One is sort of a hold strategy. The second is that the next few quarters are going to be choppy. And the third is that the stock is on sale.

If you look at where people are in terms of sell, hold, buy, and strong buy, people are generally moving to the right, which is good. JP Morgan kind of moving back to the left to a hold strategy. You'll notice that Citibank is not on this chart. The Citibank analysts ... hedge fund, which is something we're seeing more often. He's now with Steinhard Partners and is coming to see us this week from that perspective. UBS seems to have let go of its analysts. They've restaffed coverage. Analysts now have to do more and more and more names to find people who are inexperienced and not know sometimes neither financials nor media companies. Our new analyst at Citibank actually has covered tech stocks, so for Ray and me and Lisa, this is a really interesting challenge because we need to send our ... people, bringing them up to speed on the.... We will be seeing new ratings coming out from Citi and from UBS relatively soon, and we're optimistic about that.

What's the full year guidance? At this point, the consensus on the Street, again we're missing Citi and UBS here because they're kind of out of the picture right at this moment – $2.58, you see that's within our guidance, which is good. The shaded area up there shows the range of guidance that we've put out. And this reflects the new guidance that we've put out as of August 1st. So you see the analysts are within our range, which is helpful. Previously, the analysts were ahead of us....

Now there's the stock price chart. This is challenging. It's troubling. It's not where I'd like to be. It's something we think about every single day. Right now this company has 31 million shares of stock shorted out of 266.9 million shares outstanding. That is an 11% short position. That's a very difficult situation to deal with, and it's one that we're very, very well aware of.

Lately, we started to see some investors come in, given the attractive stock price. It would be helpful if more of the equity analysts ... on the stock that they're looking for some visibility as to what's going to happen in the near term, and that is really the challenge that we're faced with right now....

Here's the five-year stock performance, you see, and the capitalization of the company is now 12.4 billion shares. ...that we have added some leverage to the balance sheet. You may have seen the 8-K filing; $500 million ... we have brought back to the stock actively. We have a rather sophisticated share repurchase program, which boils down to when it's cheaper, we buy more, so we're working on that, and we've been thinking about a number of other things that we need to do to ... help this situation, but it's one that we deal with every single day, and just so you can all rest assured, it's something that is a challenge ... one that we are working on.

With that, I'll turn it back over to Ray and happy to take any questions.

Raymond Good. Your first question is what's the outlook for the rest of the year and what are we doing to manage...? The third quarter is interesting for a number of reasons, but on the financial side, the current market crunch didn't really get traction until August. And August is historically a light month anyway, so what we've got, even for the third quarter, is a lack of visibility. A lot of what happens to Q3 is going to come down to how bad, frankly, September is.

We're fine early in the quarter, meaning July, but then with a very light August, in fact, and a light August for comparison purposes year-on-year, we just don't have a lot of visibility, and it's going to depend on how much September drags down what we saw early in the quarter coming out of July.

You saw or you will recall when we did our earnings call at the end of July, we made some fairly significant revisions to our outlook for the full year. We assume significant slowdown in some of the areas of the structured finance business, slowing activity in the leverage loan market and high yield market. We will have to see whether those reductions were sufficient. I do not expect right now that we're going to find that we were too pessimistic, but we may have been on target or we may have still been too optimistic. We won't know certainly until we get the September numbers….

Don't expect a big recovery in the fourth quarter. As I said before, the subprime mess is going to be an extended problem because of the resets that have to occur over the peak period over the next six months. So we're going to continue to have problems in the credit markets coming from the subprime markets to the extent that that creates a contagion effective…. So I don't anticipate that we're going to have a strong fourth quarter, and we did have a strong fourth quarter last year. So the question will be, did we take down our numbers enough in July, and we don't know yet. That's the honest answer.

As far as expense management, we have what I would call a soft hiring freeze in place now. Meaning that there is no hiring without specific approval from one of four people: Mark Almeida, Brian Clarkson, Linda or myself. And depending on how well that works, we may or may not have to go to a hard freeze.

What I encourage all of you to think about and do, if you are looking for people, is to look inside the organization. And for those of you who are in areas that are soft right now, think about whether you can make people available in other areas where we have needs. That is the first line of defense against us having to take more drastic action in keeping the activities that need to occur occurring. So I very much need you to speak with your friends in the room, as you have hiring needs or as you have excess resource and capacity, so that we're making use of the people who are already in the building to the best of our ability.

2008 I think is going to be challenging for us in part because the first half of 2007 was the strongest we had in five years. So there's not a fix that I think is available to us in the short run to put a lot of points on the board. I don't expect to put a lot of points on the board in the fourth quarter, and I think the first half of 2008 is going to be equally challenging. Again even if the recovery starts to come through in early 2008, it's because the comps are going to be very difficult, the year-on-year comps. I guess the good news is, the second half of 2008 probably should be much more promising ... so there's the silver lining.

As far as how we will react to that from an expense management standpoint, the most honest answer I can give you is I don't know yet. We have to try to make ... intelligent decisions about how much of a cyclical short-term downturn this is or whether there are secular adjustments to the business. There are some areas of the business, I mean for example the subprime mortgage business. Until Wall Street figures out a new name and a new coat of paint to put on subprime mortgages, you're probably not going to see a lot of subprime mortgages.

And so we have some areas that are either going to be in a longer cycle or secular downturn, but certainly not credit generally or a credit globally. I mean even in the U.S., I don't expect to see the broad credit crunch ... a long period of time. The nature of credit crunches that we've seen in the past is that they are very painful, but fairly short lived. And then the market gets back to work. I suspect we will see that again.

To the extent that that is in fact the profile, we have a lot of motivation to make sure that we have the talent inside the building that's ready for that,

that we are positioned to take advantage of market recovery that will occur. We may have to make some adjustments at the margins in some businesses that may not participate in that recovery. But again, I think that's going to be at the margin.

We will manage expenses carefully. We have that obligation to do so. You have that obligation to do so. And it may involve – it certainly will involve non-personnel, non-compensation management, things like offsite parties, travel, and entertainment. All of those things are the first things we look at when we're managing our expenses. We are not going to be having any offsite for the rest of this year. We are not going to be having divisional or departmental holiday parties. We will try to protect the Moody's corporate wide holiday party, so that people can be thanked, frankly, in some sort of positive way for the hard work they've done in a difficult environment, but we'll see.

We may have to, as I said, continue with a hiring freeze for some period of time. We may have to allow attrition and not replace all of our turnover positions. Depending on how bad things are, we may have to look at whether we need to cut personnel, but there are a lot of things we're going to look at before we get to that point, and we're going to watch what's happening in the market, and not just what's happening today, but what we think is going to be happening in 2008 so that we are not caught short in a market recovery.

I'm not going to be caught short. That's just as bad as overspending in a downturn. So we're going to be intelligent about this. I need your help along the way because there is almost no visibility right now, and as you talk to the structured teams, what's in the market, what's going to happen the next six weeks. They're not stupid people, but they don't know. So we're dealing with that kind of ... and we're just going to have to live with it.

What other questions do you have?

The only thing I wanted to add is the goal is not to starve the businesses. That is the goal in I've talked to a lot of the senior folks about what your needs are. You have needs with respect to specific talents or skill sets. Let us know. I mean it's a soft freeze. A good example is Russian banks. We okayed hires for that because we don't have that skill set within the company. What I am seeing is that not everybody is looking that hard yet with respect to who is inside the company, who is outside the company.

It's always easier to go outside and everybody thinks they need everybody they actually do. We need to break down the silos with respect to that.... You really need to do that, and I can't do this by myself, and neither can the SMB or even GMB. You've got to talk to each other to figure out what it is you actually need, whether or not we have it internal because we've got a lot of skill sets internally. For example, language skill sets, analytical skill sets. All you have to do is talk to people and figure out what it is you actually need. Again, you want to make sure that when you're talking to your staff that you're talking about things intelligently. We want to be as efficient as we possibly can be.

I had a town hall in Tokyo and they asked me. They said, "Are we going to be laying people off?" I was as honest as I possibly could be. I said that's the last thing we want to do. And the reason it's the last thing we want to do is that we've got a lot invested in the staff that we actually have to actually let them go and then try to hire them back and try to train them up again makes no sense whatsoever.

And I said, but that said, if 50% of our business goes away, we'll do whatever we have to do. And I think they were fairly satisfied with that, but you want to let people know we're trying very hard to make good, intelligent decisions. I got a call from somebody who is fairly senior. He says, can I still have an offsite. I said, sure, you can have an offsite if you want. You can't have any analysts though. The thing is that everybody has a budget. You have dollars you can actually spend. If you really think the offsite is better than having analysts, you're probably not the guy I want or the person I want running that business. ...things you should be thinking about.

I was talking to Andrew, wherever Andrew is, about should we ... hire people, should we be using headhunters? Get used to it. WE spend millions of dollars on headhunters each year. I'd rather spend it on analysts. If you're asking me how I want to run the business, I want every dollar going to analytical capacity first. Cookie parties, holiday parties, all that kind of other stuff, excess travel, I'd just assume set that aside until you have things come back to normal. So just together, focus on what we're actually doing to talk to each other. Some people actually do it very well, and other people don't. And you have to figure out a solution to them that makes sense.

What's most on your mind that we haven't addressed or haven't addressed to your satisfaction?

M — The fact that maybe we finally have to come together with an industry advocate. Historically we've tried to maintain independence and each of us seems to have a different agenda possibly on minor points. Have you moved forward and reached out to our industry colleagues yet?

Raymond — Yes. There has been some limited reach out. We need to probably do more. I think there are really two reasons why we have been so reluctant about this, this past.... One is it's a very small industry, and a small industry gets very different regulatory ... antitrust grouping, so even what you can do in a large fragmented industry as far as business associations is more difficult to do in a concentrated industry. So we're very cautious about that, probably too cautious historically in terms of balancing the various risks....

The second thing is our industry doesn't really agree with each other very much about many important topics. Standard & Poor's, Fitch, and Moody's probably argue about as many issues for confronting our industry as we agree. So it may not be the most effective business association.

Above that though, if we're going to have or volunteer or construct some kind of oversight board, an industry based oversight board, you've got to come together as an industry in terms of making that decision. This is what Brian was talking about. We're getting a lot of commentary from regulators, especially outside the U.S., I think, that that would be a good idea. It demonstrates a bold move to have an oversight function like a – think of like public accounting oversight and without the regulators or the legislators having to actually do something. What they can do is bless something we have done.

And so if we're going to go with that kind of a bold move, which we are talking about ourselves internally, we've got to get the industry together and have that kind of discussion because there's no way Moody's can create an oversight board.... Yes. Nothing is off the table right now, and even some things we've been very reluctant about in the past, I think we have to go down that....

Other questions? Yes, Greg?

Greg — Actually, I was interested, Ray, to hear your belief that the first thing in the minds of people in this room is the financial outlook for the remainder of the year. Maybe a represent a subset of the group that doesn't speak with a whole, but my thinking is there's a much greater concern about the franchise. Every one in this room is a long-term investor, for sure. This slide speaks to the value of that. It's disheartening, for sure, every day to be faced with what's going on in the press, to see what's gong on with the stock price.

By far though, I think that the greater anxiety being felt by the people in this room and certainly the greater anxiety being ... by the analysts is what's going on with the ratings and what the outlook is and what the unknowns are about the quality of the retains, specifically the severe ratings transitions we're dealing with an rating transitions from a very high level, and uncertainty about what's ahead on that, the ratings accuracy. We've spoken to it obliquely, but it would be helpful if maybe you or anyone could speak to what's going on as far as rating methodology, management, what we should anticipate ahead.

Raymond — No. I'm happy to do that. We were talking on our way into this meeting saying, our expectations, so the two things that would most be on people's minds are what's the financial outlook and the expense management outlook for the company, and then what is the business condition of the company. And I will try to answer this question, but John may not like this. But I plan to send around to all of the MDs later this week the FAQ document that we have created and are in the final stages of tweaking.

This FAQ document does not talk about the financial performance or outlook of the company at all. It is focused on the professional practice of the business, our position of the business, what we think we've done right, what we think, not that we've done wrong, because John says we've done nothing wrong, but what we can improve. I think is going to be, one, a candid, and two, thoughtful piece that you can turn around and use in conversation with analysts, issuers, investors, etc. ...a very complete, I think very robust set of thoughts around the professional practice side of the business....

That being said, our business position I think is still extremely strong, and we may come out of this in a stronger position than we went into it. First of all, people talk about, I mean one of the things that is most ... most upsetting to me and probably to all of you is all of the speculation about ... the industry is corrupt. They've worked with the bankers. They assign high ratings. They do it because they get paid more money, etc.

A couple of things: One, you notice no one, no one has a specific accusation to make. There is not one in the media, and not just of us, of anyone in the industry having actually engaged in a corrupt practice. What they assume is that it must be bad somewhere. We don't know where, but it must be bad somewhere.

The reason they think that, I don't know. Maybe because they're all bad and they assume that we must be because they are. They're not going to find anything at Moody's in terms of corrupt or bad actions. I feel very confident of that. Again, looking for silver lining, remember we had the New York attorney general's office in here 18 months ago and what they were looking at was residential mortgage backed securities, and they went away. It's not as thought we haven't had the books and records and e-mails and deal documents and all of that scrutinized. We have.

We also have, I think, a fairly sophisticated regulator in the SEC that doesn't buy what it reads in the paper. These people understand us to a level that is much better than what you see in the media, and so I don't think we are going to be facing a situation where we have bad actions that are going to become public or that cause us additional regulatory heartache or anything of that....

And so that leaves the question of, okay, coming out of all of this, if we are not corrupt, have we demonstrated the proper independence? Can we make that visible? And are we competent? And the question around competence is this gets back in part to the market education piece. Are the ratings doing what we say they're doing, measuring credit loss effectively? I think what we're going to find is that we had a very unusual, unexpected performance vintage for a part of the structured finance market and that, because of the nature of structured security, they are homogeneous assets packaged together, put into limited operating vehicles. You know what? If there's a problem, they all are going to perform in the same direction at the same time and you can't avoid that. Not because the ratings are bad or good, but because the assets all move in a herd.

That's why 2002, 2003, 2004 all I think materially outperformed in the mortgage backed area our expectations. You can look at it that way. We engaged in massive type 2 error for three years in a row in the mortgage backed securities area.

In structured finance, what happened? You look at the security by year, by vintage. You don't do that in corporate finance. Nobody talks about the 2004 bonds issued in the corporate finance area or the financial institutions area, and so what you're doing is disaggregating the structured securities market into a much more fragmented or slight set of securities than you had on the corporate side. Deployments in the structured finance market is going to be much, much better if you look at it the way you look at corporate bond ratings, which is what's outstanding. What are the defaults for everything that's outstanding? If you take the last ten years worth of residential mortgage backed securities and the issuance that's still outstanding and you look at the problem area, performance isn't going to look that different than what you see in the corporate area, but that's not how people are looking at it right now, so that's one of the things we have to deal with.

Our performance is going to, I believe, reveal to be much better than market prices would imply currently, and yet the 2006 … is going to be worse than our expectations. It's going to create a lot of pain for us, as we work through that. Brian, I don't know if you want to add anything to … question.

Brian I think you were talking about specifically with respect to the ratings … basis. I think that was the other part of this question. And we've got a separate monitoring team set up by Nick ... who is monitoring all the ratings, all the '06 vintage on a going forward basis. Frankly we don't know and the reason we don't know is because, as Ray said, we're in the middle of reset.

We are talking to all the servicers to figure out what their plans are. I can say that what we're hearing so far is not all that encouraging with respect to what they plan on doing. If in fact they're going to perform worse than we currently think, we will continue to downgrade securities. As Ray said, they do move together.

What we found so far, and this may not bear out towards the end, but we found out is that we have a barbell affect. You've got the '06 vintage that I would still say the majority of the securities in the '06 vintage are performing within expectations. What we are seeing is at the other end of the barbell, we've seen some pretty horrific performers.

The best example is Long Beach where, if you take a look at their '05 vintage, which is tracking 4%, 5%, their '05 vintage, which you know is – I don't know if the volume is with respect to this – tracking at about 4%

loss. Their '06 vintage is tracking at 16% to 17% loss. If you take a look at the pool, they look pretty close if you look at all the pool factors.

There's a lot of fraud that's involved there, things that we didn't see. I mean when we'd be able to do … forward basis, we're going to talk. We're taking a look at our methodologies and our approaches. We're sort of retooling those to make sure that we capture a lot of the things that we relied on in the past that we can't rely on, on a going forward basis.

But the take home is, if it's worth … and the quick answer is we don't know how it's going to be two to three years from now. We have to take a look at the next six months to see how the resets are going to come in.

Now that doesn't mean the losses have to come in for us to take action. If in fact we see that there's not going to be a lot of modification as the resets come in and losses are coming in, we'll project that out and make assumptions….

Raymond It's actually quite interesting that we're being asked to figure out how much everybody lied. That's really what we're being asked to do. I mean if all of the information was truthful and comprehensive and complete, we wouldn't have an issue here. And if all of the information was inaccurate, there would be no information. There would be no securities market.

What we're really being asked to do is figure out how much lying is going on and bake that into a credit ... which is a pretty challenging thing to do. I'm not sure how you tackle that from a modeling standpoint.

Other questions? Yes.

W ...with regulators and with investors. How about issuers?

Raymond I have not been focused on the communications initiative with issuers, but I think that that has been handled much more comprehensively directly at the group level. I don't know if ... or Claire or anybody wants to comment on that. But for example, the servicer survey, talking to all of the services in the market and arrangers, talking to the bankers, the issuers about what their expectations are for issuance, that level of conversation is certainly going on. I don't know if you mean something different like asking them how much they've been lying to us or something like that.

Yes. First of all, we have been doing some of that, even at a more generalized level. One major rating advisor on the Street contacted Chris and was looking for some ... feedback. And I think we will be taking that, again probably working off of this FAQ document, and getting some more macro points of view out into these guys' hands, again because to the extent that we've got some ... out there, we want them to have the tools to answer the criticisms.

This is actually why we drafted the FAQ was because we got an invitation from some regulatory authorities in effect saying we think we can help on some things, but we need the terminology and we need your points of view if we're going to be able to help. I think that's very similar with rating advisors and with some of the more influential banks ... but really the intermediary community especially.

M You just mentioned that people out there are looking for us to measure when people are lying. Have we considered turning that into a business, effectively measuring the incentive? It seems to me that this problem is the incentive structure where people are incentivized to lie.

Brian — We think we can make a business out of measuring how much people lie for the incentives.

Raymond — No. Brian was saying, in effect we're going to have to, and whether that's part of the existing business, and obviously when we talk out in the market, we don't say gee we need the liars. But what we say is look it's the same thing we said.... We've got to be more skeptical. We've got to doubt what we're hearing more aggressively than we might be inclined to, but it is difficult to try to calibrate how much information is good information and how much is bad, especially if people – I mean it's one thing to say, they're only giving us the positive story. We understand that ... but if they're breaking the law, which they are doing, I mean they are violating reps and warrantees. There is a body of thought that lying to a rating agency in contemplation of a security ... is a violation of federal securities law. People are doing that, and so it is going to be a challenge.

I think the way it gets handled most practically is you recalibrate for how bad you think the information is and add credit enhancement to that, at least in the structured finance area. It's a practical solution to a conceptual or philosophical problem that it's not the most satisfying answer, but it may be the only answer available.

W ...include those incentives in our own ratings of the credit of the underlying, I think one of the things that he's thinking about is exposing some of those incentives on a going forward basis to say, we're rating this and here are some of the incentives that are behind it at each point in the process of creating that product. Is there a market for that? Is there somebody out there who would want to know that, because we're in a position of being able to see that along the way?

M Yes. Please.

Raymond The thing that I would add is, we've mentioned this before, the silver lining is when you have this type of market disruption, there's always an opportunity to do something different. What happens is, as long as things are going extremely well, no one cares. You may or may not know, but the last few years, we tried to put some products out into the marketplace that sort of dealt with this issue, transaction government assessment for structured finance when you take a look at the contracts themselves and the protections that are there, and you sort of opine with respect to how good they are, how safe they are, how many there are. No one cared.

We talked about trustee ratings. We thought that was something that made sense. Are the trustees doing what they should do? Do they have a fiduciary responsibility? No one cared.

And so what happened was, it was a slippery slope. As you see markets that are robust, an example would be what happened recently in commercial mortgages, or more importantly what happened with subordinated traunches in residential mortgages in '04 and '05. What happened in '04 and '05 with respect to subordinated traunches is that our competition, Fitch and S&P, went nuts. Everything was investment grade. It didn't really matter. It's all going into CBO.

We virtually rated, what, 20%, Michael?

Michael — Twenty-five.

Raymond — Twenty to twenty-five percent of that market. We tried to alert the market. We said we're not rating it. This stuff isn't investment grade. No one cared because the machine just kept going.

In commercial mortgages recently, we actually sort of increased our credit enhancements. We lost 50% of our coverage with respect to that, and so this is an opportunity for us to say, okay, what is it that we're going to need to see on a going forward basis? What are the things, the checks and balances that weren't in place that are in place now? Some of the things that we're thinking about are things like third party oversight, a post-closing audit. This is the time to make things stick.

The same thing happened after Enron. After Enron, we were able to sort of take a fresh look at the marketplace and say these are the things that, on a going forward basis, we're going to have to see … rating. We have to be very visible about it. We have to be very decisive about it. We have to be very open about it.

In some cases, it may be that because of the lack of robustness or truth in the information we're getting, we're going to have to say no. We can't rate this until we start seeing these things. I think that's what the market expects from us. Yes, there is an opportunity. We just have to figure out how to get there and make sure that we're letting the regulators know this is what we're doing. Yes. Things like transaction government assessment, trustee rating, post-closing audit, getting due diligence information in-house. We can actually say now we have to have that without anybody sort of saying, we don't really care anymore. The market….

W — My question is, given the stock price, given where it is right now, are we concerned about a takeover?

Raymond — Linda…. We actually were – I at least was more concerned about a takeover when we were up around $18 billion, $19 billion and the market…. There was a lot more money available for takeovers in that market. And the difference between the $12 billion market cap and a $19 billion market cap for the folks that would think about taking us over is pocket change.

But one of the interesting correlations here has been that as our market cap has come down, the ability to leverage has come down. And so someone is still going to have to write a very sizeable check if they want to have a takeover of Moody's, and we still have a very concentrated holding. Our top ten investors hold about 50% of the stock, not quite, but almost 50% of the stock.

That doesn't mean you can't persuade a couple big investors that they want to sell, but they are certainly, I mean as our board would, I would think our big investors would say, "Look. It's interesting that you want to take Moody's over at 45, but we're going to look at where the stock has traded over the last two years … think about what the value, the intrinsic value of this firm is, and you can add a premium onto that." That would be my guess in terms of how both the board and large investors would react. It's not a point in time. It's what do we think the intrinsic value is. Where is it going to be two years from now?

Although not being a public company wouldn't be all bad.

M — We've always been very successful in any court, any legal battles we've had where people have tried to sue us. In this present environment, is there a new kind of argumentation being used in any potential lawsuits that's different than the kind that we've faced in the past?

Raymond — Yes. Well the arguments on the structured finance side would be that because the process is more iterative, and because frankly people think we do some things we don't do … advisory function, that just really doesn't hold water, but because there's more interaction, we occupy a role that is not as readily analogous to a publishing, financial publisher with the traditional first amendment protection. That's the argument.

The response to that is it's still the same process. We are still putting opinions about the future ... market, and those opinions are being made available to the general public on matters of public interest, which is exactly what the first amendment is designed to protect. So I think we still have very good responses.

There have been some other things like are we an underwriter. Well, that's an easier issue to tackle. You know, just under black letter wall. What is the definition of an underwriter? And if you've got a named underwriter in a transaction, you go looking for other parties who are not named underwriter, and declare them underwriters, and there's significant bodies of case law saying we don't do that. We always have underwriters in the securities that Moody's rates, so a lot of the noise around this I think is just that, noise. And then there's the component of our ability, which I think is the more real component of this. Our ability demonstrates that opinions issued to the public are maters of public interest are the same on all sides of the business. That's the argument that we're going to have to make. Is that a fair statement ... summary?

M ...issues.... What is this underwriter theory, which as Ray more politely than I would have been, is basically ... from a securities law point of view, but the other issue is a legitimate issue just because we've been so fortunate to have virtually no ... in the area of structured finance ratings. ...supplied the same analysis they've applied in the public finance sector, in the corporate sector for structured ratings. We think any differences are legally insignificant and we believe they will, but it's just a matter of some court will decide, hopefully not any time soon, but it hasn't been decided yet.

Raymond Hopefully we won't find out.

M Hopefully we'll never find out.

Raymond Others?

M When do we expect going forward from regulatory authorities as far as at the team MD level? Do we expect to have the SEC coming in and interviewing lots of people or just what kind of involvement should we be expecting?

Raymond — I guess I at least am not sure. Gene or John may have a little better idea on this, but the SEC can kind of do what it wants, and I would imagine that, for example in the subprime area, they're going to want to dig a lot deeper than they are in this sector right now just because of what's happening in subprime. So I would expect it will get down to team MDs and analysts, especially if they find anything interesting. Why was this deal rated this way compared to this deal? What were the differences? They're going to want to go to the person who actually knows what they're talking about. So I think in some areas, we will see that kind of reach down, but not everybody in the company. They just don't have the resources to do that, even if they wanted to.

Yes. Please.

W — I like that. I think as Ray said before, the SEC, the division of market regulation is ... SEC that has historically had purview over rating agencies and they will continue to have that purview under the new regulations. And there are a few people within the division of market regulations who some of them have been there since the NRSO designation was first created in 1975. So they have individually a 30-year history of dealing with rating agencies. So there are people in the division of market regulations who have a fairly good understanding of what we do. And, as Ray said, very importantly, they tend to ignore all the noise in the media, whereas the politicians, for example, feed on what's in the media.

But in terms of inspection kinds of resources, today they really don't have any resource ... specialized in rating agencies. When we've had SEC inspections in the past and we have had them from time-to-time, they've been the generalized investment advisor inspection people from the division of the Office of Compliance Inspections and Examinations, and the division of market regulations is working to hire a few people to specialize in rating agencies. I don't know if they've gotten there yet. So we can expect that, over time, their intent is to develop more expertise in rating agencies ... we'll have to help them, as we've helped them in many other areas in the past.

But I think it's important in terms of the review that the SEC ... specifically said that their objective is not to second-guess ratings. It's to look at the ratings process, the integrity of the process, how rating agencies manage conflicts of interest. And as Ray said, that will necessarily involve discussions with people, but it's not to say you rated this a Baa and we think it should have been a Ba1. Why is that? It's more, how did you undertake the process … consistent in how you're dealing with issuers, etc.

M I'm just answering every question that I think is meaningful. You joked a little bit about maybe it wouldn't be so bad to be a private company. If you think about the distraction, I guess, a necessary distraction that senior management has to dedicate towards public reporting and all that kind of stuff, and on one hand how supremely jealous people probably are terrific performance financially. Yet, at the same time, those people have an ax to grind with us are … when they see that terrific performance, right, as far as how they're getting just a little too much out of me. Is it feasible that it would be one of the past? Like you said, maybe it was a bold move. Maybe we have to do something different to remove ourselves from being the punching bag for our industry at the moment because neither of our competitors have transparent performance reporting. And again, it just seems a possible likelihood or opportunity.

Raymond Well, as far as a management buyout, unless someone is much wealthier than I am, it's not that feasible. In terms of whether any of our large shareholders might be interested in increasing their stake, that's a phone call away. They don't need us to invite them to take a larger stake. They just have to express their interest, and then it's a matter that the board has an obligation to consider if they express that kind of interest.

So far, they have not expressed that kind of interest. I think they're satisfied. I mean they're very stable large shareholders. But we haven't gotten any inquiries about how about we take another … company.

Besides, if we weren't public, then the senior management wouldn't have all these jobs to do. We'd be unnecessary.

I want to thank you very much for your -- Yes. I will thank you for your patience this morning and then let Brian talk to you. I do want to say though, what you take out of this room and what you go and talk to your teams about, your analysts, your support … about is what Brian was saying earlier today. You're really the main communication channel. We'll do an all employee town hall meeting, but what they hear from you … whether you are feeling positive or not positive, how you are explaining our business position, all of that primarily what they think is going to come from you. You're the best antidote to the media attention, the negative media attention that we are getting because I don't think it's likely we're going to start getting a lot of … stories about Moody's coming up and congratulating us on the great work we do. So you are our main conduit for that and I very much appreciate what effort you can make on that side.

First of all, tell it like it is. I don't think you have to shy away from telling people the truth. Be as candid as you can. Where you don't know, tell them you don't know. If the questions are something that should come up and we should try and address as a team, let me know. Let someone else know. And I think people will appreciate it. I certainly appreciate it when I feel like I'm getting a straight story, and I imagine that's going to be true throughout the organization. Brian, do you want to—

Brian Yes. I just wanted to echo a couple things that Ray said. Most everyone in this room has a benefit of experience, and I think the one take home message that actually was, I think, in your presentation is that this too shall pass. Chris, how long have you been with the company?

Can you give Chris the microphone?

And I think it's important. I don't want to downplay what's going on now. It's very serious from a market standpoint. It's very serious from a company standpoint. Chris, how many crises have you seen since you've been at Moody's in 22 years? I'm serious.

Chris Probably ten.

Brian Name some of them.

M How many were...?

Chris Quite a few.

Brian Just give us a quick rundown on some of that.

Chris Well we downgraded all of the Money Center Banks twice, three times really, which wasn't too popular. Chester destroyed the U.S. life insurance industry, which wasn't too popular. We had, of course, JDA. We had Enron, WorldCom, the telecom bubble, Virgin Energy, East Asia. Oh my goodness. I forgot about East Asia. Yes. About every three years.

M (Inaudible.)

Chris Yes. That was a little minor item.

Brian Yes. The … investigation, and that's downplaying it. The issue is that most of you in this room have a benefit of multi-crises at Moody's Investors Service. Most everyone else doesn't. Most of the people that report to you don't have that sort of experience. They haven't been through it. And this is real for them. And I can remember the Department of Justice investigation towards … pled guilty to a single count of obstruction of justice. There were administrative assistants crying in the hallway because they thought that our company was done with because they don't know.

And I think it's very important not to be very cavalier about it. We can laugh about the fact that we've had lots of crises, but a lot of people that report to you have never been through this before. And I will tell you that in all the crises I've been through, this is the worst I've ever seen from a press standpoint. I've never seen press this bad before. And I realize the motivations are different. But at the end of the day, you have to take that into consideration when you're talking to your people. I will tell you, you should be candid, but you should also take it from the position this is the first time they've ever seen it, and for a lot of people it actually is.

The other thing I want to say is that if there's something that we're missing, if there's something that you're hearing in your meetings, and I encourage you all to have meetings with your teams and listen to what they have to say. If there's something that we're not conveying, if there's something that we can communicate, let us know. We're happy to do that.

...suggested, outside of the structured finance group, if you want somebody from ... talk about what happened in subprime or what's going on, that makes perfect sense. The more information you have, the better off you are. We've got to communicate. So if there's something we need to be doing or something we should be telling people, whether it be inside, outside, let somebody know because we'll get through it. We'll get through it just like we've gotten through everything else that we've done. We have to make sure that we restore confidence internally and externally. And so we have to do this together. That's really all I have.

Thank you, all.

Moody's MD Town Hall Feedback - September 2007

Did the meeting address the topics of greatest concern to you as an MD? If no, please elaborate:

- Franchise risk. Also how stresses are affecting competitors and what that means for us, both good and bad.
- Greg Bauer's question on ratings -- right question, weak answer. The premise of the question was valid as well: many Moody's associates will care more about ratings quality than about short-term financial impact, communication planning or regulatory mgmt.
- Generally, but Greg Bauer's question about "what's still to come" on rating actions should be addressed more proactively up front -- even if the answer is we don't know but we are working hard to stay on top of it. What can we expect in terms of additional rating actions in this area?
- Intermediary outreach.
- Multi-notch downgrades in Structured Finance (SIV's and others) - what exactly were reasons for that and what are lessons? Doesn't an Aaa rating also imply a certain low migration risk?
- Perspective on rating transitions: '07SFG vs. historic SFG and CFG. Every time I see an Aaa downgrade, I wonder if our transition stats are way higher in this credit crunch than "normally".
- Really no discussion of why the structured group refused to change their ratings in the face of overwhelming evidence that they were wrong.
- JDA and now sub prime both illustrate that the market wants more out of our ratings than we are providing. They want assets which are rated the same to behave in broadly the same way. If an Aaa rated asset is trading at 80 cents to the dollar it can not be the same as an Aaa rated asset that always trades close to par. Are we intending to refine our methodology to incorporate elements of market risk in our ratings such as: how long has the asset class existed, how liquid is it and how much experience do we have with regard to its behavior under market stress?

Did you have questions following the meeting? If so, what are they?

- Are there lessons from Enron/WorldCom that we can point to about how we communicate our role in the capital markets?
- Would like more information on legal implications of the situation
- How much of the planned IT investment will go forward, how much can be deferred without crippling our ability to communicate, send bills etc? Also, what about the Rebranding?
- I think a key issue is how far we can go in accepting part of the blame for having missed something on the sub prime market and then for making massive (5 or more notches)downgradings while adjusting our methodologies constantly but without consultation. It would really help to be able to say that we accept the critic as fair on some isolated issues. After all we say we provide opinions, we don't say we always provide the "right" one.
- Competition
- Very bad transmission over the phone meant that many presentations could not be fully heard, and among the questions asked only those of Greg Bauer (when using microphone I believe) were understood. Linda Huber and Jeanne Dering were hardly audible as they may have been too far away from the microphone.
- How will EPIC wok this year? How likely is it for MD to be paid less than SVPs?

- Who is going to accept responsibility within Moody's for the lack of oversight of structured ratings group?
- In speaking with our largest investors, what have you heard in terms of their confidence in our franchise and their likelihood to hold their positions?
- Yes, mainly how to interpret some of the comments from the perspective of Moody's Analytics.
- Better discussion of the risks of a change in the "issuer pays" model, and how Moody's is addressing that risk.
- When building the expense budget for 2008, if expense reductions are deemed appropriate will all businesses be impacted equally as a percentage, or will budget assumptions be built with an eye towards contribution to revenue and forecasted growth?

What topic(s) discussed at the meeting did you find most important to your area of the business?

- Expense outlook, What we are doing to "fight back", What we are doing about legal and regulatory issues.
- Plan for communicating to external and internal stakeholders; plan to mitigate op-inc impact by managing expense; commitment to protecting current headcount and cutting it only as "the last thing you want to do" (quoting B. Clarkson)
- expense related discussions and media out reach strategy
- Expense budget, Media strategy, Stock price, Sub prime: what went wrong
- Public relations initiative, financial outlook, legal issue, regulatory status
- Our preparedness to engage and present our views.
- What is our short term communication plan both internally and externally?
- What steps are we taking to address the wider issues relating to what the market expects from our ratings and rating agencies in general?
- Company outlook short and medium term
- Decisions and orientation regarding business operations: spending, hiring, the qualitative read on revenue performance, etc.
- Soft hiring freeze, expense reductions.
- Long-term outlook, hiring freeze
- Reception with Media vs. Regulators vs. Politicians, and our need to propose a solution.
- Regulators' will to control rating agencies
- That we will invest where there are opportunities. I appreciate the fact that we will think about the best course of action for our company rather than a knee jerk reaction to market developments. I am encouraged by the multi-phased plan to address the current challenges and senior management's open-mindedness on how we should react.
- Accuracy of the SFG ratings
- How this situation may provide the opportunity to change how we do our business.
- Regulatory issues
- Regulation related
- Plans for the future
- The discussion concerning the reaction of the regulators to the current situation and management's strategies for communicating with media, investors and Congress. Also the comments with respect to resource and expense management.
- Near-term actions (hiring freeze, layoffs, etc.) Moody's is taking because of the market downturn.
- Media outreach

- I would like to see more specific discussion about how we might address the perceived conflict in structured finance ratings-- what specific steps might be possible for us?
- Need for very conservative expense management.
- The overall view of how Moody's as a company is responding to the sub prime crisis was probably more important than any business unit specific topic.
- Discussion of the regulatory environment. Explanation of rationale for expense reduction.
- Generally, I thought the most important topics were:
  1. The active management outreach to the press and regulators, and the latters' responses.
  2. The outlook for MCO
  3. The perspectives comparing this to past "crises" for the firm.

What else would you like senior management to address at Friday's company-wide Town Hall Meeting?

- Very little discussion on non-US markets.
- Exercise price of options.
- In the context of the soft hiring freeze, what analysts should expect as regards promotions and raises.
- Needs a positive, non-reactive, upbeat component, both for internal and external consumption: something like "we are in the investor protection business, that business rests on faultless ethics and world-class analytics. We are proud of our track record in the markets we have served over the last 100 years..." It sounds basic but it needs saying; the reason to say it inside Moody's is to create the echo outside -- the main audience is outside.
- Recognizing that our ratings are credit ratings and nothing more, what really went wrong with Moody's sub prime ratings leading to massive downgrades and potential more downgrades to come? We heard 2 answers yesterday: 1. people lied, and 2. there was an unprecedented sequence of events in the mortgage markets. As for #1, it seems to me that we had blinders on and never questioned the information we were given. Specifically, why would a rational borrower with full information sign up for a floating rate loan that they couldn't possibly repay, and why would an ethical and responsible lender offer such a loan? As for #2, it is our job to think of the worst case scenarios and model them; why didn't we envision that credit would tighten after being loose, and housing prices would fall after rising, after all most economic events are cyclical and bubbles inevitably burst. Combined, these errors make us look either incompetent at credit analysis, or like we sold our soul to the devil for revenue, or a little bit of both. Moody's franchise value is based on staying AHEAD OF THE PACK on credit analysis and instead we are in the middle of the pack. I would like more candor from senior management about our errors and how we will address them in the future.
- More information on regulatory status
- I think the management should try to boost a bit the morale -- saying again that although we're not perfect; our company makes a worthwhile contribution to capital markets.
- The issue of staff retention came up in the Q/A, but it would be useful for senior management to discuss the soft hiring freeze, budget constraints and staff retention directly (it is helpful for people to hear that staff reduction would only be an absolute last resort and that senior management understands the value of our personnel, etc.).
- Do we feel that the reason that aspects of the press are being so critical is not because we are not communicating with them well enough but that they are just not satisfied with our response?

- Maybe how the corporation intend to respond the to the challenge raised by the regulators for providing solutions (in committee, senior management, working groups etc)
- Who can talk about our involvement in Sub-prime, etc? Is it limited to just a few, and the rest should refrain from any comment to the press, or should many more be authorized and trained to deliver our message to many constituents. A game plan for analyst/MD participation (or not) in delivering the message would be helpful.
- How we intend to communicate our views to key intermediaries (and by extension the issuer community).
- Appreciation for the efforts of the analysts - especially in the areas that have been hardest hit by the crisis.
- Give more detail on hiring policy, i.e. preference of internal hirings, what is policy for areas which still exhibit significant growth in new rating mandates (emerging markets).
- Please ensure that speakers have microphone on their tie/dress so it can be hear more clearly.
- Emphasis that senior management believes that the analysts in these areas did their best in rating the transactions and that they believe that the accusations in the press about conflicts of interest are baseless
- More comparison of this "crisis" to other challenges in the company's history
- Better discussion of the risks of a change in the "issuer pays" model, and how Moody's is addressing that risk. Also would be good to specifically discuss staffing issues.
- Downgrade of triple A rated CDO tranches
- Compensation, effects of low stock price on keeping people

How do you plan to relay the information from Monday's meeting to your team?

- Share some of the points from today's presentation at our group's next team meeting.
- one on one discussions
- I gave a basically upbeat summary at my weekly staff meeting.
- staff meetings and one-on-one meetings
- Team meeting.
- In-person meeting with the whole team followed up by one-on-ones where relevant.
- Nothing to relay.
- During regular team briefings. Informal discussion group on all topics raised
- I will address each team staff meeting this week and stress the long term fundamental strength of the franchise and encourage all to ask me questions
- Appropriate content will be relayed at team meetings.
- Has already been added as an agenda item in my team meeting set for 9/11. Will specifically encourage everyone to attend Friday Town hall.
- Meetings and one-on-one
- We are meeting tomorrow 9/10 to relay the information and to give our analysts time to think up the questions they would like to ask on Friday.
- implore them to participate in the town hall meeting and reinforce thoughts at our next team meeting
- Holding small meetings (3-4 person a time) with all the team members. This will give more opportunity to ask questions.
- Via team meeting after they have heard Friday's meeting.
- Ray is personally meeting with my team tomorrow (coincidental).
- I have regular team meetings where I will relay the information (but will wait for Friday's townhall)
- We will likely have a team meeting to discuss some of the points made

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July 11, 2007

S&PCORRECT: 612 U.S. Subprime RMBS Classes Put On Watch Neg; Methodology Revisions Announced

Primary Credit Analysts:
Susan E Barnes, New York (1) 212-438-2394; susan_barnes@standardandpoors.com
Robert B Pollsen, New York (1) 212-438-2577; robert_pollsen@standardandpoors.com
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com

Secondary Credit Analysts:
Michael Stock, New York (1) 212-438-2611; michael_stock@standardandpoors.com
Monica Perelmuter, New York (1) 212-438-6309; monica_perelmuter@standardandpoors.com
Martin Kennedy, New York (1) 212-438-2509; martin_kennedy@standardandpoors.com

Global Practice Leader-ABS/RMBS Ratings:
Rosario Buendia, Global Practice Leader-ABS/RMBS Ratings, New York (1) 212-438-2410; rosario_buendia@standardandpoors.com

Chief Quality Officer-SF Ratings:
Thomas G Gillis, Chief Quality Officer-SF Ratings, New York (1) 212-438-2468; tom_gillis@standardandpoors.com

(**Editor's Note:** In a previous version of this release, dated July 10, 2007, the amount and percent of affected collateral, noted in the second paragraph, were misstated. A corrected version follows.)

NEW YORK (Standard & Poor's) July 11, 2007--Standard & Poor's Ratings Services said today it placed its credit ratings on 612 classes of residential mortgage-backed securities (RMBS) backed by U.S. subprime collateral on CreditWatch with negative implications (see list below).

The affected classes total approximately $7.35 billion in rated securities, which represents 1.3% of the $565.3 billion in U.S. subprime RMBS rated by

Permanent Subcommittee on Investigations
EXHIBIT #99

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July 12, 2007

Various U.S. First-Lien Subprime RMBS Classes Downgraded

Primary Credit Analysts:
Susan E Barnes, New York (1) 212-438-2394; susan_barnes@standardandpoors.com
Robert B Pollsen, New York (1) 212-438-2577; robert_pollsen@standardandpoors.com
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com

Secondary Credit Analysts:
Michael Stock, New York (1) 212-438-2611; michael_stock@standardandpoors.com
Monica Perelmuter, New York (1) 212-438-6309; monica_perelmuter@standardandpoors.com
Martin Kennedy, New York (1) 212-438-2509; martin_kennedy@standardandpoors.com

Global Practice Leader-ABS/RMBS Ratings:
Rosario Buendia, Global Practice Leader-ABS/RMBS Ratings, New York (1) 212-438-2410;
rosario_buendia@standardandpoors.com

Chief Quality Officer-SF Ratings:
Thomas G Gillis, Chief Quality Officer-SF Ratings, New York (1) 212-438-2468; tom_gillis@standardandpoors.com

Media Contacts:
Adam M Tempkin, New York (1) 212-438-7530; adam_tempkin@standardandpoors.com
Chris Atkins, New York (1) 212-438-1106; chris_atkins@standardandpoors.com

(**Editor's Note:** This press release is being republished to facilitate access to the ratings list and the releases mentioned in this article.)

NEW YORK (Standard & Poor's) July 12, 2007--Standard & Poor's Ratings Services today addressed the July 10, 2007, CreditWatch actions on 612 U.S. residential mortgage-backed securities (RMBS) backed by U.S. first-lien subprime mortgage collateral rated from the fourth quarter of 2005 through the fourth quarter of 2006 (originally stated to represent $12.018 billion in rated securities and later corrected to $7.35 billion). Furthermore, Standard & Poor's also today addressed the CreditWatch actions taken before July 10, 2007, involving 70 classes of RMBS backed by first-lien subprime mortgage collateral rated from the fourth quarter of 2005 through the fourth quarter of 2006.

Table 1

U.S. First-Lien Subprime RMBS July 12, 2007, Ratings Lowered And Off CreditWatch Negative (cont.)					
46602WAP9	IXIS Real Estate Capital Trust 2006-HE2	B4	CCC	BBB-	Watch Neg
46602UAN8	IXIS Real Estate Capital Trust 2006-HE3	B3	BB-	BBB-	Watch Neg
46602UAP3	IXIS Real Estate Capital Trust 2006-HE3	B4	BB-	BBB-	Watch Neg
46602UAQ1	IXIS Real Estate Capital Trust 2006-HE3	B5	B	BB+	Watch Neg
46626LFY1	J.P. Morgan Mortgage Acquisition Corp. 2006-FRE1	M10	BB	BB+	Watch Neg
46626LFZ8	J.P. Morgan Mortgage Acquisition Corp. 2006-FRE1	M11	B	BB	Watch Neg
46626LKA7	J.P. Morgan Mortgage Acquisition Trust 2006-NC1	M10	BB	BB+	Watch Neg
46626LKB5	J.P. Morgan Mortgage Acquisition Trust 2006-NC1	M11	B	BB	Watch Neg
46629NAR4	J.P. Morgan Mortgage Acquisition Trust 2006-RM1	M10	B	BB+	Watch Neg
46628SAS2	J.P. Morgan Mortgage Acquisition Trust 2006-WF1	M8	B	BBB-	Watch Neg
46628SAU7	J.P. Morgan Mortgage Acquisition Trust 2006-WF1	M9	B	BB+	Watch Neg
46626LHL7	JP Morgan Mortgage Acquisition Corp 2006-FRE2	M10	BB	BB+	Watch Neg
46626LHM5	JP Morgan Mortgage Acquisition Corp 2006-FRE2	M11	B	BB	Watch Neg
542514PE8	Long Beach Mortgage Loan Trust 2005-3	M8	BB	BBB	Watch Neg
542514RU0	Long Beach Mortgage Loan Trust 2006-1	M7	BBB	A	Watch Neg
542514RV8	Long Beach Mortgage Loan Trust 2006-1	M8	BBB	A-	Watch Neg
542514RW6	Long Beach Mortgage Loan Trust 2006-1	M9	B	BBB+	Watch Neg
542514RX4	Long Beach Mortgage Loan Trust 2006-1	M10	B	BBB	Watch Neg
542514RY2	Long Beach Mortgage Loan Trust 2006-1	M11	CCC	BBB-	Watch Neg
542514UA0	Long Beach Mortgage Loan Trust 2006-2	M6	BBB	A	Watch Neg
542514UB8	Long Beach Mortgage Loan Trust 2006-2	M7	BB	A-	Watch Neg
542514UC6	Long Beach Mortgage Loan Trust 2006-2	M8	B	BBB+	Watch Neg
542514UD4	Long Beach Mortgage Loan Trust 2006-2	M9	B	BBB	Watch Neg
542514UE2	Long Beach Mortgage Loan Trust 2006-2	M10	B	BBB-	Watch Neg
542514UF9	Long Beach Mortgage Loan Trust 2006-2	B	CCC	BB	Watch Neg
542514US1	Long Beach Mortgage Loan Trust 2006-3	M6	BBB+	A+	Watch Neg
542514UT9	Long Beach Mortgage Loan Trust 2006-3	M7	BBB	A	Watch Neg
542514UU6	Long Beach Mortgage Loan Trust 2006-3	M8	BB	A-	Watch Neg
542514UV4	Long Beach Mortgage Loan Trust 2006-3	M9	B	BBB+	Watch Neg
542514UW2	Long Beach Mortgage Loan Trust 2006-3	M10	B	BBB	Watch Neg
542514UX0	Long Beach Mortgage Loan Trust 2006-3	B	CCC	BBB-	Watch Neg
54251MAM6	Long Beach Mortgage Loan Trust 2006-4	M7	BBB	A	Watch Neg
54251MAN4	Long Beach Mortgage Loan Trust 2006-4	M8	BB	A-	Watch Neg
54251MAP9	Long Beach Mortgage Loan Trust 2006-4	M9	B	BBB+	Watch Neg
54251MAQ7	Long Beach Mortgage Loan Trust 2006-4	M10	B	BBB+	Watch Neg
54251MAR5	Long Beach Mortgage Loan Trust 2006-4	M11	B	BBB-	Watch Neg
54251MAS3	Long Beach Mortgage Loan Trust 2006-4	B	CCC	BB+	Watch Neg
54251PAN7	Long Beach Mortgage Loan Trust 2006-5	M8	BB+	BBB+	Watch Neg
54251PAP2	Long Beach Mortgage Loan Trust 2006-5	M9	BB	BBB+	Watch Neg
54251PAQ0	Long Beach Mortgage Loan Trust 2006-5	M10	B	BBB	Watch Neg
54251PAR8	Long Beach Mortgage Loan Trust 2006-5	B-1	B	BBB-	Watch Neg
54251PAS6	Long Beach Mortgage Loan Trust 2006-5	B-2	CCC	BB+	Watch Neg

Table 1

U.S. First-Lien Subprime RMBS July 12, 2007, Ratings Lowered And Off CreditWatch Negative (cont.)					
54251RAP8	Long Beach Mortgage Loan Trust 2006-6	M9	BBB	BBB+	Watch Neg
54251RAQ6	Long Beach Mortgage Loan Trust 2006-6	M10	BB	BBB	Watch Neg
54251RAR4	Long Beach Mortgage Loan Trust 2006-6	M11	B	BBB-	Watch Neg
54251TAR0	Long Beach Mortgage Loan Trust 2006-7	M11	B	BBB-	Watch Neg
542514SN5	Long Beach Mortgage Loan Trust 2006-WL2	M9	BB-	BBB-	Watch Neg
542514SP0	Long Beach Mortgage Loan Trust 2006-WL2	B1	B	BB+	Watch Neg
542514SQ8	Long Beach Mortgage Loan Trust 2006-WL2	B2	CCC	BB	Watch Neg
542514SR6	Long Beach Mortgage Loan Trust 2006-WL2	B3	CCC	BB-	Watch Neg
542514TF1	Long Beach Mortgage Loan Trust 2006-WL3	M9	BB	BBB-	Watch Neg
57643LMJ2	MASTR Asset Backed Securities Trust 2005-FRE1	M9	B	BBB-	Watch Neg
57643LMK9	MASTR Asset Backed Securities Trust 2005-FRE1	M10	CCC	BB+	Watch Neg
57643LKV7	MASTR Asset Backed Securities Trust 2005-HE2	M10	BB	BBB-	Watch Neg
57643LKW5	MASTR Asset Backed Securities Trust 2005-HE2	M11	B	BB+	Watch Neg
57643LMY9	MASTR Asset Backed Securities Trust 2005-NC2	M9	BBB	A	Watch Neg
57643LMZ6	MASTR Asset Backed Securities Trust 2005-NC2	M10	BBB-	A-	Watch Neg
57643LNA0	MASTR Asset Backed Securities Trust 2005-NC2	M11	BB+	BBB+	Watch Neg
57643LNB8	MASTR Asset Backed Securities Trust 2005-NC2	M12	B	BBB+	Watch Neg
57643LPV2	MASTR Asset Backed Securities Trust 2006-FRE1	M6	BBB-	A-	Watch Neg
57643GAL1	MASTR Asset Backed Securities Trust 2006-FRE2	M6	BBB-	A-	Watch Neg
57643GAM9	MASTR Asset Backed Securities Trust 2006-FRE2	M7	B	BBB+	Watch Neg
57643GAN7	MASTR Asset Backed Securities Trust 2006-FRE2	M8	B	BBB	Watch Neg
57643LRD0	MASTR Asset Backed Securities Trust 2006-HE1	M-9	BBB	A	Watch Neg
57643LRE8	MASTR Asset Backed Securities Trust 2006-HE1	M-10	BBB-	A-	Watch Neg
57643LRF5	MASTR Asset Backed Securities Trust 2006-HE1	M-11	BB	BBB	Watch Neg
57644UAA3	MASTR Asset Backed Securities Trust 2006-HE2	M10	CCC	BB+	Watch Neg
57644UAM7	MASTR Asset Backed Securities Trust 2006-HE2	M6	BBB	A	Watch Neg
57644UAN5	MASTR Asset Backed Securities Trust 2006-HE2	M7	BB	BBB+	Watch Neg
57644UAP0	MASTR Asset Backed Securities Trust 2006-HE2	M8	B	BBB	Watch Neg
57644UAQ8	MASTR Asset Backed Securities Trust 2006-HE2	M9	B	BBB-	Watch Neg
57645JAQ2	MASTR Asset Backed Securities Trust 2006-HE3	M11	CCC	BB	Watch Neg
55275BAQ0	MASTR Asset Backed Securities Trust 2006-NC2	M10	BB	BB+	Watch Neg
55275BAR8	MASTR Asset Backed Securities Trust 2006-NC2	M11	B	BB	Watch Neg
57644TAL2	MASTR Asset Backed Securities Trust 2006-WMC2	M6	BBB	A	Watch Neg
57644TAM0	MASTR Asset Backed Securities Trust 2006-WMC2	M7	BB	BBB+	Watch Neg
57644TAN8	MASTR Asset Backed Securities Trust 2006-WMC2	M8	B	BBB	Watch Neg
55291KAQ0	MASTR Asset Backed Securities Trust 2006-WMC3	M10	B	BB+	Watch Neg
59020US97	Merrill Lynch Mortgage Investors Trust 2005-HE2	M6	BBB+	A-	Watch Neg
59020UT21	Merrill Lynch Mortgage Investors Trust 2005-HE2	B1	BBB	BBB+	Watch Neg
59020UT39	Merrill Lynch Mortgage Investors Trust 2005-HE2	B2	B	BBB	Watch Neg
590210AP5	Merrill Lynch Mortgage Investors Trust Series 2006-AHL1	B3	B	BBB-	Watch Neg
59021AAL2	Merrill Lynch Mortgage Investors Trust Series 2006-FM1	B1	BB+	BBB+	Watch Neg
59021AAM0	Merrill Lynch Mortgage Investors Trust Series 2006-FM1	B2	BB	BBB	Watch Neg

S&P SEN-PSI 0006380

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January 30, 2008

S&P Takes Action On 6,389 U.S. Subprime RMBS Ratings And 1,953 CDO Ratings

RMBS Primary Credit Analysts:
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com
Andrew J Giudici, New York (1) 212-438-1659; andrew_giudici@standardandpoors.com
Robert B Pollsen, New York (1) 212-438-2577; robert_pollsen@standardandpoors.com

CDO Primary Credit Analysts:
Stephen Anderberg, New York (1) 212-438-8991; stephen_anderberg@standardandpoors.com
Ramki Muthukrishnan, New York (1) 212-438-1384; ramki_muthukrishnan@standardandpoors.com
Jimmy Kobylinski, New York (1) 212-438-6314; jimmy_kobylinski@standardandpoors.com

Chief Criteria Officer, RMBS Ratings:
Francis Parisi, Ph.D., New York (1) 212-438-2570; francis_parisi@standardandpoors.com

Chief Quality Officer-Structured Finance Ratings:
Thomas G Gillis, New York (1) 212-438-2468; tom_gillis@standardandpoors.com

Media Contact:
Mimi Barker, New York (1) 212-438-5054; mimi_barker@standardandpoors.com

NEW YORK (Standard & Poor's) Jan. 30, 2008--Standard & Poor's Ratings Services today announced that it has placed on CreditWatch with negative implications or downgraded its ratings on 6,389 classes from U.S. residential mortgage-backed securities (RMBS) transactions backed by U.S. first-lien subprime mortgage collateral rated between January 2006 and June 2007. At the same time, it placed on CreditWatch negative 1,953 ratings from 572 global CDO of asset-backed securities (ABS) and CDO of CDO transactions.

The affected U.S. RMBS classes represent an issuance amount of approximately

Moody's Investors Service

Global Credit Research
Announcement
10 JUL 2007

Announcement:

Moody's Downgrades Subprime First-Lien RMBS

New York, July 10, 2007 -- Moody's Investors Service today announced negative rating actions on 431 securities originated in 2006 and backed by subprime first lien mortgage loans. The negative rating actions affect securities with an original face value of over $5.2 billion, representing 1.2% of the dollar volume and 6.8% of the securities rated by Moody's in 2006 that were backed by subprime first lien loans.

Of the 431 rating actions taken today, Moody's downgraded 399 securities and placed an additional 32 securities on review for possible downgrade. One of the downgraded securities remains on review for possible further downgrade. The vast majority of rating actions taken today impacted securities originally rated Baa or lower. The 239 securities originally rated Baa on which action was taken represented 19% of the total number of Baa ratings issued in 2006; the 185 securities originally rated Ba on which action was taken represented 42% of the total number of Ba ratings issued in 2006; and, the 7 securities originally rated A on which action was taken represented 0.6% of the total number of A ratings issued in 2006. No action was taken on securities rated Aaa or Aa.

Rating Actions Reflect Rigorous Review of All 2006 Subprime RMBS Deals

Nicolas Weill, Chief Credit Officer of Moody's Structured Finance Group, said, "Moody's has been closely monitoring all subprime RMBS securities as part of our ongoing ratings process, and we began taking rating actions on securities issued in 2006 and backed by poorly performing pools of subprime mortgage loans in November 2006. Over the past three months, Moody's has surveyed servicers, originators, intermediaries and other market participants to get their perspective on the drivers of the 2006 vintage performance and their expectations about future losses. Based on our analysis of pool performance, we undertook a rigorous examination of all 2006 subprime RMBS deals -- including deals backed by both first lien and second lien loans. The rating actions announced today -- as well as those announced on June 15 -- are the result of that review."

Overview of Factors Driving Rating Actions

Recent data shows that the first lien subprime mortgage loans securitized in 2006 have delinquency rates that are higher than original expectations. Those loans 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 these rating actions. In addition, Moody's analysis shows that the 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 rating actions taken today.

Additional Findings From Moody's Review of 2006 Subprime RMBS First Lien Deals

Moody's has noted a persistent negative trend in severe delinquencies for first lien subprime mortgage loans securitized in 2006. For example, the 90+ day delinquency rate for loans securitized in 2006 has increased from 7.9% in March 2007 to 10.8% in May 2007. However, losses have remained relatively low, with the May cumulative loss rate reaching only 0.30%.

As part of the recently completed review of all 2006 subprime RMBS, Moody's said it examined the portion of each pool that was severely delinquent -- that is, over 90 days past due, in foreclosure or held as "real estate owned" -- and assessed the amount of credit enhancement available to the rated tranches in the form of subordination and excess spread. "Early defaulting borrowers often exhibit distinct characteristics: they are more likely to be first-time home buyers, speculators, or are over-leveraged or have 80%-20% first-second lien loan combinations," said Weill. Consequently, the early defaulters may exhibit different behavior than other borrowers in the pool. Those borrowers may face other challenges in the next few months when rate and payment resets take effect, especially in the absence of effective loan modifications.

In analyzing loans that are severely delinquent, Moody's said it 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 given default. The roll rates used were: for over 90 days delinquent: 50%, 75% and 90%; for those loans in foreclosure and held as real estate owned: 95% and 100%. While these roll rates are higher than those that have been realized historically, Moody's believes that these loans, with their high vacancy rates and high "no contact" rates, are more likely to default than other subprime loans.

The severity rates Moody's assumed ranged from 25%-30% (in particular, for deals with strong coverage from mortgage insurance), to 40% (for most originators), to 50% for originators whose mortgage assets are revealing particularly high severe delinquency rates.

For the portion of each pool that is not severely delinquent, Moody's increased its original loss expectations for the pool by a stress factor of 20% which is consistent with the increased loss expectations that the rating agency published in its March 2007 report: "Challenging Times for the US Subprime Mortgage Market."

While we considered both the projected losses associated with the seriously delinquent loans (the "pipeline losses") as well as the projected losses associated with the remaining portion of the pool, we gave more weight to the pipeline losses.

Moody's invites you to participate in a teleconference on Thursday, 12 July 2007 at 10:00 EST / 15:00 BST (local London time) to discuss these actions. The call will be hosted by Richard Cantor, Team Managing Director, Credit Policy Research Group; Nicolas Weill, Team Managing Director and Chief Credit Officer, Asset Finance; and John Park, Senior Vice President, Derivatives Monitoring. Details of the call are as follows:

US and Canada +1 800.795.1259

All Others: +1 785.832.0301

Passcode: moodys

For details on the conference call, as well as Moody's published research on the subprime market, go to www.moodys.com/subprime. Please contact Moody's Client Service Desk at +1.212.553.1658 with any other questions.

A press release detailing the specific securities whose ratings were affected has been released and is available on moodys.com.

New York
Nicolas Weill
Managing Director - Chief Credit Officer
Structured Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Amelia Tobey
Vice President - Senior Analyst
Structured Finance Group
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Issuer: J.P. Morgan Mortgage Acquisition Corp. 2006-WMC1

Cl. M-11, Downgraded to Ba3 from Ba2

Issuer: J.P. Morgan Mortgage Acquisition Corp. 2006-WMC2

Cl. M-10, Downgraded to B3 from Ba1

Cl. M-8, Downgraded to Ba1 from Baa2

Cl. M-9, Downgraded to Ba3 from Baa3

Cl. M-11, Downgraded to Caa1 from Ba2

Cl. M-7, Downgraded to Baa3 from Baa1

Issuer: J.P. Morgan Mortgage Acquisition Corp. 2006-WMC3

Cl. M-10, Downgraded to Ba3 from Ba1

Cl. M-9, Downgraded to Ba1 from Baa3

Issuer: J.P. Morgan Mortgage Acquisition Trust 2006-NC1

Cl. M-10, Downgraded to B1 from Ba1

Cl. M-9, Downgraded to Ba1 from Baa3

Cl. M-11, Downgraded to Caa1 from Ba2

Issuer: Long Beach Mortgage Loan Trust 2006-1

Cl. M-10, Downgraded to B3 from Ba1

Cl. M-9, Downgraded to B1 from Baa3

Cl. M-8, Downgraded to Ba1 from Baa2

Cl. M-11, Downgraded to Caa1 from Ba2

Cl. M-7, Downgraded to Baa3 from Baa1

Issuer: Long Beach Mortgage Loan Trust 2006-2

Cl. B, Downgraded to Caa3 from Ba2

Cl. M-8, Downgraded to B2 from Baa2

Cl. M-9, Downgraded to B3 from Baa3

Cl. M-7, Downgraded to Ba2 from Baa1

Cl. M-10, Downgraded to Caa1 from Ba1

Cl. M-6, Placed on Review for Possible Downgrade, currently A3

Issuer: Long Beach Mortgage Loan Trust 2006-3

Cl. B, Downgraded to Caa2 from Ba2

Cl. M-8, Downgraded to B2 from Baa2

Cl. M-9, Downgraded to B3 from Baa3

Cl. M-7, Downgraded to Ba2 from Baa1

Cl. M-10, Downgraded to Caa1 from Ba1

Cl. M-6, Placed on Review for Possible Downgrade, currently A3

Issuer: Long Beach Mortgage Loan Trust 2006-4

Cl. M-10, Downgraded to B3 from Ba1

Cl. M-8, Downgraded to Ba1 from Baa2

Cl. M-9, Downgraded to Ba2 from Baa3

Cl. M-11, Downgraded to Caa2 from Ba2

Cl. M-7, Placed on Review for Possible Downgrade, currently Baa1

Issuer: Long Beach Mortgage Loan Trust 2006-5

Cl. M-10, Downgraded to B3 from Ba1

Cl. B-1, Downgraded to Caa2 from Ba2

Cl. M-8, Downgraded to Ba1 from Baa2

Cl. M-9, Downgraded to Ba2 from Baa3

Cl. M-7, Placed on Review for Possible Downgrade, currently Baa1

Issuer: Long Beach Mortgage Loan Trust 2006-6

Cl. M-10, Downgraded to B1 from Ba1

Cl. M-11, Downgraded to B3 from Ba2

Cl. M-9, Downgraded to Ba2 from Baa3

Cl. M-8, Placed on Review for Possible Downgrade, currently Baa2

Issuer: Long Beach Mortgage Loan Trust 2006-7

Cl. M-10, Downgraded to B2 from Ba1

Cl. M-11, Downgraded to B3 from Ba2

Cl. M-9, Downgraded to Ba1 from Baa3

Cl. M-8, Placed on Review for Possible Downgrade, currently Baa2

Issuer: Long Beach Mortgage Loan Trust 2006-8

Cl. M-10, Downgraded to B1 from Ba1

Cl. M-11, Downgraded to B3 from Ba2

Cl. M-9, Downgraded to Ba2 from Baa3

Cl. M-8, Placed on Review for Possible Downgrade, currently Baa2

Issuer: Long Beach Mortgage Loan Trust 2006-9

Cl. B, Downgraded to B2 from Ba2

Cl. M-10, Downgraded to Ba3 from Ba1

Cl. M-9, Downgraded to Ba1 from Baa3

Cl. M-8, Placed on Review for Possible Downgrade, currently Baa2

Issuer: Long Beach Mortgage Loan Trust 2006-WL2

Cl. B-1, Downgraded to Ba3 from Ba1

Issuer: Long Beach Mortgage Loan Trust 2006-WL3

Cl. B-1, Downgraded to Ba3 from Ba1

Issuer: MASTR Asset Backed Securities Trust 2006-AM2

Cl. M-11, Downgraded to B2 from Ba2

Issuer: MASTR Asset Backed Securities Trust 2006-AM3

Cl. M-11, Placed on Review for Possible Downgrade, currently Ba2

Issuer: MASTR Asset Backed Securities Trust 2006-FRE1

Cl. M-6, Downgraded to Baa3 from A3, placed on review for possible further downgrade

Cl. M-8, Downgraded to Caa2 from B3

Cl. M-9, Downgraded to Ca from Caa3

Cl. M-7, Downgraded to Caa1 from Ba1

Cl. M-5, Placed on Review for Possible Downgrade, currently A2

Issuer: MASTR Asset Backed Securities Trust 2006-FRE2

Cl. M-8, Downgraded to B3 from Ba2

Cl. M-9, Downgraded to Caa1 from B2

Cl. M-11, Downgraded to Ca from Caa3

Cl. M-7, Downgraded to Ba1 from Baa1

Cl. M-10, Downgraded to Caa3 from Caa1

Issuer: MASTR Asset Backed Securities Trust 2006-HE1

Cl. M-11, Downgraded to B2 from Ba2

Cl. M-10, Downgraded to Ba2 from Ba1

Issuer: MASTR Asset Backed Securities Trust 2006-HE2

Cl. M-9, Downgraded to B2 from Baa3

Cl. M-8, Downgraded to Ba3 from Baa2

Moody's: $10.3 Billion in US CDO Downgrades During October

Posted By PAUL JACKSON On November 9, 2007 @ 7:06 pm | No Comments

Moody's Investors Service said today that it downgraded 1.9 percent of the total outstanding US CDO market rated by the agency, for a total of $10.3 billion across 273 tranches of 131 deals.

As of October 31, a total of 734 tranches from 227 SF CDO deals or approximately US$47.5 billion (8.8% of Moody's rated CDOs by dollar volume) remained on review for downgrade. According to a new report issued by the agency, the October actions bring CDO downgrades for calendar year 2007 to roughly US$13 billion in 338 SF CDO tranches from 173 deals.

The majority of the downgrades this year were on the volatile 2006 vintage SF CDOs (271 tranches totaling US$8.8 billion), although there were also downgrades on 45 tranches totaling US$2.9 billion from 2007 vintage SF CDOs, Moody's said.

"The recent rating actions were driven primarily by the extraordinary scope and magnitude of downgrades among the recent vintage RMBS securities backing these SF CDOs," explains Yuri Yoshizawa, Moody's group managing director for US derivatives. Moody's has taken negative ratings action on roughly $77 billion first- and second-lien subprime RMBS assets from the 2006 vintage to date. Baa-rated RMBS securities from this vintage, which comprised the vast majority of the underlying assets for mezzanine SF CDOs, were subject to average downgrades of approximately seven notches.

For more information, visit http://www.moodys.com [1].

Source: http://www.housingwire.com/2007/11/09/moodys-103-billion-in-us-cdo-downgrades-during-october/
Prepared by U.S. Senate Permanent Subcommittee on Investigations, April 2010.

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Structured Finance

US Residential Mortgage
Special Report

The Impact of Poor Underwriting Practices and Fraud in Subprime RMBS Performance

Analysts
M. Diane Pendley
+1 212 908-0777
diane.pendley@fitchratings.com

Glenn Costello
+1 212 908-0307
glenn.costello@fitchratings.com

Mary Kelsch
+1 212 908 0563
mary.kelsch@fitchratings.com

Related Research
- "Drivers of 2006 Subprime Vintage Performance," dated Nov. 13, 2007.
- "Resilogic: US Residential Mortgage Loss Model — Amended," dated Aug. 14, 2007.

Summary

Residential mortgage-backed securities (RMBS) issued in 2006 and 2007, backed by pools of subprime mortgages, are substantially underperforming initial performance expectations, resulting in ratings downgrades and heightened risk of principal loss. As anticipated in Fitch's rating criteria, falling home prices are a fundamental source of poor performance. However, the 2006 subprime vintage performance is remarkable for the magnitude of early mortgage defaults. Fitch attributes a significant portion of this early default performance to the rapid growth in high-risk "affordability" features in subprime mortgages. The interaction of home price declines and high risk products in 2006 vintage subprime performance is analyzed in Fitch's special report "Drivers of 2006 Subprime Vintage Performance," dated Nov. 13, 2007. In addition to the inherent risk of these products, evidence is mounting that in many instances these risks were not controlled through sound underwriting practices. Moreover, in the absence of effective underwriting, products such as "no money down" and "stated income" mortgages appear to have become vehicles for misrepresentation or fraud by participants throughout the origination process.

Fitch believes that much of the poor underwriting and fraud associated with the increases in affordability products was masked by the ability of the borrower to refinance or quickly re-sell the property prior to the loan defaulting, due to rapidly rising home prices. With home prices now falling in many regions of the country, many loans that would have paid off in prior years remain in the pool and are more likely to default. BasePoint Analytics LLC, a recognized fraud analytics and consulting firm, analyzed over 3 million loans originated between 1997 and 2006 (the majority being 2005–2006 vintage), including 16,000 examples of non-performing loans that had evidence of fraudulent misrepresentation in the original applications. Their research found that as much as 70% of early payment default loans contained fraud misrepresentations on the application.[1] For additional information on measuring fraud within the industry, refer to Appendix A on page 9.

As Fitch sought to explain the poor performance of this vintage, we examined the impact of high risk collateral characteristics and rapidly declining home values. The underperformance was not fully explained by these factors, suggesting that other factors such as fraud might be playing a significant role. This was supported by the results of a file review conducted by Fitch on a small sample (45 loans) of early defaults from 2006 Fitch-rated subprime RMBS, many of which had apparently strong credit characteristics such as high FICOs, as outlined in the Characterics table on page 2.

November 28, 2007

Permanent Subcommittee on Investigations
EXHIBIT #100

Fitch's review of these files indicated that these loans suffered in many instances from poor lending decisions and misrepresentations by borrowers, brokers and other parties in the origination process. High risk products, which require sound underwriting and which are easy targets for fraud, account for some of the largest variances to expected default rates. It is not possible to confidently make a broad statement of how pervasive these problems are across the range of originators and issuers in Fitch's rated portfolio based on such a small sample of loans. However, given the combination of our review of historical loan performance, the pervasive problems indicated in the file review, and the findings of third-party reviews, Fitch believes that poor underwriting quality and fraud may account for as much as one-quarter of the underperformance of recent vintage subprime RMBS.

Characteristics of Small File Sample

# of Loans	45
Average FICO	686
Average Combined LTV Ratio	93
% California Properties	49
% Low/No Doc	69
% 2nd Lien	60

LTV – Loan-to-value. Source: Fitch.

In order to better understand the nature and impact of poor underwriting and fraud on subprime RMBS performance, Fitch analyzed a targeted sample of early defaults from 2006 Fitch-rated subprime RMBS. Fitch's findings from this review include:

- Apparent fraud in the form of "occupancy misrepresentation." The borrower's stated intent was to occupy the property, but there is evidence in the loan files that this did not occur, and that it is likely that occupancy was never the true intent of the borrower.
- Poor or lack of underwriting relating to suspicious items on credit reports. The loan files of borrowers with very high FICO scores showed little evidence of a sound credit history but rather the borrowers appeared as "authorized" users of someone else's credit.
- Incorrect calculation of debt-to-income ratios.
- Poor underwriting of "stated" income loans for reasonability of the indicated income.
- Substantial numbers of first-time homebuyers with questionable credit/income.
- In one instance, acknowledgement by the borrower of being the "straw buyer" in a property flipping scheme.

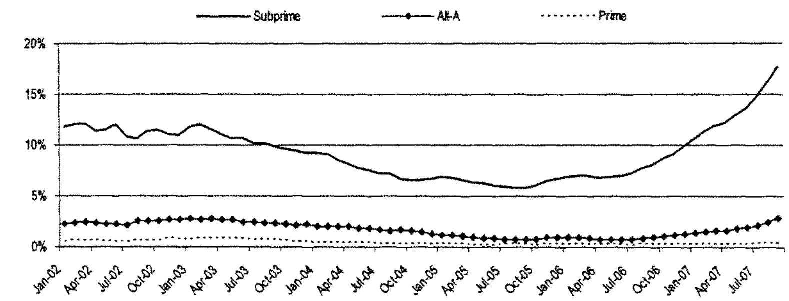
Fitch recognizes that, even in good quality pools, there will be some loans that default. However, when some pools of subprime mortgages have very high projected default rates, it is important to understand the impact that loans originated with poor underwriting practices and fraud can have. Moreover, Fitch intends to utilize the insights from its review to improve the RMBS rating process. Fitch believes that conducting a more extensive originator review process, including incorporating a direct review by Fitch of mortgage origination files, can enhance the accuracy of ratings and mitigate risk to RMBS investors. Fitch will be publishing its proposed criteria enhancements shortly. Additionally, a more robust system of representation and warranty repurchases may be desirable.

In order to better detect and prevent poor underwriting and fraud, a combination of technology and basic risk management is needed before, during and after the origination of the loan. In this report, Fitch discusses some of the more obvious examples of evidence of fraud found in loan files, along with some of the steps that could identify the fraud at the earliest possible stage, ideally before the loan is funded. There are several effective fraud indication tools available today to the originator/issuer and servicer; however, it is important to acknowledge that no process or tool can identify all instances of misrepresentation or fraud.

■ Lack of Disciplined Underwriting Increases Defaults and Allows Fraud

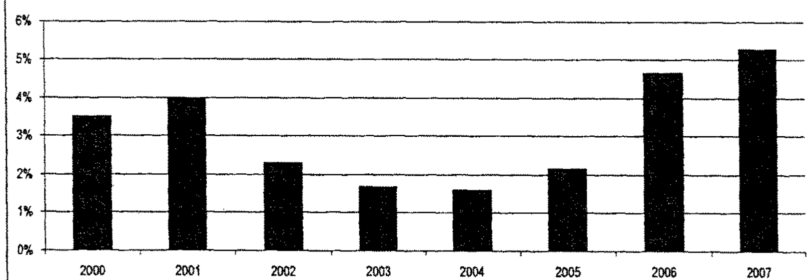
Increased risk caused by operational weaknesses oftentimes is not apparent in the collateral characteristics, but rather, manifests itself in the pool performance. As detailed in Fitch's criteria report, "ResiLogic: US Residential Mortgage Loss Model — Amended" dated Aug. 14, 2007, Fitch derives base frequency of foreclosure and loss severity, and therefore expected base case loss amounts, using each loan's disclosed risk attributes. These attributes include loan-to-value (LTV), combined loan-to-value (CLTV) and FICO scores, which are historically the primary drivers of default risk, with loan purpose and occupancy as secondary drivers of default risk. However, additional risk caused by inaccurate data and/or fraudulent or misrepresented factors could materially affect the performance of

60+ Delinquency By As Of Date
(As Percentage of Outstanding Balance)



Source: Fitch Ratings: Loan Performance.

Percentage of Securitized Pool Balance 90 Days Delinquent Before Age 6 Months (EPDs)



Source: Fitch Ratings: Loan Performance.

pools. Losses are more likely to be low if the originator consistently applies underwriting policies and guidelines, and has adequate quality control procedures, sufficient technology, and/or has risk management processes that are well developed and applied. For example, an inadequate appraisal quality review program is a significant risk factor since the valuation determines LTV. In most cases, the lack of an appropriate valuation at origination may not be evident until the borrower defaults on the loan or attempts to sell/refinance the property.

There is a distinction between inaccurate data provided by the originator/issuer to investors, and others who rely on the data, including Fitch, and data, which is technically accurate, but does not actually reflect the true credit risk due to poor underwriting, quality control, or property valuation. Fitch believes that data, which is correct but inaccurately reflects the credit risk (e.g., stated income was not reasonable), is a larger component of underperformance than data integrity issues (e.g., debt-to-income ratios [DTI] were incorrectly stated on tape). Therefore, increasing data reverification on securitized transactions, while potentially beneficial, will not address the more material risk and will result in increased costs and reduced efficiencies for consumers and securitizations. Fitch believes that the rating agencies could add value by assessing the rigor and integrity of underwriting and valuation processes and controls, as part of their originator/issuer reviews.

There has been a significant increase in the defaults and EPDs in 2006 and 2007 vintage subprime securitizations as outlined in the two charts on page 3. In Fitch's research to determine the causes for high defaults in recent vintage pools, several factors began to emerge which indicated that the underlying loans did not perform consistently with their reported risk characteristics. To gain a better understanding of the situation, Fitch selected a sample of 45 subprime loans, targeting high CLTV, stated documentation loans, including many with early missed payments. In particular, we selected loans that were primarily purchase transactions having a higher range of FICO scores (650 to 770), because high FICO scores and purchase transactions are historically attributes which generally reduce the risk of default. Fitch's analysts conducted an independent analysis of these files with the benefit of the full origination and servicing files. The result of the analysis was disconcerting at best, as there was the appearance of fraud or misrepresentation in almost every file.

While we realize this was a very limited sample, Fitch believes that the findings are indicative of the types and magnitude of issues, such as poor underwriting and fraud, which are prevalent in the high delinquencies of recent subprime vintages. In addition, although the sample was adversely selected based on payment patterns and high risk factors, the files indicated that fraud was not only present, but, in most cases, could have been identified with adequate underwriting, quality control and fraud prevention tools prior to the loan funding. Fitch believes that this targeted sampling of files was sufficient to determine that inadequate underwriting controls and, therefore, fraud is a factor in the defaults and losses on recent vintage pools. Additionally, Fitch continues to attempt to expand its loan sample to provide further validation of its findings and will provide additional commentary as applicable.

In light of our findings, Fitch believes that it is important to reassess the risk management processes of originators and/or issuers for product being securitized going forward.

While prime originators are not immune to fraud schemes, the subprime sector has exhibited the most vulnerability to them. Undoubtedly, flat or declining home prices and the loosening of program guidelines remain the main drivers of defaults and therefore losses within the subprime sector. However, Fitch believes that poor underwriting processes did not identify and prevent and, therefore, in effect, allowed willful misrepresentation by parties to the transactions, which has exacerbated the effects of declining home prices and lax program guidelines. For example, for an origination program that relies on owner occupancy to offset other risk factors, a borrower fraudulently stating its intent to occupy will dramatically alter the probability of the loan defaulting. When this scenario happens with a borrower who purchased the property as a short-term investment, based on the anticipation that the value would increase, the layering of risk is greatly multiplied. If the same borrower also misrepresented his income, and cannot afford to pay the loan unless he successfully sells the property, the loan will almost certainly default and result in a loss, as there is no type of loss mitigation, including modification, which can rectify these issues.

■ Research Results

The files reviewed by Fitch's analysts contained common features that Fitch believes contributed to default on these loans. Although the loan programs under which these loans were underwritten allowed for several high risk features, the files indicated a lack of underwriting review for basic reasonableness and credibility. It is important to note that while most of these issues could have been noted and investigated at the time of origination, others, such as occupancy and property condition, only became obvious as the servicer performed its functions.

Some general examples of these findings are below.

- Borrower balance sheet and assets did not support income as stated
  - No indication in file of reasonableness test or attempt to obtain additional information.
  - Some verbal employment checks provided by borrower (self-employed) or related individual (spouse).
- DTI ranged from 44%–57%
  - Some exceptions were made to programs, but for many the amounts used for calculation did not include other debts and/or tax/insurance/homeowners' association (HOA) dues which could have been determined from information within the files.
- Credit Reports

  - FICO scores based on "authorized" accounts or joint accounts, where the borrower is utilizing someone else's credit.
  - No notation as to research on fraud or other alerts shown on credit reports.
  - No notation as to research on inconsistent social security numbers, date or birth, or AKAs from application to credit reports.
  - No research in the files on reported unresolved derogatory credit, including judgments, liens, etc.
- Seller concessions and other closing items
  - No indication of review performed on HUD-1 Settlement Statement for consistency with contract in file, allowable amounts paid for borrower, or funds to borrower (including purchase transactions).
  - No indication in file of review of borrower identification or signature.
- No consideration for payment shock, NSFs, or overdrafts
  - No indication in file of review of borrower's ability to sustain materially higher payments (assets or deposits did not indicate borrower had excess liquidity).
  - No notation as to research on NSFs, or overdrafts shown in bank statements.
- Incomplete documentation
  - Occupancy form signed by borrower but box declaring occupancy rarely checked.
  - Missing "final" version of closing documents.

Characteristics by percentage of the 45 files reviewed included (loans may appear in more than one finding):

66%	Occupancy fraud (stated owner occupied — never occupied), based on information provided by borrower or field inspector
51%	Property value or condition issues — Materially different from original appraisal, or original appraisal contained conflicting information or items outside of typically accepted parameters
48%	First Time Homebuyer — Some applications indicated no other property, but credit report showed mortgage information
44%	Payment Shock (defined as greater than 100% increase) — Some greater than 200% increase
44%	Questionable stated income or employment — Often in conflict with information on credit report and indicated to be outside "reasonableness" test
22%	Hawk Alert — Fraud alert noted on credit report
18%	Credit Report — Questionable ownership of accounts (name or social security numbers do not match)
17%	Seller Concessions (outside allowed parameters)
16%	Credit Report — Based on "authorized" user accounts
16%	Strawbuyer/Flip scheme indicated based on evidence in servicing file
16%	Identity theft indicated
10%	Signature fraud indicated
6%	Non-arms length transaction indicated

Fraud has grown significantly over the past few years in volume and complexity. Fitch believes that there are many things that originators/issuers could do to prevent misrepresentation and fraud, as discussed below.

■ Originator's/Issuer's Role in Identifying Fraud and High Risk Loans

As the mortgage lending industry continues to make the mortgage process faster and less expensive, the occurrences of fraud continue to grow. For example, advances in personal computer capabilities enable individuals to produce documents to support fraudulent data, which are often hard to distinguish from true originals. In addition, access to databases has enabled perpetrators to alter pertinent loan documentation and information or create falsified loans where there is no borrower or property.

In many instances, misrepresentations and altered documentation are evident in the physical files, and most lenders provide underwriters and other personnel with training to identify red flags that may indicate fraud. Many lenders have an individual or group to research and resolve situations where fraud is suspected. Often, loans containing misrepresentations have multiple problems that can be detected through a strong validation and reverification process.

Mortgage fraud has increased in recent years to an extent that The Federal Bureau of Investigation (FBI) has reported the cost to the mortgage lending industry is between $946 million and $4.3 billion in 2006 alone.[2] Because fraud is becoming so prevalent, Fitch expects lenders to aggressively monitor for fraud, research and resolve suspected cases, and take appropriate actions against the source(s) of the problem. This includes the repurchase of loans by third parties, the removal of these parties from further business dealings, the dismissal of employees involved and, where appropriate, legal action.

Some of the primary areas of mortgage fraud are discussed below, along with the originators' actions which could identity these situations. It is important to keep in mind that for several of the situations mentioned here, there are widely available tools that can be purchased which increase the originators' ability to quickly identify potential problem loans.

Broker-Originated Loans

Broker-originated loans have consistently shown a higher occurrence of misrepresentation and fraud than direct or retail origination. In most instances, the broker will be the only direct contact with the borrower, and often is in the position of gathering most, if not all, required information on the borrower, including in some cases the selection of the appraiser. In this role, they have the ability, if inclined, to adjust or amend the stated facts, with or without the borrower's knowledge, to allow the loan request to fit within the parameters of lender guidelines.

Certainly not all brokers would engage in these activities; however, it is imperative that lenders actively research the identity and history of individuals applying for inclusion in lending programs, as well as maintain a regular update on all brokers. Lenders are expected to actively monitor the approval/reject record, repeat/amended submissions, and performance/default record for loans from each broker. In addition, if problems are detected, the lender is expected to aggressively research the cause, and if misrepresentation or fraud is indicated, to withdraw the broker's approval and, if appropriate, pursue legal actions. Finally, to prevent a repeat of this activity, the lender can provide the broker's name and identification information to The Mortgage Banker's Association's (MBA) Mortgage Asset Research Institute (MARI), which maintains a list of reported brokers that may be accessed by other lenders.

Stated Income

Stated income programs were initially reserved for high net worth individuals, who were self-employed and did not want to disclose all their business dealings but had assets that supported the income stated and strong credit profiles and credit scores. As the mortgage industry grew, originators expanded their programs to include salaried borrowers, and then on to the subprime sector.

Lenders who use reasonableness tests for income during the underwriting process, as well as initiate further research if the stated amounts appear inflated, can mitigate the risk inherent in stated income products. If the borrower profile does not support the income levels indicated, either by assets or liquidity (bank or savings accounts), the reasonable assumption would be that the income could be inflated. In addition, if lender guidelines require a verbal statement of employment, care should be exercised to determine that the individual providing the statement is an unrelated, independent source.

Originators often use the Internet to help confirm employment and the reasonableness of the income based on job title and geographic location. Most lenders know and have the ability to use the various sites and programs which provide this type of "reasonableness" check, and when stated income falls outside these parameters by an established variance, further research would be warranted.

FICO Inflation

FICOs present a consistent statistical assessment of the borrower's creditworthiness and risk profile; however, credit scoring is limited by the accuracy of the data contained within the credit bureau file. The confidence that originators place in FICOs may be diminished, and the perceived risk of the loan may be altered, when information provided within the report is not taken into consideration. Therefore, if the credit report provides conflicting information regarding Social Security Numbers, birth dates, addresses, indications of the use of multiple names, fraud alerts (known as HAWK Alert), etc., the lender should perform additional research.

Another concern with FICO score accuracy involves companies, typically Internet-based, who sell a means to artificially inflate a borrower's FICO. It has been estimated, as well as claimed by these services, that the use of a single "borrowed" account from a good consumer, reflected on the credit report as an "authorized user" account, will increase a FICO score by 50 to 75 points. Multiple authorized user accounts have the possibility of inflating a poor credit borrower's FICO by as much as 200 points. While this practice is not technically illegal for the service provider, many feel that the borrower who utilizes another person's good credit to inflate their score for the purpose of misleading a lender is committing fraud.

However, the industry is starting to limit the use of authorized user accounts or "piggyback credit." For example, Fair Isaac Corp. indicated that it was taking steps to ensure credit scores are not artificially enhanced by using borrowed credit by modifying the formula for its FICO score. The newest FICO model (version FICO 08) will ignore authorized user accounts. In addition, TransUnion LLC expanded its offerings to help the financial industry by identifying consumers who may have added authorized user relationships to their credit files to artificially enhance their credit standing.

Because of the effect of authorized users and other credit "improvement" schemes available today, lenders who review all information on a proposed borrower's credit report will be able to better determine the full indication of a borrower's credit risk profile. Specifically, if a lender uses a "high" FICO as a compensating factor for layered risk or risk outside stated program guidelines, the need to determine the accuracy of this tool is materially increased.

Property Valuation Accuracy

Risks associated with appraisals are varied and costly. Based on the past unprecedented home price appreciation in some markets and recent regulatory investigations, there is widespread concern regarding the number and severity of inflated valuations used to determine LTV. The availability of stated value refinances, inappropriate use of alternative valuations, and high production volume pressures on appraisers contributed to this problem. The effect of flat or declining home values, currently evident on a national scale, is most sharply felt in some of the same markets affected by the most inflated valuations, making current assessments of appropriate valuations more difficult. As a result, lenders are expected to exercise additional caution when determining values, and therefore LTVs to use in their risk assessments.

Fitch believes that a comprehensive valuation program uses a combination of full appraisals, automated valuation models (AVMs), and review appraisals. AVMs can be used to check and verify the appropriate valuations of appraisals at a relatively low cost. They are especially useful in the selection of properties for re-appraisal or appraisal review as part of a comprehensive quality control program. In addition, most lenders have procedures for reviewing appraisals referred by underwriting or quality control that use either in-house certified review appraisers or adequately monitored third-party review appraisers.

Lack of Underwriting

The high volume of mortgage applications over the past few years, coupled with the consumer's demand for more rapid responses to those applications, led to use of automation via Automated Underwriting Systems (AUS) and the use of validators to ease heavy underwriter workload. The borrower application information, often provided by the broker, is typically subject only to a cursory validation process. The cost savings benefit of using less experienced employees must be offset by controls to mitigate the likelihood that critical data points or red flags that could materially affect the underwriting decision or pricing may be overlooked.

Policies should address how the lender is evaluating risk layering, disposable income and payment shock. In addition, compensating factors are often used to override or offset loan characteristics that do not meet stated program guidelines. However, typically a single compensating factor would not offset multiple layers of risk. Therefore, to determine acceptable and predictive levels of risk, exceptions, upgrades, and overrides to established underwriting and loan programs should be carefully documented, monitored and disclosed.

Audits and Quality Control

To mitigate and control the extensive risks associated with originations, a lender needs an active, dynamic, and systemic quality control and internal audit program. An independent quality control program can provide an objective assessment of credit risk and compliance to the company's loan product and underwriting guidelines, as well as identify deteriorating asset quality. Pre- and post-funding quality control programs assess the underwriting decision, re-verify documentation, and provide constructive feedback to management.

■ Representations and Warranties (Reps & Warranties) in RMBS

In RMBS transactions, reps and warranties are given by the originator, issuer or other appropriate party, covering several areas, including the legality of the mortgage loan, the lien status, and condition of the property. In addition, some of the reps and warranties address compliance with the originator's underwriting standards and a smaller number of transactions have specific reps and warranties for fraud. However, there are several challenges to relying on reps and warranties to remove loans from RMBS deals for a breach due to underwriting or misrepresentation/fraud.

For many subprime loans, the program guidelines allowed the originator to base qualification on features such as stated income. Assuming that the originator's underwriting standards did not require the verification through another means, or that a "reasonableness test" be conducted, the failure to perform these steps would not be an exception to their underwriting standards. Therefore, if the borrower or broker misrepresented the actual income, it is fraud on their part, but is it a breach of the reps and warranties? The same question would apply to borrowers who have artificially enhanced their FICO.

Most pooling and servicing agreements that Fitch reviewed indicate that any party to the transaction (typically, the issuer, servicer, master servicer, or trustee) who becomes aware of a suspected breach to the reps and warranties should provide notice to the trustee (or in some all other parties). However, unless there is a reason that research is conducted to specifically look for a breach, finding potential breach situations typically requires an awareness and identification by the servicer while conducting their functions. Directions as to the process after notification are somewhat varied, but in general, if a breach is determined, the trustee will facilitate the request for repurchase of the loan from the transaction. Fitch believes that risk management firms that track potential repurchase candidates and monitor the repurchase process can enhance the effectiveness of representations and warranties. However, in today's environment, one of the situations which could occur would be that the original provider of the reps and warranties is no longer in existence or has filed bankruptcy.

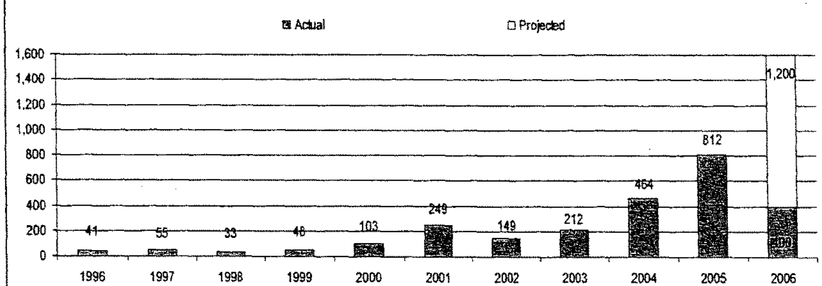
■ Appendix — Measuring Fraud Within the Industry

Difficulties in Measuring and Reporting Fraud

Although most information available today on mortgage fraud indicates a strong increase in the amount and complexity of fraud in the industry, there is not a clear mechanism in place today to adequately identity and track these instances.

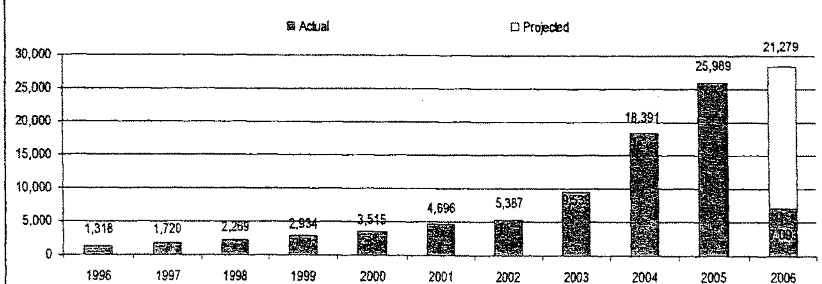
One source for this information is the US Department of the Treasury, Office of Inspector General's Financial Crimes Enforcement Network (FinCEN), which was established in 2001 to advise and make recommendations on matters relating to financial intelligence and criminal activities, including mortgage loan fraud. In the most recent Suspicious Activity Report (SAR) dated November 2006, the bureau reported a 14-fold rise in mortgage fraud-related suspicious activity reported between 1997 and 2005.[3] However, the first quarter of 2006 is the most recent data available currently.

SAR Narrative Reports of Strawbuyers in Suspected Mortgage Loan Fraud



Source: Financial Crimes Enforcement Network Regulator Policy and Programs Division: Mortgage Loan Fraud; an Industry Assessment based upon Suspicious Activity Report Analysis, November 2006.

Mortgage Loan Fraud Reporting Trend



Source: Financial Crimes Enforcement Network Regulator Policy and Programs Division: Mortgage Loan Fraud; An Industry Assessment based upon Suspicious Activity Report Analysis, November 2006.

It is important to realize that the SARa are typically only filed by federally chartered or federally insured institutions. Since the majority of the subprime mortgage loans are originated by entities that are not federally chartered or insured, the number of potential fraud instances could easily be multiplied two to three times.

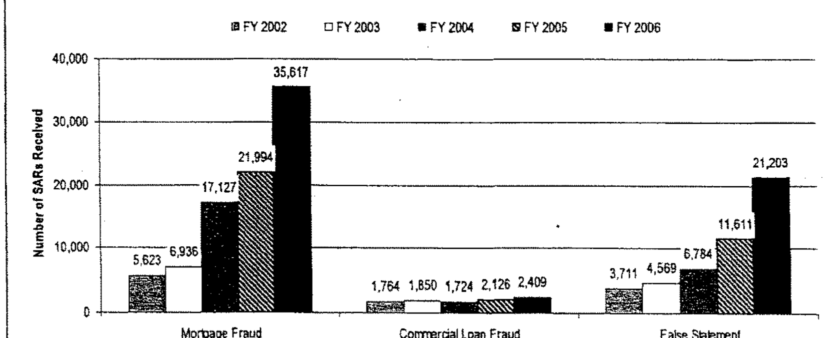
Another widely acknowledged source for mortgage fraud information, MARI provides an annual report on mortgage fraud activity. Although the MBA has access to a wider range of information from its membership, the information is provided as an index for the states and metropolitan areas, and without access to the raw data behind the indexes, comparison and trending is limited. However, MARI has indicated that its records show a 30% increase in loans with suspected mortgage fraud in 2006, with the most common type of fraud being employment history and claimed income. The report went on to show that while 55% of overall fraud incidents reported to MARI were application fraud, the percentage of subprime loans with application fraud was higher at 65%. In addition, for appraisal/valuation fraud the overall was 11%, with subprime at 14%. The report also makes a projection with regard to the cases of fraud in subprime, indicating that it will likely take three to five years to uncover most of the fraud and misrepresentation in the 2006 book of business.[4]

The FBI reports the actual number of convictions for mortgage fraud has increased 131% from 2001 to 2006. As shown in its report for 2006, the FBI investigated 818 cases and obtained 263 indictments and 204 convictions of mortgage fraud criminals. The agency also reports that in 2006, for mortgage fraud, it accomplished $388.9 million in restitutions, $1.4 million in recoveries, and $231 million in fines.[5]

However, the timing of reported fraud cases must be considered when attempting to determine the increasing trend of occurrence within the FBI numbers. While some fraud cases can be identified at the time of origination, most will not be noted until later in the servicing process. This may occur when the servicer notes a first or early payment default; a borrower cannot be contacted or traced; inspection of the property identifies vacancy, tenants, or conditions that are not as noted on the appraisal; or possibly when, during contact with the borrower or other parties in the transaction, there is an admission of misrepresentation. Also, with regard to the FBI reported convictions, it should be noted that there may be a considerable span of time from the identification and investigation phase of these cases to pending and final conviction. This delay, combined with the difficulty in identifying the vintage of loan origination, makes specific trending using this data complicated at best.

There are providers of advanced technology tools to identify fraud or misrepresentation available in the industry today. Some of these providers also report their findings in summary or on certain features of fraud. This

Number of Violations of Mortgage-Related Fraud SARs



Source: FBI Financial Crimes Report to the Public Fiscal Year 2006 information is helpful to the industry; however, the information provided by these vendors will be limited to the data provided to them from their clients. Notwithstanding this limitation, because these companies are typically actively looking for fraud in new production files, the statistics they provide may well be the most up to date information available upon which to monitor trends.

Endnotes

[1]White Paper, "Early Payment Default – Links to Fraud and Impact on Mortgage Lenders and Investment Banks," 2007 BasePoint Analytics LLC.

[2]Federal Bureau of Investigation, "Mortgage Fraud: New Partnership to Combat Problem: March 9, 2007."

[3]Mortgage Loan Fraud, An Industry Assessment based upon Suspicious Activity Report Analysis, November 2006, Financial Crimes Enforcement Network, Regulatory Polity and Programs Division, Office of Regulatory Analysis, US Department of the Treasury.

[4]Ninth Periodic Mortgage Fraud Case Report to Mortgage Bankers Association, April 2007, Mortgage Asset Research Institute, LLC., a ChoicePoint Service.

[5]"Financial Crimes Report to the Public Fiscal Year 2006, October 1, 2005 – September 30, 2006," Federal Bureau of Investigation.

From: Cohn, Gary (EO 85B30)
Sent: Sunday, November 18, 2007 6:04 PM
To: Blankfein, Lloyd (EO 85B30); van Praag, Lucas (EO PBC09)
Cc: Winkelried, Jon (EO 85B30); Viniar, David; Rogers, John F.W. (EO 85B30); Horwitz, Russell (EO 85B30)
Subject: Re: NYT

We were just smaller in the toxic products

----- Original Message -----
From: Blankfein, Lloyd
To: van Praag, Lucas
Cc: Winkelried, Jon; Cohn, Gary; Viniar, David; Rogers, John F.W.; Horwitz, Russell
Sent: Sun Nov 18 17:59:01 2007
Subject: RE: NYT

Of course we didn't dodge the mortgage mess. We lost money, then made more than we lost because of shorts. Also, it's not over, so who knows how it will turn out ultimately.

-----Original Message-----
From: van Praag, Lucas
Sent: Sunday, November 18, 2007 5:47 PM
To: Blankfein, Lloyd
Cc: Winkelried, Jon; Cohn, Gary; Viniar, David; Rogers, John F.W.; Horwitz, Russell
Subject: NYT

Jenny Anderson and Landon Thomas' story about how we dodged the mortgage mess is scheduled to run tomorrow. At this stage, 95% certain to be on the front page. I don't expect it to be materially different to the WSJ story on the same subject that ran last week - although it will have more color and annecdotes.

Have given John and Russell a detailed briefing and Russell will update you on the plane, but here are a few points:

1. GS Gives in not in the story. I have agreed to brief Jenny thoroughly on it tomorrow and expect the news to run either Tues or Wed. I think it would be good if you had a 5 min phone call with her on the subject and I'll liaise with Russell on timing. We will issue the press release to coincide with publication of her article and will actively work with other media, esp in the UK, to make sure the message is spread and picked up effectively.

2. Tomorrow's story will, of course, have 'balance' (ie stuff we don't like). In this instance, we have spent much time discussing conflicts, and I think we've made some progress as she aknowledges that most of her sources on the subject are financial sponsors which fact, unless edited out, is included and gives context.

3. The article references the extraordinary influence GS alums have - the most topical being John Thain, but Rubin, Hank, Duncan et al are all in the mix too. She hasn't gone as far as suggesting that there is a credible conspiracy theory (unlike her former colleague at the NY Post). She does, however, make the point that it feels like GS is running everything.

5. We spent a lot of time on culture as a differentiator - she was receptive.

4. She has used several remarks you made at the ML conference on the record - which is fine.

If anything changes, I'll let you know. / L

Permanent Subcommittee on Investigations
EXHIBIT #101

From: Swenson, Michael
Sent: Thursday, October 11, 2007 7:06 PM
To: Mullen, Donald
Subject: RE: Early post on P and L

[redacted] = Redacted by the Permanent Subcommittee on Investigations

Yes we are well positioned

-----Original Message-----
From: Mullen, Donald
Sent: Thursday, October 11, 2007 6:27 PM
To: Swenson, Michael
Subject: Re: Early post on P and L

Sounds like we will make some serious money

----- Original Message -----
From: Swenson, Michael
To: Mullen, Donald
Sent: Thu Oct 11 18:24:00 2007
Subject: RE: Early post on P and L

The [redacted] CDO has a bunch of second lien positions in it that have been written down. The collateral balance has fallen below the liabilities triggering an "implied write-down event" which is a credit event in our CDS document. Unlike RMBS structures, CDOs do not have a bond write-down feature.

On another note, today's RMBS downgrades by Moody's should cause many CDOs to fail their OC triggers. That will result in coupons being shut off on the bonds and hence our CDS protection premiums paid out will go to zero.

-----Original Message-----
From: Mullen, Donald
Sent: Thursday, October 11, 2007 5:49 PM
To: Swenson, Michael
Subject: Re: Early post on P and L

Nice day
How did the trigger not work

----- Original Message -----
From: Swenson, Michael
To: Mullen, Donald; Montag, Tom
Cc: Sparks, Daniel L; Brafman, Lester R
Sent: Thu Oct 11 17:47:02 2007
Subject: Early post on P and L

Moody's downgraded 32bb of of 2006 AA, A, BBB and BBB- bonds today. This will eventually filter into downgrades in CDOs. ABX single-As sold off by a point after the news.

ABS Desk P and L will be up between 30 and 35mm today. 12mm of the p and l is from our first credit event in CDOs where the implied trigger failed on a [redacted] deal [redacted] 06-1).

Goldman, Sachs & Co.

Permanent Subcommittee on Investigations
EXHIBIT #102

Confidential Treatment Requested by Gold GS MBS-E-016031234

85 Broad Street | New York, NY 10004
tel: +1 212 902 5090 | mobile: +1 917 [redacted] | fax: +1 212 428 9761
e-mail: michael.swenson@gs.com
Goldman
Sachs
Michael J. Swenson
Fixed Income, Currency & Commodities

[redacted] = Redacted by the Permanent Subcommittee on Investigations

From: Salem, Deeb
Sent: Thursday, May 17, 2007 8:06 AM
To: Swenson, Michael
Cc: Chin, Edwin
Subject: FW: LBML 06A

bad news...

wipes out the m6s and makes a wipeout on the m5 imminent ... costs us about 2.5mm

3.5 m6 marked at $10
12.5 m5 marked at $20

good news...

we own 10mm protection on the m6 marked at $50 .... we make $5mm

---

From: Heagle, Jonathan
Sent: Thursday, May 17, 2007 8:00 AM
To: Salem, Deeb; Chin, Edwin
Cc: Pouraghabagher, Dariush; Brosterman, Jonathan
Subject: LBML 06A

06:07 17May2007 LONG BEACH MORTGAGE LOAN TRUST 2006-A FILES (8-K) Disclosing Other Events

May 17 (EDGAR Online) -
Item 8.01 Other Events

Long Beach Mortgage Securities Corp announces that the May 2007 distribution report for LBMLT 2006-A will reflect that 616 second-lien mortgage loans with an aggregate unpaid principal balance of $ 49,340,870.90 will be charged off on May 25, 2007. The total amount to be charged off, $52,797,628.59, includes certain unreimbursed advances of principal and interest made by the servicer, Washington Mutual Bank.

Information regarding the characteristics of the loans in LBMLT 2006-A is available from the trustee at its website https://tss.db.com/invr and at http://wmsubprime.lewtan.com.

The table below sets forth the number and aggregate unpaid principal balance of the charged off mortgage loans by distribution date (the month following the due date of the last monthly payment that should have been received with respect to the loans). The chargeoff assessment date for the pool was May 1, 2007.

Distribution Date	November 2006	December 2006	January 2007	February 2007	March 2007	April 2007	May 2007
Number of Loans in Pool	7,767	7,624	7,468	7,305	7,163	6,997	TBD*
Aggregate Unpaid	$485,292,702.94	$475,682,053.93	$465,992,547.68	$455,518,577.50	$444,362,214.18	$434,469,820.04	

Permanent Subcommittee on Investigations
EXHIBIT #103

TBD*
Principal
Balance

Loans that became 180 days delinquent	Count: 31	Count: 45	Count: 70	Count: 111	Count: 97	Count: 124	Count: 134**
	Balance: $2,504,764.64	Balance: $3,624,267.82	Balance: $5,474,744.25	Balance: $9,605,192.29	Balance: $8,158,758.05	Balance: $9,781,894.90	Balance $10,001,312.08

*Pool loan count and aggregate unpaid principal balance for the May 2007 distribution will be published on May 25t 2007.

** The sum of loan counts in this row equals 612 because it excludes four loans charged off for reasons other than 180 days delinquency.

Due to the number of affected mortgage loans for the May 2007 distribution date, there may be a larger than usual reconciliation activity on the remittance report for the June 2007 distribution date to reflect items that have not been closed out as of the scheduled reporting date to the trustee for the May 2007 distribution date.

Please Contact: Doug Potolsky at (212) 702- 6961 if you have any questions about this filing.

Full filing at:
http://www.edgar-online.com/rtrs/?doc=A-0001277277-07-000368

For 3000 Xtra, Kobra and internet-enabled Reuters News users, click on the URL above. For Reuters Terminal users, please type the URL into a browser.
Thursday, 17 May 2007 06:07:50EOL [nEol007427] {C}ENDS

From: Viniar, David
Sent: Wednesday, July 25, 2007 9:18 PM
To: Cohn, Gary (EO 85B30)
Subject: RE: Private & Confidential: FICC Financial Package 07/25/07

Sensitivity: Confidential

Tells you what might be happening to people who don't have the big short.

-----Original Message-----
From: Cohn, Gary (EO 85B30)
Sent: Wednesday, July 25, 2007 8:55 PM
To: Viniar, David; Blankfein, Lloyd (EO 85B30); Winkelried, Jon (EO 85B30)
Subject: Fw: Private & Confidential: FICC Financial Package 07/25/07
Sensitivity: Confidential

Look at the Mortgage numbers up 373 in the index book and wrote down 230 in CLO-CDO and. 92 in resids

----- Original Message -----
From: Tricarico, Geoffrey P.
To: ficc-package
Sent: Wed Jul 25 19:33:10 2007
Subject: Private & Confidential: FICC Financial Package 07/25/07

REVENUES (Including Estimate)
EST $ 126.5
WTD $
MTD $
QTD $
YTD $

Redacted By
Permanent Subcommittee on Investigations

PRE-TAX
EST $ 96.6
WTD $
MTD $
QTD $
YTD $

Redacted By
Permanent Subcommittee on Investigations

1

Permanent Subcommittee on Investigations
EXHIBIT #104

Redacted By
Permanent Subcommittee on Investigations

Mortgage Backed Securities $ 48.7
SPG Trading +373.0 (CDO/CDS and ABS/CDS widening) / CDO-CLO -230.0 (Markdown of retained debt) / Resi Credit -92.0 (Markdown of residuals)

Redacted By
Permanent Subcommittee on Investigations

<<FICC Package 2007-07-25.xls>>

WHITE PAPER ON RATING AGENCY REFORM

Arturo Cifuentes

Jose Miguel Cruz

Department of Industrial Engineering

University of Chile

Santiago, CHILE

May, 2010

CONTACT INFORMATION:
Arturo Cifuentes, e-mail: arturoc@dii.uchile.cl
Jose Miguel Cruz, e-mail: jmcruz@dii.uchile.cl

Permanent Subcommittee on Investigations
EXHIBIT #105

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Executive Summary

The recent failure of the rating agencies in connection with the so-called subprime crisis has been well documented. Many securities that received Triple-A ratings, until recently, a synonym of "foolproof", have either defaulted or been severely downgraded. As a result, the rating agencies have seen both, their methods of analyses and their business practices, called into question.

The focus of this White Paper is a topic that has received very little attention but we believe that is critical to achieve any meaningful rating agency reform. We refer to the fact that Congress, inadvertently, has given the rating agencies not only the right to issue ratings (something that everybody is aware of), but also the right to define what those ratings mean (something that, so far, has gone unnoticed). Considering that a large part of the regulatory framework is driven by ratings, this last feature amounts to the ability to modify the regulatory environment at will. In essence, something akin to giving private companies the right to legislate whenever they choose to do so.

We argue that this situation, highly abnormal by any standards, is actually very dangerous. Consequently, we propose a legislative initiative to remedy this very unusual state of affairs.

BACKGROUND

Trust and confidence are the centerpieces of well-functioning capital markets. In the case of the fixed income market, a significant part of this confidence depends on the rating agencies and their views on credit risk. For instance, when retail investors allocate their savings to institutions that require capital, the existence of a well-defined credit rating system helps them make these decisions by reducing the amount of time and resources that they might otherwise need to research all the possibilities. Additionally, a properly functioning credit ratings system reduces the asymmetry of information making the entire market more efficient. Moreover, banks and other key market participants monitor their risk and determine their reserves, based partially on ratings. Therefore, the importance of a reliable and transparent ratings system is paramount.

If the rating system fails, the confidence of investors is at stake; and when this confidence gets damaged, it can hold back the engine that makes resources flow. That confidence is a common good that needs to be preserved.

Unfortunately, the confidence in the ratings system has been badly damaged. And to restore this confidence –something, which is very much in the public interest-- we believe that is critical to address a fundamental flaw of the current system.

To explain this flaw, we will use as reference an example based on the two leading rating agencies: Moody's and S&P.

Moody's uses a 9-category risk scale for its ratings. The categories are labeled as: Aaa, Aa, A, Baa, Ba, B, Caa, Ca and C. Moody's claims that these categories correspond to different levels of Expected Loss (EL), a mathematical concept that is associated with risk.[1] Moody's has also specified –and changed from time to time- - the different EL levels (cutoff values) that correspond to each of the nine categories.

S&P, on the other hand, relies on a different measure of credit risk, Probability of Default (PD), another mathematical concept associated with risk. Just like Moody's, S&P also uses a 9-category scale. Its rating levels are designated as: AAA, AA, A, BBB, BB, B, CCC, CC and C. S&P has specified, and also modified from time to time, the different PD levels associated with each rating category.

[1] Expected Loss is calculated as the product of two factors: (i) Probability of Default; and (ii) Loss Severity given the exposure.

Figure 1 summarizes this information (see Appendix).

It is important to notice that there is no reason to believe that the 9-category Moody's scale and the 9-category S&P scale are, in any sense, equivalent. In other words, a AAA by S&P and a Aaa by Moody's are, conceptually, totally different. The same can be said about a BBB (S&P) and a Baa (Moody's). The reason is simple: the two scales are based on different concepts, EL and PD, and these two figures of merit are very dissimilar: PD captures either the willingness or the ability of a creditor to pay back its obligations; whereas EL incorporates an additional piece of information: the recovery value of the asset in case there is a default.

Moreover, Moody's and S&P employ different computational methods with different input values to determine their ratings. Therefore, one would expect to see a certain level of discrepancy between the agencies when issuing ratings.

In practice, this is not the case; more often than not, a bond that gets a AAA from S&P receives a Aaa from Moody's; and a bond that gets a AA from S&P would get a Aa from Moody's, and so on so forth.

Nevertheless, this high level of agreement in ratings, as we have already explained, is difficult to justify from a theoretical point of view. In fact, one might be tempted to suspect that this agreement seems to be driven by a calibrated effort of the agencies to be "consistent with each other" in order not to jeopardize market share.

RATINGS AND REGULATORY FRAMEWORK

The regulatory framework that governs most of the fixed income market in the United States and overseas has been built around credit ratings. In fact, a substantial part of the rules and regulations that affect market participants (commercial and investment banks, hedge funds, insurance companies, pension funds, swap counterparties, etc.) are ratings-driven. For example, insurance companies and pension funds cannot buy assets with ratings below certain level; swap counterparties are forced to post collateral if their ratings drop below a specified level; some institutions and investment vehicles are forced to sell assets if their credit ratings fall below investment grade; many regulators use ratings to determine reserve levels for banks, thrifts and S&L institutions, etc. In summary, what market participants can and cannot do is largely dictated by rules that are a function of a rating. Therefore, if you change the definition of a specific rating, in essence, you are changing the rule.

CURRENT SITUATION

At the present time the rating agencies are empowered to perform two activities:

(1) they can issue ratings, that is, they can decide to which one of their nine categories a particular asset will belong based on its risk profile; and

(2) they can define and alter the parameters (cutoff values) that define their ratings levels. Another way to look at this second feature is that they can change the meaning of any three-letter symbol; they can re-define what the symbol stands for.

Leaving aside for the moment that recently the ratings agencies have issued very unreliable and inaccurate ratings, nobody would be surprised by (1). After all, this is what the rating agencies are supposed to do: issue ratings.

It is (2) what is most troubling. An example will clarify the point.

In the U.S., for instance, pension funds cannot buy assets with a rating below BBB. That is the rule. However, the regulators have failed to specify the meaning of BBB, that is, what BBB stands for. It is up to the rating agencies to define the level of risk that the BBB symbol represents. Thus, whenever the rating agencies change the characterization of BBB (something they have done oftentimes) they are in fact changing the regulatory environment.

We are not aware of any other business activity in which a group of private companies have been granted, to put it quite bluntly, the right to legislate over an area of public interest --because the power to change the regulatory framework is, in essence, tantamount to the ability to legislate.

Needless to say, the current arrangement not only gives the rating agencies extraordinary power, but it also creates insurmountable conflicts of interests: the most obvious is the temptation to manipulate the ratings scale to preserve the impression of accuracy. A simple example: suppose that BBB-rated assets start to show default rates far in excess of what is expected for BBB assets, at least, based on historic data. One possible "remedy" is to change the definition of BBB to "remove" the anomaly from the data, and thus, maintain an ill-founded appearance of accuracy.

PROPOSAL

In light of the current situation we would like to make a fairly straightforward proposal: a government authority such as the SEC, for example, should define a ten-level (C)redit (R)isk scale, say, CR1, CR2,..., CR10 based on clearly spelled out risk parameters (more about this issue later).

Then, the rating agencies would concern themselves only with determining to which category (CR1, CR2,..., CR10) a specific bond belongs.

In short, the basis for the regulatory framework --the meaning of the ten rating categories-- would only be controlled by the SEC and the rating agencies would not have the right to change the meaning of these categories.

The arrangement outlined above is very much in line with what happens in other areas of the economy, at least, when the common good and basic services are at stake. For example, drinking water standards (acceptable levels of different chemicals) are normally established by a government-managed health authority. Private companies (much like the ratings agencies in our proposal) can be authorized to perform tests to see whether a specific sample of water meets those standards, or, if it fails, estimate by how much it fails. But they do not set the standard. That is the critical issue.

IMPLEMENTATION

We propose a three-step implementation schedule:

(1) Congress should re-assert the right of the SEC (unless a different government agency is established) to determine the benchmarks to be used to specify ratings. It should make clear that the rating agencies will only be entitled to issue ratings, but will not be entitled to change the benchmarks on which the ratings will be based.

(2) A three-month consultation period should be opened to all market participants in order to examine two issues: (i) advantages and disadvantages of several metrics (figures of merit) to measure credit risk; and (ii) establish appropriate cutoff points to determine the different categories in the ratings scale.

(3) After a prudent deliberation period, the new ratings scale (CR1, CR2,..., CR10) based on the newly adopted metric should be introduced. From that point in time, any new regulation should reference the new ratings

scale. Additionally, some sort of "equivalence table" should be established in order to interpret any old regulation that references the old ratings scale.

CONCLUDING REMARKS

There are several potential candidates to measure credit risk. An obvious candidate is the Probability of Default (PD) of the asset in question. Nevertheless, other alternatives, and more specifically, combinations of several metrics, should be explored. For instance, one could investigate the pros and cons of using a combination of PD and LGD (Loss Given Default). The advantages of capturing in one "number" the likelihood of default plus the severity of the loss is quite appealing, at least conceptually. Due to the number of alternatives it is imperative to have an open and transparent consultation period.

Also, it is important to study several data sets with historic default information to establish meaningful cutoff points. Obviously, whether ultimately the ratings scale will consist of ten or eight or five categories is not as relevant. What is critical is that the cutoff values that specify these rating categories achieve a reasonable discriminating effect; and also, that these categories are clearly spelled out so that all the agencies can use them as common benchmarks.

It might seem that the previously outlined proposal is quite radical. In fact, it is not. What is most radical --not to say deeply flawed-- is the current environment; namely, an environment in which a small group of private companies have been granted the right to dictate and control the norms under which the fixed income market should function. Our proposal is merely an attempt at correcting this highly unusual situation.

Therefore, let us leave the rating agencies in charge of issuing ratings, which undoubtedly, is what they were originally supposed to do; but let us take away from them the ability to legislate, something which, as we have argued, should not be the privilege of a small group of private companies. The current regulatory framework –an extensive body of rules based on 3-letter symbols whose meaning Congress and regulators neither understand nor control—is simply untenable.

APPENDIX

Category	Moody's Symbol	S&P Symbol	Risk Level
1	Aaa	AAA	**Very Low**
2	Aa	AA	
3	A	A	
4	Baa	BBB	
5	Ba	BB	
6	B	B	
7	Caa	CCC	
8	Ca	CC	
9	C	C	**Very High**

Figure 1. The different rating symbols employed by Moody's and S&P.

SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations
to
RAYMOND W. McDANIEL, JR.
Chairman and Chief Executive Officer
Moody's Corporation

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF CREDIT RATING AGENCIES
April 23, 2010

Please provide the answers to the following question by June 15, 2010:

1. In a May 7, 2010 10-K filing, Moody's announced that it had received a Wells notice from the SEC on March 18, 2010, which stated that the SEC is considering "administrative and cease-and-desist proceedings" against the company. Moody's did not make the March 18th Wells notice public for more than six weeks, including failing to make it public during its testimony at the Subcommittee hearing on April 23, 2010.

   Also on March 18th, you exercised and sold 200,000 shares of Moody's stock for a gain of more than $4 million. According to a May 11, 2010 New York Times article, Moody's said Mr. McDaniel's sales in March were part of a "prearranged plan established about a month before the Wells notice arrived." Please respond to the following:

   (a) Please identify the date on which Moody's first learned that it was subject to an investigation by the SEC, how it learned of the investigation, and the date on which Moody's first learned that it would receive a Wells notice from the SEC.
   (b) Please identify the date on which you first learned that Moody's was subject to investigation by the SEC, how you learned of that investigation, and the date on which you first learned that Moody's would receive a Wells notice from the SEC. Please identify who informed you that Moody's would receive the Wells notice.
   (c) Please explain why Moody's waited more than six weeks before making the Wells notice public.
   (d) Please explain why Moody's did not inform the Subcommittee of the Wells notice prior to or during the hearing on April 23, 2010.
   (e) Please describe your March 18th stock transaction, including the number of stock options exercised, the strike price, the number of shares sold, the sales price, and your gain from the sale.

Permanent Subcommittee on Investigations
EXHIBIT #106

(f) Please provide a copy and a detailed description of your prearranged stock plan, including:
  (i) the date the prearranged plan was established;
  (ii) the reason the prearranged plan was established;
  (iii) the firm or individuals who advised you regarding the establishment and implementation of the prearranged plan and the name and job title of Moody's personnel who implemented the prearranged plan;
  (iv) whether you have had other prearranged stock sales plans at Moody's prior to February 2010, when those plans were created, when they lapsed or ended, and how they differed from the plan put in place in 2010;
  (v) the number of stock options and shares covered by the prearranged plan and whether the plan specified prearranged exercise dates, the amounts of stock options to be exercised, and the number of shares to be sold, or whether those factors were subject to adjustment; and
  (vi) whether you made any changes in the actions being taken pursuant to your prearranged plan after you learned of the SEC investigation or Wells notice.

2. In testimony before the House Subcommittee on Financial Institutions and Consumer Credit in May of 2007, Moody's Warren Kornfeld stated: "Over the past several years, Moody's cumulative loss expectations for subprime mortgage securitizations have steadily increased, by approximately 30% in aggregate, in response to the increasing risk characteristics of subprime mortgage loans and changes in our market outlook." Please describe all model changes made to Moody's RMBS model from 2003 to 2009 to increase credit enhancements, including the date of the change, the reason for the change, and the percentage increase of the credit enhancement.

3. Please provide a detailed narrative and timeline of decisions taken by Moody's to downgrade large numbers of residential mortgage backed securities (RMBS) and mortgage-related collateralized debt obligations (CDOs) during the recent financial crisis, including, but not limited to providing the following:

   (a) The total number of RMBS and CDO credit rating downgrades issued each month beginning in July 2007 and ending in March 2009;
   (b) The Moody's executives who made the final decisions to issue these downgrades;
   (c) The process for making these downgrade decisions;
   (d) The dates of the meetings in which the downgrades were discussed;
   (e) The reasons for the downgrades.

4. On July 10, 2007, Moody's downgraded the credit ratings for nearly 400 residential mortgage backed securities (RMBS).

   (a) Why did Moody's decide to take the actions that it did on July 10, 2007?
   (b) Please identify by name and job title the persons who made the final decisions to issue the downgrades on July 10, 2007.

(c) Were you consulted prior to the actions taken on July 10, 2007? If so, please identify by name and job title the persons who consulted with you, and describe the circumstances and your role in the decisionmaking process.
(d) Please describe how and when the list of nearly 400 RMBS securities was compiled. Please identify by name and job title the persons involved in compiling this list, when they began working on this list, and how long it took to compile.
(e) Please describe the extent to which Moody's personnel informed or alerted any financial institution or investment bank about the actions taken in July 2007, prior to actually taking those actions. Please identify what companies were alerted, when, and the persons from Moody's who provided the information.
(f) Hearing Exhibit 94o, copy enclosed, indicates that Moody's met with UBS on or around July 5, 2007, to discuss potential downgrades of subprime RMBS. Please identify by name and job title the Moody's personnel who met with UBS, the date of the meeting, and what was discussed. Please provide copies of any documentation, including any correspondence, emails, presentations, or memoranda, related to that meeting.
(g) Please identify by name and job title the persons involved with coordinating the issuance of the credit watch and downgrades on July 10, 2007.

5. In October and November, 2007, Moody's downgraded hundreds of CDO securities.

(a) Why did Moody's decide to take that action during those months?
(b) Please identify by name and job title the persons who made the final decisions to issue the CDO credit rating downgrades in November and October 2007.
(c) Were you consulted prior to the downgrades made during October and November 2007? If so, please identify by name and job title the persons who consulted with you, and describe the circumstances and your role in the decisionmaking process.
(d) Please describe how and when the lists of CDO securities to be downgraded were compiled. Please identify by name and job title the persons involved in compiling those lists, when they began working on them, and how long it took to compile them.
(e) Please describe the extent to which Moody's personnel informed or alerted any financial institution or investment bank about the actions taken in July 2007, prior to actually taking those actions. Please identify what companies were alerted, when, and the persons from Moody's who provided the information.

6. A number of credit ratings were issued by Moody's for new RMBS and CDO securities in the months immediately preceding the mass downgrades in July, October and November 2007. With respect to those credit ratings, please provide the following information:

(a) The total number of credit ratings issued for RMBS securities in April, May, June, and the first week of July 2007;
(b) The total number of credit ratings issued for CDO securities in July, August, and September 2007;
(c) How these new ratings related to the rating downgrades issued soon thereafter.

7. Please identify other days in the last 20 years on which Moody's issued hundreds or thousands of RMBS and CDO downgrades on the same day and explain the circumstances.

8. Does Moody's currently factor into its credit rating analysis whether the assets in a particular transaction are provided by a lender with a reputation for issuing poor quality assets? If so, please explain how the process works. If not, please explain why.

# # #

AKIN GUMP
STRAUSS HAUER & FELD LLP
Attorneys at Law

STEVEN R. ROSS
202 887 4343/fax: 202 887 4288
sross@akingump.com

July 30, 2010

Senator Carl Levin
Chairman
Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Washington, D.C. 20510

Re: Moody's Corporation Response to Follow-Up Questions

Dear Senator Levin:

On behalf of our client, Moody's Corporation ("Moody's"), we respectfully submit this letter and accompanying documents as Moody's response to follow-up questions posed by the Permanent Subcommittee on Investigations ("Subcommittee") after the hearing conducted on April 23, 2010.

Moody's responses to the Subcommittee's questions are based on information known at this time and are set forth without prejudice to Moody's right to supplement these responses should additional information be discovered.

These requests call for documents and information that are highly sensitive, proprietary and not available to the public. For these reasons, Moody's requests that the Subcommittee treat all such documents and information with appropriate confidentiality, and not inappropriately disclose any non-public Moody's document or information to third parties.

Moody's Response to Question No. 1:

Moody's learned that the Securities and Exchange Commission ("SEC") was examining matters relating to Moody's ratings of constant proportion debt obligations on May 14, 2008, when Moody's contacted the SEC to inform the SEC of allegations made by a reporter for the Financial Times ("FT") and the steps the Company was taking in response, including retaining outside counsel to conduct an investigation. Moody's reported the results of that investigation to the SEC in June 2008, and in September 2008. Thereafter, Moody's continued to provide additional information to the SEC as requested by the SEC Staff.

On March 16, 2010, the Staff informed Moody's that the Staff was considering recommending that the Commission institute administrative proceedings against Moody's

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relating to statements in Moody's application to become registered as a Nationally Recognized Statistical Rating Organization on Form NRSRO. On March 16 – 18, 2010, Moody's outside counsel had several conversations with the Staff. Late in the day on March 18, the Staff informed counsel that Moody's should expect a Wells notice. Moody's received the Wells notice at the close of business that same day.

Mr. McDaniel was aware in May 2008, through discussions with Moody's internal legal counsel and members of Moody's communications team, that Moody's had contacted the SEC concerning the allegations raised by the FT. On March 17, 2010, Moody's legal counsel informed Mr. McDaniel that the Staff was considering recommending that the Commission institute administrative proceedings against Moody's. Mr. McDaniel was made aware of the Company's receipt of the Wells notice after the Company received it at the close of business on March 18, 2010.

The Company made the decision, in accordance with its standard practices and the requirements of the federal securities laws, to disclose the Wells notice in its regular quarterly filing with the SEC. This has historically been and continues to be the method by which Moody's discloses litigation and regulatory matters.

The subject matter of your Subcommittee's hearing was Moody's ratings of U.S. residential mortgage backed securities and collateralized debt obligations, and the Wells notice did not relate to these subject matters.

On the morning of March 18, 2010, the automated exercise of 100,000 options was triggered under Mr. McDaniel's February 22, 2010 10b5-1 Trading Plan (the "Trading Plan") when Moody's stock price reached the pre-determined price of $29.00 just before 10 a.m. All 100,000 options covered by the plan were exercised and the resulting shares were sold at $29. Mr. McDaniel received after-tax cash proceeds of $804,095, gross of any fees and commissions.

Moody's refers the Subcommittee to the attached copy of the Trading Plan bearing document identification numbers MOODYS-PSI2010-0046840 – MOODYS-PSI2010-0046847. The Trading Plan was signed by Mr. McDaniel on February 20, 2010 and approved by Moody's General Counsel John Goggins on February 22, 2010. The Trading Plan was confirmed as effective by Fidelity Investments, the plan administrator, on February 22, 2010. The purpose of the Trading Plan was to exercise, in an automated fashion and in a manner consistent with Rule 10b5-1, options that were scheduled to expire on October 3, 2010.

The Trading Plan covered 100,000 options and specified that if Moody's stock price reached $29.00 between February 23, 2010 and September 15, 2010, all covered options would be exercised and the resulting shares sold. Mr. McDaniel was advised concerning the establishment of the Trading Plan by Moody's General Counsel John Goggins and Assistant

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Attorneys at Law

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General Counsel Elizabeth McCarroll. Mr. McDaniel did not make any changes to the Trading Plan at any time after it became effective. Moody's did not regard the Trading Plan as being subject to modification, and notes that under SEC guidance, the modification of a 10b5-1 trading plan has the effect of creating a new trading plan which requires an inquiry into whether the individual was in possession of material non-public information at the time of the modification.[1]

Mr. McDaniel had previously entered into 10b5-1 trading plans on November 9, 2005 (termination date: June 30, 2006), August 9, 2006 (termination date: August 9, 2007), February 22, 2007 (termination date: February 22, 2008) and February 19, 2009 (termination date: February 22, 2010). The prior plans differed from the Trading Plan with respect to the particular options covered by the plan, the number of options covered and the strike price at which the options were to be exercised. All of the prior trading plans used Moody's stock price as the primary triggering event for the automated exercise of options. The Trading Plan and certain of the prior trading plans also included a date on which all covered options would be exercised if the stock price trigger had not been triggered by that date.

Moody's Response to Question No. 2:

Moody's credit ratings are not derived solely from the application of a mathematical process, or a model, but instead are tools sometimes used in the process of assigning ratings. The credit rating process always involves much more, including the exercise of independent judgment by the rating committee. Each rating reflects the opinion of a rating committee, and not the opinion of an individual analyst, as to the relative creditworthiness of the issuer or obligation. Although credit metrics may differ from one sector (*e.g.*, utilities) to another (*e.g.*, structured finance), Moody's uses essentially the same rating process in all sectors.

The analyst assigned to the transaction will apply relevant Moody's methodologies, which likely will include consideration of both quantitative and qualitative factors. In Moody's Structured Finance group, quantitative factors may include the degree of credit enhancement (or loss protection) provided by the transaction's structure, the historical performance of similar assets created by the originator and borrowers' credit history metrics.[2] Qualitative factors could include an assessment of the bankruptcy remoteness of the entity holding the assets, the integrity of the legal structure, and management and servicing quality. Indeed, Moody's analysts are

[1] *See* SEC Compliance and Disclosure Interpretations, Exchange Act Rules, Questions 120.16 and 120.19 (updated March 25, 2009), *available at* http://www.sec.gov/divisions/corpfin/guidance/exchangeactrules-interps.htm.

[2] The more credit enhancement or loss protection a bond has, the higher the likelihood that the investors holding that bond will receive the interest and principal promised to them.

encouraged to layer qualitative factors in their assessment of credit risk.[3]

During the period from 2003 through 2009, as Moody's cumulative loss expectations for subprime mortgage securitizations steadily increased, the credit enhancements required by Moody's correspondingly increased. Beginning in 2003, Moody's observed and commented on the trends of loosening mortgage underwriting processes and escalating housing prices. Moody's published on and incorporated these trends into its analysis of RMBS. As a result, Moody's steadily increased its loss expectations (and corresponding credit enhancements) on pools of subprime loans and the levels of credit protection required for a given rating so that RMBS backed by subprime mortgages issued in 2006 and rated by Moody's had more credit protection than bonds issued in earlier years. Specifically, Moody's steadily increased its loss expectations on pools of subprime loans from an average of 4% to 4.5% in 2003 to 5.5% to 6% in 2007. Thus, for the 2006 vintage rated by Moody's, more than half the mortgages in a pool would have to default and recover less than half of the appraised value on a property before a Moody's triple-A-rated bond would suffer its first dollar of loss.

In the third quarter of 2003, Moody's average original expected loss for RMBS (by quarter) was 3.79. Starting at that time, the average original expected loss increased steadily each quarter until it reached 5.07 in the first quarter of 2007 (an overall 30.9% increase). By 2007, expected losses increased rapidly, reaching an average of 7.09 by the fourth quarter of 2007 (an 83% overall increase from the first quarter of 2003). In the same time period (2003 - 2007), Aaa credit enhancements increased correspondingly, from an average of 16.2 in the first quarter of 2003, to 25.0 in the third quarter of 2007, representing a 54.34% increase.

Moody's Response to Question Nos. 3, 4 & 5:

Due to their similar subject matter, the narrative provided below will respond to Question Numbers 3, 4 and 5.

The Rating Process at Moody's

Moody's credit rating decisions are not made by any one individual, but instead are subjected to a rigorous and thorough analysis by a rating committee. Moody's assigns credit ratings through a process that involves robust analysis of the Issuer or obligation to be rated, followed by rating committee deliberation and voting, dissemination of the rating, and monitoring the rating as necessary to ensure that it continues to reflect Moody's opinion of the creditworthiness of the Issuer or obligation. The rating committee is a critical mechanism for

[3] There are many other factors including the regulatory environment and management quality that cannot readily be reduced to inputs for a quantitative model but that can have a significant impact on the relative creditworthiness of an issuer or obligation.

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STRAUSS HAUER & FELD LLP
Attorneys at Law

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promoting the quality, consistency and integrity of Moody's credit rating process. Moody's credit ratings, which include but are not limited to initial ratings, upgrades, downgrades, or the placement of a rating on watch, are determined by rating committees, pursuant to a majority vote of the committee's voting members, and not by any individual analyst. Each rating committee member is expected to apply his or her own independent judgment in the decision-making process. Ultimately, credit ratings are subjective opinions that reflect the majority view of the rating committee's voting members.

For further discussion, Moody's refers the Subcommittee to the attached documents bearing the document identification numbers MOODYS-PSI2010-0046848 – MOODYS-PSI2010-0046888.

Moody's Monitoring of RMBS During 2007

In January 2007, Moody's published a special report highlighting the rising defaults on the 2006 vintage subprime mortgages.[4] In that report Moody's stated:

> *"Mortgages backing securities issued in late 2005 and early 2006 have had sharply higher rates of foreclosure, real estate owned (REO) and loss than previously issued securities at similar, early points in their lives. These 'early default' measures have been primarily visible in the subprime universe, but are not limited to that sector. Moody's is currently assessing whether this represents an overall worsening of collateral credit quality or merely a shifting forward of eventual defaults which may not significantly impact a pool's overall expected loss."*

That report was one of a series of publications that discussed the deteriorating condition of the U.S. subprime and housing market. Those publications expressed Moody's concerns about expected loan deterioration, while Moody's continued to collect performance data and other information on specific pools to validate its assessment of overall market conditions and differentiate performance among individual mortgage pools.

In a March 7, 2007 report, "Challenging Times for the US Subprime Mortgage Market," Moody's said that: *"In response to the increase in the riskiness of loans made during the last few years and the changing economic environment, Moody's has steadily increased its loss expectations on pools of subprime loans."* However, Moody's also identified a number of factors that it believed would be critical in determining the ultimate performance of these loans. In relevant part, the report said:

[4] "Special Report: Early Defaults Rise in Mortgage Securitization," January 18, 2007.

"It is generally too early to predict ultimate performance for the subprime mortgage loans originated in 2006 and the bonds secured by such loans. A number of factors will determine the ultimate losses. Home price appreciation and refinancing opportunities available in the next few years are expected to have the biggest impact. Economic factors, such as interest rates and unemployment, will also play a significant role as will loss mitigation techniques employed by loan servicers."

While Moody's identified the factors that it believed would lead to the ultimate losses on the 2006 subprime mortgages and the bonds secured by them, Moody's did not anticipate the magnitude or severity of these factors.

Throughout 2007 Moody's conducted intensive monitoring of all mortgage securities. In particular:

1) Moody's monitored and analyzed the unprecedented market conditions and the reaction of various market participants as the crisis continued to unfold.

Moody's aggressively monitored market conditions (*e.g.*, rising delinquencies and defaults, falling home prices) as the crisis unfolded. Importantly, these developments were impacting the behavior of the various market participants (including the borrowers, the mortgage servicers, lenders and the Federal government), whose reactions could further impact default and delinquency rates. Among other factors, Moody's considered the following:

- How would borrowers act? Given that some loans were about to experience interest rate resets, how severely would this impact default and delinquency rates?
- How would sponsors act? Would they be able and willing to repurchase the loans in a pool that had breached the representations and warranties?
- How would the lenders act? In particular, how much were they tightening their lending criteria (and therefore the availability of credit) and how long was this tightening likely to last?

By way of example, in an effort to gauge the potential impact that loan modifications might have in reducing losses on defaulted loans, especially in light of interest rate resets when monthly payments increased, Moody's conducted a survey of the modification practices of 16 subprime mortgage servicers (who together constituted roughly 80% of the total subprime servicing market). The survey results, which were published in September 2007,[5] suggested that, on average, subprime servicers were not focused on modifying loans, and that most servicers had modified only approximately 1% of their serviced loans that experienced a reset in the months of January, April and July 2007. Based on this data, it appeared that the number of modifications

[5] "Special Report: Moody's Subprime Mortgage Servicer Survey on Loan Modifications," September 21, 2007.

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STRAUSS HAUER & FELD LLP
Attorneys at Law

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performed by subprime servicers on loans facing reset would be much lower than anticipated by many commentators, and would therefore be unlikely to meaningfully mitigate the ultimate losses in subprime pools backing rated securitizations. Moody's published follow-up surveys in December 2007 and July 2008.[6]

2) Moody's took rating actions as soon as warranted by actual performance data.

Moody's monitors the actual performance of the underlying mortgage pool for the RMBS that are rated throughout the life of the security. This was the case for the 2006 vintage and for the first several months, the loans in these securities performed in line with Moody's expectations. In fact, the early performance of these mortgage loans resembled the performance of similar subprime loans during the 2000 and 2001 U.S. recessions. This performance in turn was consistent with the higher loss expectations that Moody's had already anticipated for the vintage. Figures 1 and 2 below, published respectively in March 2007 and April 2007 publications, show that the loan performance closely tracked that of the 2000 and 2001 vintages. And, as noted above, the 2006 Moody's Aaa-rated RMBS had sufficient credit protection to withstand such performance had macro-economic conditions not deteriorated in such an unprecedented and unanticipated way.

Figure 1
Subprime Loans 60 or More Days Delinquent, in Foreclosure or Held for Sale

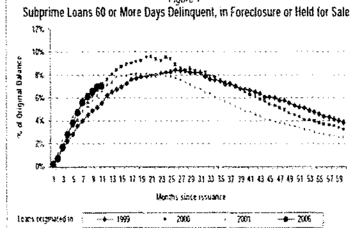
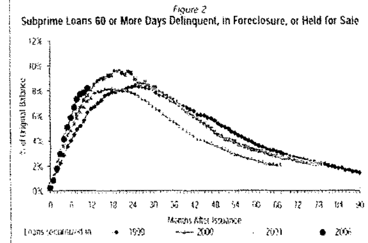


Figure 2
Subprime Loans 60 or More Days Delinquent, in Foreclosure, or Held for Sale



Moody's first rating actions (downgrades and reviews for downgrade) on outstanding securities backed by 2006 vintage subprime loans took place in November 2006 and further rating actions occurred in December. At that time, based on the then-available information, Moody's did not believe that more aggressive rating actions were warranted for the entire 2006 vintage. Not until performance data from the second quarter of 2007 became available was it clear that performance of the 2006 vintage was likely to worsen and that it might deteriorate beyond that observed in the 2000 – 2001 recession. Figure 3, published in the July Update 2007,

[6] "Special Report: US Subprime Market Update: November 2007," December 17, 2007 and "Special Report: Moody's Subprime ARM Loan Modification Update," July 14, 2008.

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STRAUSS HAUER & FELD LLP
Attorneys at Law

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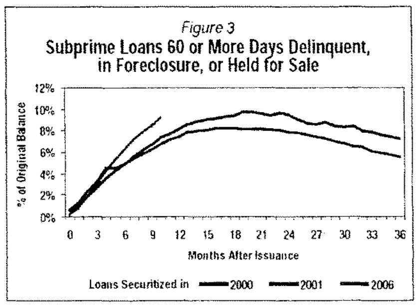
shows the significantly higher loan delinquencies in the 2006 vintage than that of the 2000 and 2001 vintages.



Downgrades of RMBS

Moody's first comprehensive set of rating actions (on second lien mortgage transactions) took place in April 2007, with a second set of actions (on first lien mortgage transactions) in July 2007. Moody's did not take these rating actions sooner because there was insufficient actual performance information to judge the persistence of the early trends. Consistent with Moody's approach to assigning and monitoring ratings, Moody's based its actions on actual performance information and on a transaction-by-transaction review, rather than on general negative market sentiment.

Moody's refers the Subcommittee to a full exposition of the July 10, 2007 RMBS downgrades which can be found in the July 12, 2007 Moody's Investor Service teleconference transcript (MOODYS-PSI2010-0024321 – MOODYS-PSI2010-0024387). In addition, Moody's refers the Subcommittee to a PowerPoint presentation entitled "Moody's Structured Finance Teleconference and Web Cast: RMBS and CDO Rating Actions" that was referenced during that July 12, 2007 teleconference bearing document identification numbers MOODYS-PSI2010-0046889 – MOODYS-PSI2010-0046926.

RMBS were downgraded in the following months: July 2007 (497); August 2007 (949); September 2007 (53); October 2007 (2739); November 2007 (1508); December 2007 (1848); January 2008 (980); February 2008 (774); March 2008 (1711); April 2008 (9312); May 2008 (525); June 2008 (3285); July 2008 (1236); August 2008 (3064); September 2008 (3792); October 2008 (10343); November 2008 (2470); December 2008 (3144); January 2009 (2831); February 2009 (16444); March 2009 (7446).

Hearing Exhibit 94o appears to be a UBS document that references an earlier meeting with personnel at Moody's. The Company is unaware of what meeting (or call or conference) may be referenced therein or when it may have taken place. The Company did not inform the market of the July 2007 downgrades prior to announcement of those downgrades, although the market certainly was aware before those specific rating actions that RMBS subprime was not performing and rating actions were to be expected.

Downgrades of CDOs

Many CDOs were placed on watch immediately following the July 2007 RMBS downgrades. The CDO surveillance group analyzed delinquency data, trustee reports and internal underlying asset ratings to monitor the transactions. Based on this data, the decision was made in the fall of 2007 to place large numbers of CDOs on review. Many of these CDOs had exposure to RMBS downgraded in July 2007; this in turn led to the downgrades published in October and November 2007.

CDO securities were downgraded in the following months: July 2007 (1); August 2007 (25); September 2007 (44); October 2007 (273); November 2007 (965); December 2007 (251); January 2008 (194); February 2008 (310); March 2008 (1169); April 2008 (1451); May 2008 (1398); June 2008 (919); July 2008 (201); August 2008 (263); September 2008 (350); October 2008 (347); November 2008 (237); December 2008 (1383); January 2009 (96); February 2009 (464); March 2009 (591).

Consistent with Moody's reliance on a formal committee rating process, Mr. McDaniel was informed of, but not consulted regarding, the downgrades of RMBS and CDOs discussed above.

Moody's Response to Question No. 7:

Other than the downgrades discussed above in Moody's responses to Question Numbers 3, 4, and 5, there is one additional occasion on which Moody's issued simultaneous downgrades on hundreds of RMBS ratings. On May 1, 1998, Moody's downgraded 101 classes from 43 securitizations of Quality Mortgage subprime mortgages due to poor collateral performance. These securitizations had been issued between 1992 and 1996. The Quality Mortgage deals were performing poorly, with unusually high projected loss levels. Early troubles with collateral had been obscured by low loan-to-value levels, and by Quality Mortgage's practice of buying troubled loans out of the pool. Once this practice was discontinued and the problems with the collateral became apparent, Moody's downgraded 101 classes.

Moody's Response to Question No. 8:

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Attorneys at Law

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While Moody's does take into account the prior loan performance history of loans made by particular originators, Moody's does not factor lender reputation into its credit rating analysis. Instead, Moody's rates mortgage-backed securities based on the quality of the collateral underlying those securities, which includes consideration of both qualitative and quantitative factors. The historical performance of a given originator is one qualitative factor considered.

Originator quality can have a significant positive or negative effect on pool performance and, by extension, on the credit enhancement levels called for to support a tranche at a given rating level. The originator assessment looks to isolate the effect an originator's policies and practices have on loan performance from the effects of external factors such as the macroeconomic environment and the ability of the servicer.

For an explanation of how Moody's currently assesses the performance of originators, Moody's refers the Subcommittee to the publication bearing the document production number MOODYS-PSI-0046927 – MOODYS-PSI-0046946 (Moody's Enhanced Approach to Originator Assessments for U.S. Residential Mortgage Backed Securities (RMBS) (Originally electronically published on November 24, 2008, but due to minor changes republished on October 5, 2009)).

* * *

AKIN GUMP
STRAUSS HAUER & FELD LLP
Attorneys at Law

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Please contact me with any questions at (202) 887-4343.

Sincerely,

Steven R. Ross
Counsel for Moody's Corporation

Enclosures

cc: The Honorable Tom Coburn, Ranking Minority Member (w/Enclosures)

AKIN GUMP
STRAUSS HAUER & FELD LLP
Attorneys at Law

STEVEN R. ROSS
202.887.4343/fax: 202.887.4288
sross@akingump.com

August 4, 2010

Senator Carl Levin
Chairman
Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Washington, D.C. 20510

Re: Moody's Corporation Response to Follow-Up Questions

Dear Senator Levin:

On behalf of our client, Moody's Corporation ("Moody's"), we respectfully submit this letter in further response to follow-up questions posed by the Permanent Subcommittee on Investigations ("Subcommittee") after the hearing conducted on April 23, 2010.

Moody's response to the Subcommittee's questions is based on information known at this time and is set forth without prejudice to Moody's right to supplement this response should additional information be discovered.

These requests call for information that is highly sensitive, proprietary and not available to the public. For these reasons, Moody's requests that the Subcommittee treat all such information with appropriate confidentiality, and not inappropriately disclose any non-public Moody's information to third parties.

Moody's Response to Question No. 6:

From April 1, 2007 through the first week of July, 2007, Moody's issued ratings on 284 RMBS deals (which include multiple tranches for each deal). From July 1, 2007 through September 30, 2007, Moody's issued ratings on 40 CDO deals (which also include multiple tranches for each deal). The ratings referenced in this paragraph are not necessarily related to the downgrades previously described in Moody's response to Questions 3, 4 and 5.

* * *

This completes Moody's response to the follow-up questions directed to Mr. Raymond McDaniel on May 24, 2010. Please contact me with any questions at (202) 887-4343.

AKIN GUMP
STRAUSS HAUER & FELD LLP
Attorneys at Law

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Sincerely,

Steven R. Ross
Counsel for Moody's Corporation

cc: The Honorable Tom Coburn, Ranking Minority Member

Fidelity INVESTMENTS

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Once completed, please fax this completed 10b5-1 Trading Plan to **877-283-5691 Attn: 10b5-1 Group** and mail it to **Fidelity Brokerage Services LLC, 2 Contra Way T2L, Merrimack, NH 03054 Attn: 10b5-1 Group.** Please call **800-544-6161** for any assistance that you may require with the completion of this 10b5-1 Trading Plan. This Plan is subject to Fidelity review and approval. This Plan will not become effective until accepted and signed by Fidelity (see Section 1(A) below).

I. CUSTOMER INFORMATION

Name: RAYMOND W MCDANIEL	Issuer: Moody's Corp Issuer's Authorized Representative: Name: John J. Goggins Title: SVP & General Counsel Address: 7 WTC at 250 Greenwich St New York, NY 10007 Phone: 212-553-1912
Address: [redacted] NEW YORK, NY 10024-5722	Stock Symbol: MCO
Phone: 212-[redacted] Fax: 212-[redacted] Email: SSN: [redacted] Fidelity Brokerage Account Number: [redacted]	*Affiliate/"Control Person" Status:* *(check applicable boxes)* ☒ I am ☐ I am not an executive officer, director or 10% owner of Issuer ☒ I have ☐ I have not been notified that Issuer will file Form 4 statements on my behalf consistent with Issuer's designation of me as a "*Section 16 reporting person*" ☒ I have ☐ I have not been notified by Issuer that I may be deemed an "*affiliate*" as defined in Rule 144 of the Securities Act of 1933

[redacted] = **Redacted by the Permanent Subcommittee on Investigations**

Fidelity
INVESTMENTS

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II. TRADING SCHEDULE & INSTRUCTIONS- (ATTACH ADDITIONAL SHEETS IF NECESSARY)

Customer hereby instructs Broker to effect exercises, sales or purchases (as the case may be) of Shares of stock of Issuer from or into the Fidelity brokerage account the ("Customer Account") in accordance with the trading schedule set forth in the appropriate table below. For open market sales or purchases of shares, the Customer must specify a date on which the brokerage order will be entered ("Order Entry Date") and executed in accordance with Customer instructions pursuant to normal brokerage rules and regulations, and as set forth in the Customer Agreement governing the Customer Account. If the Customer specifies an Order Entry Date which is a weekend or holiday, the brokerage order will be entered prior to the opening of regular market trading hours on the next trading day. Share quantities and prices listed shall be increased or decreased to reflect stock splits, mergers, reorganizations, recapitalizations or other similar changes or corporate actions in Issuer's capitalization that may occur prior to execution of the trades. Limit price orders are at the limit price or better, beginning at the opening of regular market trading hours on the specified trade date(s) and expiring at the close of regular market trading hours on the trading date(s).

Trading Schedule A: Total number of options to exercise within this schedule = 100,000

COMPANY STOCK PLAN – OPTIONS TO BE EXERCISED AND SHARES TO BE SOLD OR HELD									
Option Grant Date	Option Exercise Price	Number of Shares to Acquire by Option Exercise ("Option Shares")	Option Exercise Date	Number of Option Shares to be Sold	Number of Option Shares to be Held in Customer Account	Order Entry Date	Type of Order[1] (Market/Limit)	Time in Force (Day/Date Range/GTC)	Limit Price (if any)
10/03/2000	$14.0625	100,000	02/23/2010	100,000	0	02/23/2010	LIMIT	GTC THROUGH 09/15/2010	$29.00

Trading Schedule B: To be defined as 100% of the unexercised options from Trading Schedule A, as detailed below

COMPANY STOCK PLAN -- OPTIONS TO BE EXERCISED AND SHARES TO BE SOLD OR HELD									
Option Grant Date	Option Exercise Price	Number of Shares to Acquire by Option Exercise ("Option Shares")	Option Exercise Date	Number of Option Shares to be Sold	Number of Option Shares to be Held in Customer Account	Order Entry Date	Type of Order[1] (Market/Limit)	Time in Force (Day/Date Range/GTC)	Limit Price (if any)
10/03/2000	$14.0625	*B.1	09/15/2010	*B.1	0	09/16/2010	MARKET	DAY	N/A

* The closing price of MCO common stock on the NYSE on 9/15/2010 shall determine the number of shares to "exercise & sell" and "exercise and sell to cover". Please see the priority sequence listed below:

$29.00 or higher—exercise and sell 100% of the remaining options unexercised in Trading Schedule A
$28.00-$28.99 –exercise and sell 100% of the remaining options unexercised in Trading Schedule A less 16,500 (which will be executed as a "sell to cover" in Trading Schedule C)
$27.00-$27.99 –exercise and sell 100% of the remaining options unexercised in Trading Schedule A less 36,500 (which will be executed as a "sell to cover" in Trading Schedule C)
$26.00-$26.99 –exercise and sell 100% of the remaining options unexercised in Trading Schedule A less 60,000 (which will be executed as a "sell to cover" in Trading Schedule C)
$25.00-$25.99 –exercise and sell 100% of the remaining options unexercised in Trading Schedule A less 87,000 (which will be executed as a "sell to cover" in Trading Schedule C)
$14.18-$24.99 –exercise and "sell to cover" 100% of the remaining options unexercised in Trading Schedule A, which shall be executed in Trading Schedule C
Price below $14.18—no exercise shall be entered

[1] Where possible, orders will be traded on a "not held" basis. "Not Held" means an instruction on an order to buy or sell securities, indicating that the customer has given the floor broker time and price discretion in executing the best possible trade but will not communicate with the floor broker during such execution or hold the broker responsible if the best deal is not obtained. Customer acknowledges that, for purposes of Rule 10b5-1, such activities shall not be deemed a modification of the instructions set forth herein.

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Trading Schedule C: To be defined as 100% of the unexercised options from Trading Schedule A less the number of options exercised in Trading Schedule B

COMPANY STOCK PLAN – OPTIONS TO BE EXERCISED AND SHARES TO BE SOLD OR HELD									
Option Grant Date	Option Exercise Price	Number of Shares to Acquire by Option Exercise ("Option Shares")	Option Exercise Date	Number of Option Shares to be Sold	Number of Option Shares to be Held in Customer Account	Order Entry Date	Type of Order[1] (Market/Limit)	Time in Force (Day/Date Range/GTC)	Limit Price (if any)
10/03/2000	$14.0625	*C.1	09/16/2010	*C.1	0	09/16/2010	MARKET	DAY	N/A
The below exercise and hold transaction shall be entered on the first trading day following the complete execution of the exercise and sell transaction listed directly above									
10/03/2000	$14.0625	C.2	TBD	0	C.2	TBD	N/A	N/A	N/A

C.1 To be determined by the following calculations:

Total Shares to be Exercised and Sold (rounded up to the nearest whole share) = Pre-Commission shares + Commission shares

- Pre-Commission Shares = (Option Cost + Tax estimate) / (Previous Market Closing Price on the NYSE)
  - Option Cost = 100% of the unexercised options from Trading Schedule A less the number of options exercised in Trading Schedule B x $14.0625
  - Tax Estimate = (Previous Market Closing Price on the NYSE - $14.0625) x 100% of the unexercised options from Trading Schedule A less the number of options exercised in Trading Schedule B x 33%
- Commission Shares = [(Pre-Commission shares ÷ 100) x $.06 + $55] / (Greater of Previous Market Closing Price on the NYSE or Limit Price)

C.2 To be determined based on the following calculation:
Number of Option Shares to be Exercised and Hold = 100% of the unexercised options from Trading Schedule A less the number of options exercised in Trading Schedule B – Total Shares Sold in C.1

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SECTION 7(A) TRADES (see infra): If Broker cannot effect any sale of Shares for any of the reasons described in Section 7(A) of the Terms and Conditions of this Trading Plan, then Broker should (*check no more than one of the following*)

- [x] execute the sale on the next possible business day
- [ ] cancel the sale and add the resulting unsold Shares to the number of Shares to be sold on the next Date of Sale on the same sale grid above
- [ ] cancel the sale altogether and proceed only with sale instructions corresponding to the later Dates of Sale on the same sale grid above

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10b5-1 TRADING PLAN

TERMS AND CONDITIONS

THIS TRADING PLAN is adopted by Customer and Fidelity Brokerage Services LLC, a Delaware limited liability company ("Broker"), in compliance with Rule 10b5-1(c)(1) under the Securities Exchange Act of 1934 as amended (the "Exchange Act")

WHEREAS, Customer wishes to provide instructions to Broker as to how, when and whether to conduct purchases or sales of securities of the Issuer in compliance with Rule 10b5-1 under the Exchange Act as set forth in the foregoing Trading Schedule (the "Shares"), and

WHEREAS the Shares may include Shares that Customer has or will have the right to acquire under outstanding employee stock options of the Issuer ("Options") and/or Shares ("Company Stock Plan Shares") issued or to be issued to Customer based upon Customer's participation in one or more of Issuer's employee stock plans (each a "Company Stock Plan"), which is either (i) in the event that the Issuer has entered into a Recordkeeping and Administrative Services Agreement ("SPS Agreement") with Fidelity Stock Plan Services LLC ("SPS"), listed on Schedule A; or (ii) with respect to all other Company Stock Plans, is attached hereto as Exhibit 1, and

NOW THEREFORE, in consideration of the foregoing and the respective covenants and agreements hereinafter contained the parties hereby agree as follows:

1. TERM & TERMINATION

(A) Term: This trading plan, completed and executed by the Customer on **02/20/2010** (the "Customer Execution Date") shall be effective as of the date Broker notifies Customer the acceptance by Broker of this Trading Plan (the "Effective Date"), and shall continue until terminated in accordance with Section 1(B) below. If the Trading Schedule provides for an Option Exercise Date or Order Entry Date earlier than one (1) business day after the Effective Date then such Option Exercise Date or Order Entry Date shall be one (1) day following the Effective Date

(B) Termination. This Trading Plan will terminate on the earlier of (i) specify date **10/03/2010** (not to exceed one (1) year from the Effective Date); (ii) execution of all trades or expiration of all of the orders relating to such trades as specified below (iii) the date Broker receives notice of liquidation, dissolution, bankruptcy, insolvency or death of Customer, or (iv) Broker receives notice from the Customer of Customer's termination of the Trading Plan. Any termination of this Trading Plan by Customer must be (a) delivered to Broker in writing and signed and dated by Customer, and (b) filed with Issuer within five (5) business days after the effective date of such termination

2. INTENT TO COMPLY WITH RULE 10b5-1

It is the intent of the parties that this Trading Plan satisfy the affirmative defense conditions of Rule 10b5-1(c) and comply with the requirements of Rule 10b5-1.

3. 144 COMPLIANCE

(A) If the shares are "restricted securities" and/or Customer may be deemed an "affiliate" of Issuer, as such terms are defined in Rule 144, then within five (5) days of the first date on which sales, if any, can be made under this Trading Plan, and within five (5) days of each three-month anniversary of such first date (providing that on such anniversary any sales of Shares remainpending under this Trading Plan) Customer shall execute and deliver to Broker a certification disclosing trades made by Customer and its related parties within the three (3) months preceding such first date or three-month anniversary date, as the case may be, for purposes of determining compliance of sales to be made under this Trading Plan with Rule 144 under the Securities Act of 1933, as amended. If there were no such trades within such three (3) month period no certification is required

(B) In respect of any sales of Shares under this Trading Plan, if such Shares are "restricted securities" and/or Customer may be deemed an "affiliate" of Issuer, as such terms are defined in Rule 144, then Broker will complete on behalf on Customer and file with appropriate authorities the required Forms 144 of Customer, provided that Customer has complied with its covenant set forth in Section 3(A) above, with respect to each such filing. Customer understands and agrees that such Forms 144 shall provide (i) that the sales are being made pursuant to a Rule 10b5-1 Trading Plan, (ii) the date on which such Trading Plan was adopted and (iii) that Customer's knowledge speaks as of the date such Trading Plan was adopted. Customer shall cooperate with Broker to execute and file any modifications to an effective Form 144 in order to comply with the foregoing sentence

(C) If Customer indicates on Instruction Form that Issuer will file Form 4 statements on Customer's behalf consistent with Issuer's designation of Customer as a "Section 16 reporting person" then Broker will use reasonable efforts to transmit to Issuer's Authorized Representative in writing, the details of any trade executed under this Trading Plan within one business day of the trade execution (in each case, a "Broker Trade Notification").

4. IMPLEMENTATION OF TRADING PLAN

(A) Customer agrees to deliver promptly Shares now or hereafter coming into Customer's possession that are subject to sale under this Trading Plan, including, if applicable, Company Stock Plan Shares, for so long as sales are to be conducted under this Trading Plan, all of which Shares shall be deposited into the Customer Account in the name of Broker or its duly appointed designee. Broker shall withdraw Shares from the Customer Accountin order to effect sales of Shares under this Trading Plan. Broker agrees to notify Customer promptly if at any time during the term of this TradingPlan the number of Shares in the Customer Account is less than the number of Shares remaining to be soldpursuant to this Trading Plan, unless such shortfall will be eliminated in the ordinary course by the exercise of Options in accordance with this Trading Plan. To the extent that any Shares remain in the Customer Account upon termination of this Trading Plan, Broker agrees to return such Shares promptly to Issuer's transfer agent for re-legending to the extent that such Shares would then be subject to transfer restrictions in the hands of Customer

(B) Option Exercises.

(i) If this Trading Plan covers exercises of Options then Customer agrees to make appropriate arrangements with Issuer and its transfer agent and the Company Stock Plan administrator to permit Broker to furnish notice to Issuer of the exercise of the Options and to have underlying Shares delivered to Broker as necessary to effect sales under this Trading Plan. Shares received upon exercise of Options shall be delivered to the Customer Account.

(ii) In the event Issuer is not an SPS Customer, Customer agrees to complete, execute and deliver to Broker from time to time Broker's customary forms of Employee Stock Option Notice of Intent and Agreement for the exercise of Options pursuant to this Trading Plan, at such times and in such numbers as Broker shall request

(iii) Customer hereby authorizes (a) Broker to serve as Customer's agent and attorney-in-fact to cause said Shares to be issued upon payment (or eligible margin credit, if applicable) of the Option exercise price and, in the event Issuer is not an SPS Customer receipt from Customer of the properly endorsed Employee Stock Option Notice of Intent and Agreement and (b) Broker, Issuer and/or Issuer's stock plan administrator to exchange information regarding the acquisition and disposition of said Shares, including, without limitation, notification of the sale of Shares acquired as the result of exercise of a stock option or otherwise acquired and verification by Issuer of tax withholding

(iv) On each day that sales are to be made under this Trading Plan (or, in the event that Customer owns a portion of Shares directly and not pursuant to Options on any day that the number of Shares in the Customer Account is less than the number of Shares to be sold on such day), Broker shall exercise a sufficient number of Options to effectsuch sales in the manner specified on the Trading Schedule. Broker shall in no event exercise any Option if at the time of exercise the exercise price ofthe Option is equal to or higher than the market price of the Shares and Broker shall, in connection with the exercise of Options, remit to Issuer the exercise price thereof, which amount shall be deducted from the proceeds of sale of the Shares together with the amount of tax withholding that Issuer informs Broker is required in connection with the Option exercise under the Company Stock Plan

(C) Company Stock Plans

(i) If this Trading Plan covers Company Stock Plan Shares, then Customer shall provide written notice to Broker at any time when Issuer amends or terminates the related Company Stock Plan, together with a written copy of any such amendment(s), as soon as practicable but in any event no later than two (2) business days after Customer receives notice thereof from Issuer

(ii) If Customer changes or terminates any contribution elections during a contribution election period where Customer is instructing Broker on the Trading Schedule to sell all or a percentage of the Company Stock Plan Shares that Customer expects to receive pursuant to such contribution election, as opposed to specifying on the Trading Schedule an actual number of shares that Broker should sell. Customer shall provide written

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notice to Broker and to Issuer's Authorized Representative of such contribution election change or termination as soon as practicable but in any event no later than two (2) business days after Customer effects any such change, which written notice must be accompanied by Customer's representation that: (a) Customer was not in possession of any material nonpublic information concerning Issuer or its securities when Customer effected such change, and (b) such change was made in good faith and not as a part of a plan or scheme to evade compliance with the federal securities laws.

5. REPRESENTATIONS, WARRANTIES AND COVENANTS OF CUSTOMER

Customer makes the following representations, warranties and covenants to Broker as of the Customer Execution Date through and including the Effective Date.

(A) Customer has all requisite power and authority to adopt this Trading Plan and to carry out its obligations hereunder The execution and delivery of this Trading Plan and the performance of the obligations of Customer hereunder have been duly authorized and approved byall necessary action on the part of Customer, and no other proceedings on the part of Customer are necessary to authorize and approve this Trading Plan and the transactions contemplated hereby This Trading Plan has been duly executed by Customer and constitutes its valid and binding obligation, enforceable against it in accordance with its terms

(B) The execution, delivery and performance by Customer of this Trading Plan does not, directly or indirectly (with or without notice or lapse of time), contravene, conflict with, or result in a violation of any of the terms or requirements of any legal or contractual requirement or order to which Customer may be subject, nor does this Trading Plan require any consent, waiver, authorization or approval of any person or entity other than Customer, Issuer and Broker. Customer shall immediately notify Broker if Customer becomes subject to a legal, regulatory or contractual restriction or undertaking that would prevent Broker from carrying out its obligations under this Trading Plan.

(C) Neither the Customer Execution Date nor the Effective Date falls within any blackout period of Issuer.

(D) Customer is not aware of any material nonpublic information concerning Issuer or its securities. Customer is entering into this Trading Plan in good faith and not as a part of a plan or scheme to evade compliance with the federal securities laws Customer is currently permitted to trade in Shares in accordance with Issuer's insider trading policies and has obtained the approval or acknowledgement of Issuer's Authorized Representative to enter into this Trading Plan

(E) Customer agrees that Customer shall not, directly or indirectly, communicate any material nonpublic information relating to the Issuer or its securities to any employee of Broker or its affiliates

(F) If Customer is an institution Customer has implemented reasonable policies and procedures to ensure that the individuals authorized to enter into this Trading Plan on its behalf are not aware, as of the Effective Date, of any material nonpublic information concerning Issuer or its securities, and, to the knowledge of Customer, no such individual is aware of any such information.

(G) Customer agrees to notify Broker promptly if Customer obtains knowledge at any time prior to the Effective Date that any of the representations or warranties in this Section 5 are untrue or inaccurate in any respect.

(H) During the term of this Trading Plan, Customer agrees that Customer shall not exercise any subsequent influence over how, when, or whether to effect purchases or sales pursuant to the Trading Plan.

6. HEDGING TRANSACTIONS

Customer will not enter into any new, or change any existing, corresponding or hedging transaction or position with respect to the Shares subject to this Trading Plan for so long as this Trading Plan is in effect.

7. MARKET DISRUPTION AND TRADING RESTRICTIONS

(A) Customer understands that Broker may not be able to effect a transaction under this Trading Plan due to (i) any of the events described in the "Limits to our Responsibility" section of the Customer Agreement, which is available for reference on Fidelity.com, (ii) a legal, regulatory or contractual restriction or suspension applicable to Customer, Customer's affiliates, Broker or Broker's affiliates (including the volume limitations of Rule 144); (iii) failure of Broker to receive Shares, including Company Stock Plan Shares, or delay in Broker's receipt of such shares for deposit into Customer's account, if applicable, whether or not such failure or delay is consistent with the terms of the Company Stock Plan, or any other agreement to which Broker is not a controlling party, (iv) if this Trading Plan covers Options, and on the Trading Schedule Customer places a market order with respect to Shares subject to Options, failure of the marketprice for such Shares to exceed the exercise price of such Options on the exercise date or (v) a suspension, expiration, termination or unavailability of any applicable registration statement related to Issuer If Broker cannot effect any trade in Shares for any of the reasons described herein, then Broker shall follow Customer's instructions set forth on the Trading Schedule with respect to such trade(s)

(B) Broker shall suspend trading under this Trading Plan, in whole or in part as appropriate, upon receipt of at least two business days' prior written notice by Issuer's Authorized Representative that the Issuer has imposed trading restrictions on the Customer (a "Trading Suspension Notice"). Broker shall lift any such trading suspension as soon as practicable after receipt of written notice from Issuer's Authorized Representative that such Issuer Restrictions have terminated (a "Trading Suspension Release") Broker shall resume effecting trades in accordance with this Trading Plan as soon as practicable after delivery of the Trading Suspension Release. Any unexecuted trades that would have been executed in accordance with the terms of the Trading Schedule but for the Trading Suspension Notice shall be deemed to be cancelled and shall not be executed pursuant to this Trading Plan.

8. LEGAL COMPLIANCE; AGENT DUTIES

(A) Customer agrees that Customer is responsible to determine whether this Trading Plan meets the requirements of Rule 10b5-1(c) and any other applicable federal or state laws or rules

(B) Customer agrees to comply with all applicable laws in connection with the performance of this Trading Plan, including, without limitation Sections 13 and 16 of the Exchange Act and the respective rules and regulations promulgated thereunder

(C) Customer agrees that Broker is acting solely as agent for Customer and shall not by reason thereof assume any fiduciary or advisory relationship with Customer rightly borne by Issuer Nothing in this Trading Plan shall be construed as to impose upon Broker any obligation to exercise discretion over how, when or whether to effect trades in the Shares.

(D) Customer is responsible for consulting with his or her own advisers as to the legal, tax, business, financial and related aspects of, and has not relied on Broker or any person affiliated with Broker in connection with Customer's adoption and implementation of, this Trading Plan

9. INDEMNIFICATION; LIMITATION OF LIABILITY

Customer agrees to indemnify and hold harmless Broker, its affiliates and their respective directors, officers and employees from and against all claims, losses, damages, costs and liabilities (including, without limitation, any legal or other expenses incurred in connection with defending or investigating any such action or claim) (collectively, "Losses") arising out of or attributable to this Trading Plan, including, without limitation, any inaccuracy of any representation, warranty, statement of agreement or understanding made by Customer herein, any breach by Customer of this Trading Plan or any violation by Customer of applicable laws or regulations, except to the extent that any such Losses arise out of acts of gross negligence, bad faith or willful misconduct on the part of Broker or any of its affiliates in performing their obligations hereunder. Customer will reimburse Broker for any and all fees, costs and expenses of any kind reasonably incurred by Broker as a result of any such Losses. This indemnification shall survive termination of this Trading Plan

10. GENERAL PROVISIONS

(A) Governing Law. This Trading Plan shall be construed, performed and enforced in accordance with, and governed by, the laws of the State of New York, without giving effect to the principles of conflicts of laws thereof The parties hereto irrevocably consent to the jurisdiction of the courts of the County of New York, State of New York or the United States of America for the Southern District of New York and elect such court or courts as the sole judicial forum for the adjudication of any matters arising under or in connection with this Trading Plan

(B) Severability In the event that any provision of this Trading Plan is declared by any court or other judicial or administrative body to be null, void or unenforceable, said provision shall survive to the extent it is not so declared, and all of the other provisions of this Trading Plan shall remain in full force and effect.

(C) Amendments This Trading Plan may be amended or modified only in writing and signed and dated by Customer and Broker and acknowledged by Issuer. Such amendment or modification shall be deemed to constitute the creation of a new Trading Plan and as such Customer shall be required

Fidelity INVESTMENTS

10b5-1 TRADING PLAN

the creation of a new Trading Plan and as such Customer shall be required to restate and reaffirm as of the date of such amendment, each representation and warranty set forth in Section 5 of this Trading Plan
(D) Notices. All notices, requests, demands and other communications under this Trading Plan shall be in writing and shall be deemed to have been duly given: (i) on the date of service if served personally on the party to whom notice is to be given; (ii) on the date when receipt by addressee is confirmed in writing, if sent via facsimile transmission to the facsimile number given below, or (iii) on the first business day with respect to which a reputable air courier guarantees delivery, to the party as follows:

If to Customer: See Customer Information in Part I above

Copy to Issuer: Name: Moody's Corp
Address: 7 WTC at 250 Greenwich St, New York, NY 10007
Attn: John J. Goggins
Phone: 212-553-1912
Fax: ____________
Email: ____________

If to Broker: Fidelity Brokerage Services LLC
2 Contra Way T2L
Merrimack, NH 03054
Attn: 10b5-1 Group

Any party may change its address for the purpose of this Section 10(D) by giving the other parties written notice of its new address in the manner set forth above.
(E) Customer Agreement and Conflict of Terms. In the event of any inconsistencies between the Customer Agreement and the Trading Plan, the provisions of the Customer Agreement shall control. Customer acknowledges that he has read the Customer Agreement, including its arbitration provision.
(F) Entire Trading Plan. This Trading Plan, together with the Trading Schedule and any exhibits hereto or thereto, contains the entire understanding between the parties with respect to the transactions contemplated hereby and supersedes and replaces all prior and contemporaneous agreements and understandings, oral or written, with regard to such transactions.
(G) Counterparts. This Trading Plan may be executed in one or more counterparts, each of which shall be deemed an original and all of which shall constitute a single document.

Customer agrees to all of the terms and conditions set forth on this Trading Schedule, as may be amended from time to time, the attached 10b5-1 Terms and Conditions and all applicable exhibits hereto (collectively, the "Agreement").

CUSTOMER

By: [signature]

Name: RAYMOND W MCDANIEL

Title: Chairman & Chief Executive Officer

Date: 02/20/2010

Accepted by Fidelity Brokerage Services LLC

By: ____________

Name: ____________

Title: ____________

Date: ____________

Once completed, please fax this completed 10b5-1 Trading Plan to **877-283-5691 Attn: 10b5-1 Group** and mail it to **Fidelity Brokerage Services LLC, 2 Contra Way T2L, Merrimack, NH 03054 Attn: 10b5-1 Group**. Please call **800-544-6161** for any assistance that you may require with the completion of this 10b5-1 Trading Plan.

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Brokerage services provided by Fidelity Brokerage Services LLC. Member NYSE, SIPC.
Accounts carried by National Financial Services LLC. Member NYSE, SIPC.

Fidelity INVESTMENTS

10b5-1 TRADING PLAN

ISSUER ACKNOWLEDGEMENT

ISSUER: Moody's Corp

TO: Fidelity Brokerage Services LLC

As a duly authorized representative of the Issuer, I hereby represent that I have reviewed the attached 10b5-1 Trading Plan of RAYMOND W MCDANIEL dated 02/20/2010, confirm that it is consistent with the Issuer's insider trading policies, and approve the designation of the Issuer's Authorized Representative or successor above.

Acknowledged:

ISSUER: Moody's Corp

By: ____________________

Name: John J. Goggins

Title: SVP & General Counsel

Date: 2/22/2010

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Moody's Investors Service

Exhibit 2

Procedures and Methodologies Used to Determine Credit Ratings

Included with Form NRSRO submitted to the Securities and Exchange Commission on March 31, 2010

Moody's Investors Service ("MIS")

Exhibit 2

Procedures and Methodologies Used to Determine Credit Ratings

1. Credit Rating Process

MIS assigns credit ratings through a process that involves robust analysis of the Issuer or obligation to be rated, followed by rating committee deliberation and voting, dissemination of the rating, and monitoring the rating as necessary to ensure that it continues to reflect MIS's opinion of the creditworthiness of the Issuer or obligation. Below we describe the various steps in our rating process. These descriptions reflect the general process for all of MIS's published credit ratings, and some aspects of our detailed processes may vary in different rating groups or jurisdictions. In these descriptions, we use the term "Issuer" to mean any entity – regardless of whether it is a structured product, a corporation, a sovereign country or a municipality – that issues debt, a credit commitment or debt-like securities.

a. Initiation of a Rating Relationship with MIS

A rating relationship is generally initiated when the Issuer requests a rating from MIS. MIS generally enters into a rating agreement with the Issuer, whereby the Issuer undertakes to provide MIS with pertinent financial reports and other information. The Issuer also undertakes to pay to MIS the relevant fees.

MIS has not assigned unsolicited ratings in the recent past, although as a publisher of opinions about credit, we reserve the right to do so. (*See* discussion of unsolicited ratings below.)

b. Information Used in the Credit Rating Process

The analyst or analysts assigned to a particular Issuer or obligation ("Assigned Analyst") begins the credit analysis by assembling relevant information on the Issuer or obligation. This information may come from the Issuer or the Issuer's agent in meetings or other communications with the Assigned Analyst, or may be publicly available information. See further discussion below in the section on Interacting with the Management of an Issuer.

This information may be supplemented with information generated by MIS or obtained from the market or other third-party sources, including macroeconomic and sector-specific data. MIS uses various third-party vendors to provide data and other information that is used in the rating process, covering areas such as utility regulation, chemical prices, and forecasts and analysis of a particular country's economic trends. We also use third-party vendors to assist with data entry-related activities. In addition, third-party vendors are sometimes used to assist in developing analytical software used in monitoring and analyzing credits. These vendors generally enter into service agreements with MIS containing confidentiality provisions and other undertakings to safeguard non-public information that MIS may provide to them in the course of their work.

c. Interacting with the Management of an Issuer

When interacting with Issuers, it is the Assigned Analyst's responsibility to gather analytical information in a thorough and comprehensive way. Analysts are encouraged to have frank discussions with Issuers about their ratings, including credit strengths and weaknesses and trends in their industries. As Assigned Analysts pursue relevant lines of inquiry and explain to the Issuer why the information is relevant and how it is to be used, they also underscore our confidentiality policies (*see* references to policies in Exhibit 3) as necessary.

In most jurisdictions, Issuers historically have been able, but not obligated, to provide non-public information to credit rating agencies, such as strategic and financial plans and projections, legal documents, priority of claims and collateral characteristics. Issuers may choose to discuss topics that are confidential in nature, or to provide documents that are not public but contain important insight into the Issuer's strategic and financial plans and goals. This information is incorporated into the Issuer's rating as applicable, even though the information itself is held in strict confidence. To the extent that the information provides MIS with a deeper understanding of an Issuer's strategies and plans, it also helps to set the context for evaluating changes that may occur in the future and may have an impact on the creditworthiness of the Issuer and other members of an industry.

While MIS invites Issuers to participate in the rating process for all published credit ratings, ultimately, each Issuer determines the degree to which it shares information beyond what is generally available to the public. It has been our experience that Issuers generally welcome the opportunity to discuss their companies or transactions with us.

Most Issuers operate in good faith and provide reliable information to the securities markets and to MIS, and we rely on Issuers and their agents to do so. We do not possess either the comprehensive or independent first-hand knowledge to verify or test the accuracy of information that Issuers make available to the public or directly to MIS. Nevertheless, our analysts seek to exercise skepticism with respect to an Issuer's claims. If we believe we have inadequate information to provide an informed credit rating to the market, we will exercise our editorial discretion and decline to assign a rating, or, if we already have a rating outstanding, it will be withdrawn (*see* below for a discussion of our rating withdrawal policy). .

In a small number of cases, Issuers have chosen not to participate in the rating process, and therefore the information used to develop the rating is generally limited to publicly available information. In such cases we identify those Issuers in accordance with the MIS policy on Designating Issuers that Do Not Participate in the Rating Process (*see* the section below on Unsolicited Credit Ratings).

As discussed in Exhibits 6 and 7, MIS recognizes that the "Issuer pays" model creates a potential conflict of interest that must be effectively managed. One important measure we have adopted in this regard is to prohibit analysts from discussing fees or payment matters with Issuers or their agents. Such questions are handled by separate MIS Issuer and intermediary relations personnel (who are not involved in the rating process).

d. Rating Committee Process

Once information has been gathered, the Assigned Analyst will analyze the Issuer or obligation and apply the relevant MIS methodological approach, which may include consideration of both quantitative and qualitative factors (discussed in greater detail below). The Assigned Analyst will formulate his or her recommendation for the consideration of the rating committee.

The rating committee is a critical mechanism in promoting the quality, consistency and integrity of our rating process. MIS's credit ratings are determined only through rating committees, by a majority vote of the committee's members, and not by any individual analyst. The composition of the rating committee varies based on the nature and complexity of the credit rating being assigned, but typically includes the following: the chair, who acts as the moderator of the committee; the Assigned Analyst, who presents his or her recommendation and the analysis supporting it; and other participants, including senior-level personnel, specialists or support analysts, as deemed appropriate.

The rating committee chair encourages broad-based participation from all rating committee members, regardless of seniority, and the expression of dissenting views.

At the conclusion of rating committee discussions, the Assigned Analyst states a recommended rating. All rating committee participants eligible to vote are expected to vote and each voting member is entitled to one vote, with all votes carrying equal weight. Voting begins with the Assigned Analyst and votes are then solicited from other rating committee participants, generally in rank order from junior to senior, with the Chair voting last.

Rating committee composition, deliberations and specific voting results are kept confidential from the Issuer and all other parties except those internal parties at MIS who have a "need to know."

e. Informing the Issuer of the Credit Rating Outcome and Disseminating the Credit Rating Announcements

Once a rating committee reaches a decision regarding a rating action, the Assigned Analyst typically contacts the Issuer or its designated agent to inform them of the credit rating. In so doing, the Assigned Analyst explains the rationale for the rating and the key factors which the rating committee considered in arriving at its opinion. Prior to public release of the credit rating, MIS communicates its rating decision only to the Issuer and / or its designated agent. Where feasible and appropriate, MIS also may provide the Issuer or its agent with a draft of the credit rating announcement so that they can review the draft to verify that it does not contain any inaccurate or non-public information.

The Issuer may agree or disagree with the rating outcome, but if the rating opinion relates to an existing published credit rating, the opinion will be made public unless the Issuer or its designated agent provides us with relevant new information (known as an "appeal" and discussed in more detail below). If MIS is not able to inform the Issuer or its agent of a credit rating prior to publication, MIS will inform them as soon as practicable after publication, and generally will explain the reason for the delay.

Ratings are communicated via credit rating announcements that are disseminated publicly and free of charge on our website, www.moodys.com, and are distributed to major financial newswires. They are available to the public on our website for at least seven days. After that, the first few lines of the announcements, as well as the related credit rating history, continue to be available to the public on our website free of charge. The full text of the credit rating announcements may continue to be accessed by subscribers. In accordance with our policies attached below, if applicable, we will designate a rating as "non-participating" or "unsolicited" in the credit rating announcement.

f. Rating Appeals

Appeals are rare, but if appropriate, MIS will delay publishing the credit rating action in order to assess the relevance of new information that has been received from the Issuer or its agent. If the Assigned Analyst and rating committee chair believe the new information may reasonably lead the rating committee to reconsider the rating conclusion, the rating committee will be reconvened to consider the impact of the information on the rating. The appeal is not intended to enable an Issuer with an existing published credit rating, who is dissatisfied with the outcome of a review of the credit rating, to delay publication of the new credit rating. Rather, it is typically available to an Issuer who can provide MIS with information not previously available to the Issuer or MIS, and that the Issuer believes is relevant to its credit assessment. MIS believes that the appeal process is an important part of our ability to provide timely and well-informed ratings.

Appeals from Issuers should be distinguished from "internal appeals" in which a member of the rating committee or other MIS analytic staff members can request a reconsideration of the rating committee decision.

Before the rating outcome is communicated to the Issuer, a member of the rating committee or other MIS analytic staff members (such as a managing director or a credit officer) can formally lodge an "internal appeal" of the committee's decision with the chair of the committee or with any credit officer. The chair or credit officer is obligated to confer in such circumstances with a member of senior management or the MIS Credit Policy Committee to determine whether or not to accept the "internal appeal." If an "internal appeal" is granted, the senior person whose input and guidance was sought by the chair or credit officer will determine the rating committee composition.

g. Monitoring of Credit Ratings

Once a credit rating has been published, MIS will monitor the credit rating, as deemed appropriate, on an ongoing basis and will modify the credit rating as necessary in response to changes in our opinion of the creditworthiness of the Issuer or issue. In monitoring credit ratings, analysts may review public information as well as non-public information provided by the Issuer or its agent through periodic meetings or other means. In addition, analysts have at their disposal a range of tools to monitor and track their rated Issuers and obligations. These include comparisons of MIS credit ratings with other measures of credit risk, including measures derived from the market prices of bonds and credit default swaps, accounting ratio-implied ratings based on default prediction, and rating prediction models for corporate and sovereign Issuers.

MIS also utilizes institutional monitoring processes. One such monitoring tool is the portfolio review, which in many rating groups is undertaken on an annual basis to review the quality and consistency of credit ratings within a peer group. In conducting a portfolio review, a senior-level group from both within and outside of a given industry rating team assesses the credit quality of all MIS-rated Issuers constituting an industry sector or sub-sector in a region. A rating committee would be considered for an Issuer found to be at a credit rating level inconsistent with its peers.

In structured finance, monitoring is performed either by the applicable rating group Assigned Analysts or by dedicated monitoring analysts. MIS has dedicated analytical staff for monitoring the performance of existing transactions in certain asset types, such as credit card, commercial mortgage and collateralized debt obligation transactions. Monitoring includes qualitative approaches as well as quantitative approaches, such as models that allow the monitoring staff to compare actual asset performance against the performance expected at the time of the rating assignment. MIS has published a number of reports describing our monitoring approaches for specific structured finance asset classes.

In the U.S. public finance rating group, there is a team of monitoring analysts dedicated to the systematic monitoring of local government ratings. As in sectors outside of local governments, we use technology and quantitative methods to assist the analysts in identifying issuers whose credit profiles may no longer be consistent with their current rating. We track a number of indicative variables covering local economic conditions, demographics, and fiscal balances. This quantitative analysis helps identify ratings that merit a more intensive review.

h. Withdrawal of Credit Ratings

If MIS believes we have inadequate information to provide an informed credit rating to the market, we will exercise our editorial discretion and will either refrain from publishing a rating or withdraw an outstanding rating. In addition, and as described in our policy provided below, MIS may withdraw a credit rating for the following reasons: if the Issuer defaults, enters bankruptcy / reorganization or is liquidated; for business reasons unrelated to the adequacy of information or bankruptcy; or when the rated obligation is not longer outstanding. A rating committee is required to approve a rating withdrawal if the reason for the withdrawal is inadequate information or bankruptcy / liquidation. The relevant senior manager must approve a withdrawal for business reasons. MIS will issue a press release announcing the withdrawal except where the rated obligation is no longer outstanding, for example when it matures.

i. Unsolicited Credit Ratings

According to our Policy on Designating Unsolicited Credit Ratings, our publication of an unsolicited credit rating will be based, among other factors, on our assessment of the usefulness of the rating to the capital markets and our determination that sufficient information is available to allow MIS to assign and maintain the rating. Once the determination is made to publish an unsolicited credit rating, the Issuer is informed that we intend to publish a credit rating opinion and is invited to participate in the rating process and provide MIS with relevant information. The degree of participation, if any, is completely at the discretion of the Issuer. Importantly, because we have initiated the rating process, we will not seek or accept from the Issuer remuneration for the credit rating during the rating process or for at least one year after publication of the credit rating. When we publish the rating, we will indicate the unsolicited nature of the credit rating in the text of the initial credit rating announcement for that Issuer.

Other aspects of the credit rating process described above are applicable to both unsolicited ratings and solicited ratings. We also have provided below our policy on Designating Issuers That Do Not Participate in the Rating Process.

2. Relevant Credit Rating Process Policies

The following policies can be found on our website via the web addresses listed below.

- Core Principles for the Conduct of Rating Committees
  http://www.moodys.com/rating_committee_conduct_04_06
- Designating Unsolicited Credit Ratings
  http://www.moodys.com/unsolicited_credit_ratings_04_06
- Designating Issuers That Do Not Participate in the Rating Process
  http://www.moodys.com/non_participating_04_06
- Moody's Guidelines for the Withdrawal of Ratings
  http://www.moodys.com/withdrawal_guidelines_12_08
- Index of Rating Methodologies
  http://www.moodys.com/ratings_methodologies

3. Rating Methodologies

MIS's methodological approaches to determining ratings encompass an evaluation of both qualitative and quantitative factors. The following high-level lists indicate those qualitative and quantitative factors that are broadly considered relevant in each of the sectors where we seek registration on this Form NRSRO. These lists should not be considered exhaustive or mandatory for each rating published in the individual sectors. Furthermore, not all of the enumerated factors will be deemed relevant by an individual rating committee, and within individual sub-sectors additional factors may also be considered. The MIS rating methodologies include additional factors that might be considered relevant by a rating committee when issuing a rating in a given sector. MIS rating methodologies can be found on our website via the web address:

http://www.moodys.com/ratings_methodologies

a. Financial Institutions, Brokers or Dealers

Relevant qualitative factors may include: management quality; key entity risks; the impact of economic and industry outlook on lending policy and criteria; product development; risk measurement and management tools; credit risk review and controls; and/or reach and influence of regulatory authorities. MIS also considers the likelihood and quality of external forms of support including parental support and systemic support.

Relevant quantitative factors may include: profitability; portfolio diversification by geography, region, industry, product, and portfolio granularity; actual amount of non-performing loans; loan-loss provisioning requirements; loan-loss coverage levels; actual losses; loss expectancy and recent trends; type and impact of relevant portfolio stress tests (*e.g.*, potential increases in interest rates or unemployment rates); loan-to-value ("LTV") overview by valuation at inception and LTV limits in the case of property lending; overview of off-balance sheet risks; projected business growth; capital ratios (Tier 1, total capital) and trends; composition of risk-weighted assets (e.g., 20% risk weight, 50% risk weight, etc.); and/or quality of capital by type (*e.g.*, Tier 1, Tier 2, etc.), instrument (*e.g.*, subordinated debt, hybrid, innovative / non-innovative, etc.) and currency.

b. Insurance Companies

Relevant qualitative factors are tailored to the specific type of insurer (*e.g.*, life, property/casualty, mortgage, financial guaranty, etc.) and may include: strategy, market position, brand and distribution; product focus; ease of access to capital; management quality, governance and risk management; accounting policy and disclosure; and/or the sovereign and regulatory environment.

Relevant quantitative factors are also specific to the type of insurer and may include: portfolio diversification (by geography, product/risk type, and distribution channel); asset quality (as reflected by, for example, the proportion of high risk investments and reinsurance assets); capital adequacy (as measured by capital ratios appropriate for the type of insurer and including estimates of catastrophe risk); profitability (as reflected by, for example, returns on equity, loss and expense ratios, and earnings volatility); financial flexibility (as indicated by coverage and leverage ratios); reserve adequacy (as implied by ratio analysis and actuarial analysis); and/or liquidity risk (assessing asset and liability matching).

c. Corporate Issuers

Relevant qualitative factors may include: industry sector(s); key markets; market position(s); business mix; geographical diversity; business strategy; size of company; barriers to entry; competitive advantages; growth opportunities; financial policy; management quality; risk management; capital structure and structural considerations; liquidity and debt maturity analysis; analysis of salient features of the security; legal structure; ownership considerations; corporate governance; and/or regulatory environment.

Relevant quantitative factors may include: level of sales; growth rates; profitability ratios; leverage ratios; coverage ratios; capitalization ratios; free cash flow and cash flow ratios;

liquidity ratios; industry specific key indicator ratios; off-balance sheet adjustments; working capital management indicators; capital expenditure levels (both maintenance and development); extraordinary / exceptional items; and/or financing flows, including dividends, foreign currency exposure and accounting effects.

d. Issuers of Asset-Backed Securities

Relevant qualitative factors may include: geographical location of assets; details of the relevant insolvency regime; bankruptcy remoteness of the special purpose entity; tax implications of the structure; integrity of the legal structure; quality of servicing employed; quality of any relevant asset management; presence or absence of third party guarantors; credit quality characteristics of underlying assets; and/or credit factors relevant for the industry sector.

Relevant quantitative factors may include: level of over-collateralization; quantity of excess spread on assets; size and structure of tranching of the bonds; interest rates; value of the reserve fund; availability, amount and details of liquidity; degree and level of amortization of the debt and payment priority; economic analyses; and/or historical performance of the relevant asset class.

In providing credit ratings for securities or money market instruments issued by an asset-backed pool or as part of any asset-backed or mortgage-backed securities transaction, MIS first evaluates the credit risk characteristics of the collateral pool backing the securitization so that, together with an evaluation of the legal structure and credit protections of the securitization, we can form our rating opinion on the securitization as a whole.

In asset classes where the securities are backed by pools of consumer assets, such as credit card receivables or residential mortgages, we will analyze a wide variety of data supplied by the sponsor and from other market sources in order to form our opinion about the credit risk characteristics of the underlying collateral pool.

In asset classes such as CDOs, the underlying collateral pool often consists of discrete securities which have been previously issued in the public debt markets. In these cases, we still need to analyze the credit risks of the underlying collateral assets. Where we have already rated the asset, we can incorporate its ratings into the overall analysis. In cases where we have not already rated the asset, we will form a credit opinion about the collateral asset's credit risk using information to available to us, which may include, among other sources of analytical information, financial statement data, competitor ratings, and internal ratings assigned by banks and collateral managers.

e. Issuers of Government Securities, Municipal Securities or Securities Issued by a Foreign Government

Relevant qualitative factors may include: willingness to pay public debt (track record, political tolerance for public defaults); tax tolerance; political dynamics and institutional stability; government structure; quality of financial management (budgetary, capital and strategic planning, timely implementation of strategies in response to changing circumstances); institutional and public policy frameworks; track record in relation to social and political stability; all forms of solidarities (inter-generational, central government-local governments, central government-publicly owned enterprises); assessment of political commitments (fiscal adjustment, price stability); and/or potential social tensions.

Relevant quantitative factors may include: factors reflecting the economic base (structure of the economy, investment rate, saving rate, GDP, GDP per capita, percentage change in real GDP, inflation record, openness of the economy, trends of personal income and wealth, employment growth, unemployment rate and diversity of economic activity by industry); demographic trends (such as population growth, age distribution, and geographic concentration); financial operations (such as revenue growth and diversity, expense structure, trend of budget surplus or deficit, size and liquidity of financial reserves); and/or factors that help assess the sustainability of public debt (such as stock of general government debt, off-balance sheet liabilities, future liabilities such as pension costs, composition of the debt in terms of currency, maturity, interest-rate sensitivity, size of assets that can be mobilized to repay the debt nature of public spending and degree of leverage relative to tax base or resource base).

For U.S. municipal securities issued by entities that operate in competitive markets, such as hospitals, universities, and airports, additional factors may include the Issuer's market share, pricing power within its market, degree of governmental support, and quality of management and governance. As discussed in a number of publications, MIS maintains a separate bond rating system for the U.S. municipal market, and it is important that users of MIS ratings understand differences in default and loss rates when making rating comparisons between our municipal and global rating scales.

Moody's is recalibrating its US municipal ratings from the municipal scale to the global scale. The recalibration does not reflect a change in credit quality, or a change in our credit opinion, of an issue or issuer. The recalibration is simply a change in scale.

Moody's has utilized a separate scale for its US municipal ratings since the company began assigning municipal ratings in 1918. Given that the municipal bond market has evolved, we have taken steps to respond to the changing needs of investors and issuers. In particular, to enhance the comparability of its credit ratings across its rated universe, Moody's has determined that it will recalibrate all of the municipal ratings from the municipal scale to the global scale.

The recalibration process will begin in mid-April 2010 and is expected to be completed in approximately four weeks. As always, Moody's will continue to take any necessary rating actions as a result of changes in credit quality before, during and after the recalibration process.

Moody's Investors Service
Best Practices Guidance for the
Credit Rating Process[1]

This document describes the general steps in the process leading up to, and following, the assignment of a Credit Rating.

Moody's Investors Service ("MIS") assigns Credit Ratings through a process that involves a number of steps. These steps include:

* credit analysis of the issuer or security to be rated,
* rating committee deliberation and voting,
* dissemination of the rating, and
* monitoring of the rating.

This document outlines these steps in a general manner. Particular practices and process will, by necessity, vary by group, region and/or sector.

Each Analyst is responsible for complying with **Moody's Investors Service Code of Professional Conduct ("MIS Code")**, **Moody's Corporation's Code of Business Conduct ("MCO Code")**, all other Moody's internal policies and procedures, and the laws, regulations and rules applicable in the jurisdictions in which the Analyst operates.

Should you find anything in this document or in an attached annexes that appears to conflict with the MIS Code or the MCO Code, Moody's Corporation Securities Trading Policy or other Moody's Compliance policies or procedures, please follow the guidance offered by those documents and immediately contact the Compliance Department.

[1] This document applies to Credit Ratings, as that term is defined on page 3, and, in general, to other types of ratings, including but not limited to: equity fund ratings, market risk ratings, investment manager quality ratings, servicer quality ratings, hedge fund operations quality ratings, real estate portfolio cash flow volatility ratings, trustee quality ratings, Lloyd's syndicate performance and volatility ratings, speculative grade liquidity ratings, and loss given default assessments.

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Defined Terms

An **Analyst** is an Employee whose primary function is participation in the Credit Rating analysis process.

A **Credit Officer** ("CO") includes any Employee with any of the following titles: Chief Risk Officer, Chief Credit Officer ("CCO"), & Group Credit Officer ("GCO").

A **Credit Rating** is MIS's current opinion regarding the relative future creditworthiness of a credit commitment, a debt or debt-like security or contract, or an issuer of such obligation, as determined by a rating committee and expressed using its established Aaa to C alpha-numeric rating scale, or other Credit Rating scales as identified from time to time by MIS.

Credit Rating Announcements are those written communications that publicly announce new MIS Credit Ratings, changes to existing MIS Credit Ratings, maintenance of existing MIS Credit Ratings, or the withdrawal of existing MIS Credit Ratings. These include (but are not limited to) press releases, Pre-Sale Reports, New Issue Reports ("NIRs"), and Updates. Issuer Comments, a publication type, is not a Credit Rating Announcement.

An **Employee** is any individual who works for Moody's Investors Service ("MIS") in any capacity.

The term **Issuer**, as used in these Guidelines, means any entity – such as a special purpose vehicle, a corporation, a sovereign country or a municipality – that issues debt, a credit commitment or debt-like obligations or securities.

A **Lead Rating Analyst** ("Lead Analyst") means an **Analyst** with primary responsibility for elaborating on a Credit Rating and/ or for communicating with the Issuer with respect to a particular Credit Rating or, generally, with respect to the Credit Rating of a financial instrument issued by that Issuer and, where relevant, for preparing recommendations to the rating committee in relation thereto[2];

a) In some cases there may be more than one Lead Analyst[3] whose roles and responsibilities will be determined by the applicable Manager with the rank of the Team Leader/Team Managing Director.

b) The Lead Analyst must attend rating committees for the Issuers he or she rates whenever possible.

Managers are those Employees who have personnel management responsibilities.

The term **Security** means any stock, bond, debenture, option, equity security, convertible security, warrant, derivative security (**Derivative**), note or other investment security, except those Securities that are categorized as "exempt" under the **Moody's Corporation Securities Trading Policy**. Examples of exempt Securities include, but are not limited to:

a) holdings in widely diversified, open-end mutual funds and holdings in widely diversified, exchange-traded funds; and

b) Securities held in a qualifying "blind trust" for the benefit of an Employee or his/her family members.

[2] In the event the Lead Analyst is unavailable, then the back-up Analyst may serve as Lead Analyst. The back-up Analyst has the same obligations as the Lead Analyst. All references to Lead Analyst in this document apply to the back-up Analyst if the back-up Analyst stands in for the Lead Analyst.

[3] In cases where multiple lead analysts are assigned, each is independently responsible for the obligations of the Lead Analyst.

Title Abbreviations are:

a) Executive Vice President ("EVP")

b) Senior Managing Director ("SMD")

c) Group Managing Director ("GMD")

d) Team Managing Director ("TMD" or "MD")

e) Team Leader ("TL")

f) Senior Vice President ("SVP")

g) Senior Credit Officer ("SCO")

h) Vice President ("VP")

i) Assistant Vice President ("AVP")

j) Analyst[4]

k) Associate Analyst ("AA")

l) Senior Associate ("SA")

[4] All other references to "Analyst" in this draft have the meaning under the Defined Terms section rather than the specific title in (j) above.

Initiation of a Rating Relationship with MIS

There are two ways for a rating relationship to be initiated between MIS and an Issuer: i) the Issuer or its designated agent(s) initiates the relationship, which is generally known as an Issuer initiated rating, or ii) MIS initiates the relationship, which is generally known as an unsolicited rating.

Issuer Initiated Ratings

Such rating relationships are generally initiated when an Issuer or its designated agent(s) requests that MIS – either by contacting an Analyst, Manager or other Employee – begin a credit analysis of a specified or proposed Issuer or issue with the intention of assigning a Credit Rating. The Issuer generally fills out a rating application, in which the Issuer undertakes to provide MIS with pertinent financial reports and other information. The Issuer also undertakes to pay to MIS the relevant fees. (Please see the MIS Code Section 2, which describes MIS's principles on independence and avoidance of potential and existing conflicts of interest in the Issuer-pays model, as well as the section below entitled Before Interacting with an Issuer.)

MIS Code provision 2.12 prohibits Analysts who are directly involved in the Credit Rating process from initiating or participating in discussions regarding fees or payments with any entity they rate. Additionally, the Securities and Exchange Commission[5]'s ("SEC") Rules for Nationally Recognized Statistical Organizations[6] ("SEC Rules for NRSROs") expand the scope of the prohibition to all MIS employees who are involved in determining Credit Ratings or in developing or approving methodologies, including qualitative and quantitative models.

Discussions regarding fees generally are handled by separate MIS personnel in the Issuer Relations Group who are not involved in the Credit Rating process. For further guidance, please see **Moody's Corporation Guidelines on Fee Discussions**.

Unsolicited Ratings

An unsolicited rating is a Credit Rating that is: (i) initiated by MIS and not requested by the Issuer; and (ii) the first Credit Rating for that Issuer. If MIS publishes an unsolicited Credit Rating, MIS will designate it as such in the initial Credit Rating Announcement.

As a publisher of opinions about credit, MIS reserves the right at any time to issue unsolicited Credit Ratings. In accordance with MIS's policy on **Designating Unsolicited Credit Ratings**, when a Credit Rating is an unsolicited Credit Rating, MIS will not seek or accept remuneration for its analytical services from the Issuer for at least one year after the publication of such rating.

Conflict Check Before Beginning the Analytical Process

As soon as an Analyst or Analysts are assigned to a particular Issuer or obligation ("Lead Analyst" or "Lead Analyst(s)") but before performing any analytical work, the Lead Analyst and any others assigned to work with the Lead Analyst (e.g., AA or SA) should evaluate their Securities holdings (and those of any Family Member, as that term is defined in the **Moody's Corporation Securities Trading Policy**), as well as personal and business relationships to check for any actual, potential or perceived conflict of interests.

MIS Code provision 2.13 describes the circumstances in which an Employee is deemed to have a conflict of interest that prohibits him/her from participating in or otherwise influencing the determination of the Credit Rating of a particular Issuer. It states that no Employee will participate in or otherwise influence the determination of the Credit Rating of any particular entity or obligation if the Employee:

[5] All MIS Employees, regardless of the country in which they are located, are subject to the rules published by the SEC.
[6] MIS is a Nationally Recognized Statistical Rating Organization.

- owns Securities or Derivatives of the rated entity or such are owned by a Family Member of the Employee;
- owns Securities or Derivatives of any entity related to a rated entity, the ownership of which may cause or may be perceived as causing a conflict of interest;
- has had a recent employment or other significant business relationship with the rated entity that may cause or may be perceived as causing a conflict of interest.
- has an immediate relation (i.e., a spouse, partner, parent, child, or sibling) who currently works for the rated entity; or
- has, or had, any other relationship with the rated entity or any related entity thereof that may cause or may be perceived as causing a conflict of interest.

Special note to the International and U.S. Public Finance groups: Conflicted individuals also generally include any Employee who is a major taxpayer (one of the 10 largest) within a municipal jurisdiction, or has any input into the management or decisions of the municipality by holding an elected office, participating in advisory boards, or other relationships. For colleges, universities and private K-12 schools, conflicted relationships include the Employee's own secondary school, and undergraduate or equivalent institution (excluding multi-campus statewide public university systems), or an institution at which the Employee's child is currently enrolled or a current applicant.

Additionally, all Employees are required to be in compliance with **Moody's Corporation's Securities Trading Policy**, which addresses certain prohibitions on the trading and ownership of securities by MIS Employees and their Family Members, as the term is defined in the policy. This policy is intended to assist MIS's and Moody's Corporation's personnel in complying with applicable securities laws and in avoiding conflicts of interest. .

MIS Employees should raise any questions or concerns regarding actual or potential conflicts with their Managers and/or a member of the Compliance Department. Moreover, any Manager who learns of an actual or potential conflict of interest that cannot be eliminated or effectively mitigated must report that information to a member of the Compliance Department.

If a Lead Analyst believes that he or she has an actual or potential conflict of interest with respect to an Issuer he or she has been assigned to, the Analyst must notify his or her Manager and/or a member of the Compliance Department before undertaking any analysis of the Issuer in question, and, if the conflict relates to Securities ownership, before liquidating a Security which causes an actual or potential conflict of interest.

Interactions with Issuers

Information Gathering

The Lead Analyst begins the credit analysis by assembling relevant information regarding the Issuer or obligation. This includes identifying the appropriate methodologies, searching for and reviewing relevant internal as well as external research, analyzing comparable existing transactions, researching and analyzing the key transaction parties, and analyzing historic performance for the given asset and similar asset classes. The Issuer also typically provides MIS with pertinent financial reports and other information, some of which may be confidential information, as part of the initial Credit Rating process and on an ongoing basis to help MIS monitor the Credit Rating.

Issuer Participation

MIS believes Issuers value interaction with us because it provides them with the opportunity to present their perspectives on themselves and their industry and allows MIS to ask them questions and communicate our credit views. Lead Analysts are encouraged to have frank discussions with Issuers about MIS's perceptions of their credit strengths and weaknesses and should be able to explain how these strengths and weaknesses relate to the Credit Ratings that we assign.

While MIS invites Issuers to participate in the rating process for all published Credit Ratings, ultimately, each Issuer determines the degree to which it is willing to share information beyond what is publicly available. In a small number of cases, Issuers choose not to participate in the rating process, and therefore, the information used to develop the Credit Rating generally is limited to publicly available information. MIS recognizes that market participants have shown an interest in knowing which ratings lack the Issuer's participation. Therefore, pursuant to MIS's policy on **Designating Issuers That Do Not Participate in the Rating Process**, MIS identifies those Issuers that have not participated in the rating process for the past 12 months and have declined MIS's offer to participate in the rating process going forward. MIS discloses which Issuers are non-participating on the **Credit Policy** site on moodys.com.

Initial Discussions with Issuers

Before the Lead Analyst presents his or her recommendation to the rating committee, the Lead Analyst and/or Manager may have discussions with the Issuer (and advisers, if applicable) to facilitate an understanding of and discussion about the credit issues being considered. The Lead Analyst and/or Manager should inform the Issuer that any views discussed at this stage are solely the views of the Lead Analyst and are not MIS's Credit Rating opinion. Only a rating committee can provide a MIS Credit Rating. As described in MIS Code provision 1.16, the Lead Analyst as well as any MIS Employee must not — either implicitly or explicitly — give any assurance or guarantee of achieving a particular Credit Rating prior to conclusion of a rating committee.

Prohibitions on Consulting or Advising Issuers

MIS Employees are prohibited from making proposals or recommendations to any Issuer or its representatives about the corporate or legal structure, assets, liabilities, or activities of the Issuer or regarding the design of securities for which MIS assigns Credit Ratings.

Notwithstanding this prohibition, as discussed above, in assessing the credit risk of a structured finance transaction, Analysts may properly hold a series of discussions with an Issuer or its agents to: (i) understand and help incorporate into their analysis the particular facts and features of the structured finance transaction, and any modification, as proposed by the Issuer or its agents, and (ii) explain to the Issuer or its agents the Credit Rating implications of MIS's methodologies as applied to the Issuer's proposed facts and features.

Ban on Gifts from Issuers

All Analysts and all other MIS Employees who attend rating committees (such as those with the rank of TMD and above and COs) are prohibited from accepting any gifts or entertainment, regardless of their value, from any obligor rated by MIS, or from any Issuer, underwriter or sponsor of any securities that MIS rates. MIS Employees may accept minor incidentals to a meeting provided that (i) they are provided in the context of a business interaction and (ii) the combined value of such incidentals do not exceed US $25 (or the local equivalent) per MIS attendee per business meeting.

For further guidance, see MIS policy on **Prohibition on Acceptance of Gifts**.

Treatment of Confidential Information

MIS and its Employees maintain the confidentiality of confidential information to i) encourage good faith disclosures by Issuers, their agents (if any) and other significant parties to the transaction, (if any) and ii) to fulfill our legal[7] and regulatory obligations.

As a result, when speaking with investors, subscribers, the press, or other third parties, MIS Employees may not disclose confidential information. Confidential information may be included in our publications, including Credit Rating Announcements and research, if the Issuer has given its prior consent to such disclosure. In the absence of such consent, confidential information may only be used in the Credit Rating process. As discussed below, where feasible and appropriate, the Lead Analyst should provide the Issuer with a copy of the draft Credit Rating Announcement or research to enable the Issuer to identify confidential information that may be inadvertently included in the publication and/or to correct any factual errors. (Please see discussion below regarding Dissemination of a Credit Rating.)

Within MIS, Employees will use confidential information only for purposes related to MIS's Credit Rating services and will not share confidential information except on a "need-to-know" basis. Additionally, Employees will not share confidential information entrusted to MIS with employees of any affiliated entities except to the extent such employees are acting as agents of MIS with respect to the ratings process, and are bound by appropriate confidentiality obligations.

MIS Employees also are prohibited from disclosing certain non-public information gained in the course of their employment or dealings with MIS, including information regarding future rating actions and rating committees.

- *Future Rating Actions.* When speaking with investors, subscribers, the press, or other third parties, MIS Employees may not give any guidance of possible future rating actions on any issue or Issuer, unless that information has been publicly announced in an MIS Credit Rating Announcement. This restriction applies equally to prospects for rating actions as well as the absence of rating actions. In addition, MIS Employees may not give, either implicitly or explicitly, orally or in writing, any assurance in advance concerning, or any prior guarantee of, any rating action.
- *Rating Committees.* Rating committee deliberations also must be kept confidential. While ratings are determined by majority vote of a committee, MIS Employees may not disclose to third parties (including Issuers) information regarding the rating committee process, including the vote breakdown or the fact that an Analyst might have disagreed with the decision ultimately reached by the committee. In addition, MIS Employees must not disclose the names or titles of members of a rating committee. (See discussion below regarding Rating Committees.)

For additional information on treatment of confidential information, Employees may refer to **MIS Code section 3B** ***on Confidential Information and the*** **MCO Code** ***section on Confidentiality.***

[7] Please see the MCO Code Section entitled "Insider Trading/Market Abuse."

The Credit Analysis Process

Quality of Information

MIS only assigns a Credit Rating where it believes it has sufficient information and analytical expertise to do so. As stated in MIS Code provision 1.7, MIS uses reasonable measures so that the information it uses in assigning a Credit Rating is of sufficient quality to support a credible Credit Rating. Thus, the Rating Committee must assess whether or not there is sufficient information to assign a Credit Rating.

MIS believes Issuers operate in good faith and provide reliable information to the securities markets and to MIS; MIS relies on Issuers and their agents to do so. If, however, the Lead Analyst or the rating committee believes it has inadequate or unreliable information to provide an informed Credit Rating to the market, MIS will either refrain from assigning a Credit Rating or withdraw an outstanding Credit Rating. (See the section below on Maintaining or Withdrawing Ratings.)

Analysts should keep in mind, as we make clear in our rating publications, that MIS is not obligated to perform, and does not perform, audits or due diligence with respect to verifying the accuracy of information received or obtained in connection with the Credit Rating process; accountants, underwriters, Issuers and others serve these functions in the market.

The Analysis

Once relevant information has been gathered, the Lead Analyst will assess an Issuer's or an obligation's creditworthiness. Analysts involved in the preparation or review of any Credit Rating action must consistently apply MIS's rating methodology or methodologies, as stated in MIS Code provision 1.3. This analytical process typically includes consideration of both quantitative and qualitative factors; it also may include the use of quantitative models to assist analysis and enhance consistency in decision-making.

An Employee who identifies a possible error in a model should immediately contact his or her Manager in the relevant rating group, a GCO or CCO in Credit Policy, and follow the instructions as set out in the **Analytic Error Identification Protocol and Action Plan Memorandum Template**. Further, if a quantitative model was a substantial component in the process of determining the Credit Rating of a security or money market instrument issued by an asset pool or as part of any asset-backed or mortgaged-backed securities transaction, a record of the rationale for any material difference between Credit Rating implied by the model and the final Credit Rating issued must be made and retained.

The Rating Committee

The rating committee ("committee") is a critical mechanism for promoting the quality, consistency and integrity of our Credit Rating process. MIS's Credit Ratings are determined by rating committees, pursuant to a majority vote of the committee's voting members, and not by any individual Analyst. Each rating committee member is expected to apply his or her own independent judgment in the decision-making process. Ultimately, Credit Ratings are subjective opinions that reflect the majority view of the rating committee's voting members.

As stated earlier, rating committee composition (including the names and titles of the participants), deliberations and specific voting results must be kept confidential from all parties except those internal parties at MIS who have a need-to-know that information. The attribution of committee votes to particular committee members must not be reflected in the rating committee memo, rating committee addendum, or other documentation relating to a Credit Rating.

Rating committees should be conducted in a manner that is consistent with internally and externally communicated rating policies and practices and analytic methodologies. In instances where Analysts disagree with particular analytical methodologies, they should convey such concern to a TMD, relevant standing committee, or a member of the Credit Policy Group.

Where Analysts have concerns about the rating committee or the conduct of its participants, they should convey such concern to their TMD and a member of the Compliance Department. Additionally, Moody's Open Door Policy facilitates the communication of such to any member of senior management. In accordance with Moody's Open Door Policy, retaliation or retribution against those who voice their concerns is prohibited. Analysts may always contact the Compliance Department, Human Resources or the Legal Department with questions or concerns. Please refer to **MCO Code** for more information on Moody's Open Door Policy.

Documentation

Pursuant to MIS's **Record Retention Policy for Non-Public Records Used in the Credit Rating and Research Process** ("Record Retention Policy")[8], for each rating committee, the Lead Analyst must prepare a rating committee package, which should include a rating committee memo and any other information to be considered by the committee. The rating committee memo documents the Lead Analyst's rating recommendation and rationale supporting that recommendation. Generally, the rating committee memo includes the Lead Analyst's written credit analysis of the Issuer or obligation being considered, taking into account the applicable rating methodologies and the specifics of the Issuer or obligation being considered. Each rating team may have different requirements for the form and content of its rating committee package.

To the extent practical, the Lead Analyst should distribute the rating committee package to the members of the rating committee at least one day prior to the scheduled date of the rating committee.

Additionally, as part of the rating committee package or Addendum, the following information should be included:

- A verification that the Chair has asked whether any of the rating committee attendees are conflicted;
- The date of the rating committee and, if different, the date the rating committee concluded with a final vote;
- A description of the obligation being rated;
- The type of rating action under consideration;
- Rating recommendation and rationale;
- The names of all attendees and the names of all voting attendees; the identity of the Lead Analyst, Chair, back-up Analyst, and any others with specific roles;
- The rating outcome (i.e., the vote tally, final rating assigned) without voting attribution;
- Supporting materials and analysis (which, if applicable, may include portions of the Issuer's presentation and/or offering materials);
- Financial analysis, and if applicable, peer group comparisons, other ratings (e.g., market implied, competitors) and stock prices;
- Models (see Use of Quantitative Information and Models in the Credit Rating Process);
- When the rating outcome differs from the rating recommendation in the rating committee memo, or the rationale for the final rating outcome differs from the proposed rationale in the rating committee memo, a documented explanation of the key differences; and
- A draft or final Credit Rating Announcement;

[8] The Record Retention Policy is the global policy for fulfilling our legal and regulatory requirements for record retention in an efficient way. The policy covers hard copy and electronic records used to form the basis of MIS's credit opinions, including public ratings, private ratings, RAS, credit estimates, and credit research. The Record Retention Policy also covers all communications related to initiating, determining, maintaining, changing or withdrawing ratings that are not otherwise specifically covered in the Policy.

During the course of the rating committee discussion, the Lead Analyst may revise his or her original recommendation. Both the original and, if applicable, the revised recommendation should be documented as part of the rating committee package or Addendum.

Rating Committee materials should be retained as part of the credit file for the transaction in accordance with MIS's **Record Retention Policy** and in compliance with MIS's **Record Retention Process and Procedures for Records Used in the Credit Ratings and Research Process** ("Record Retention Procedures").

Records must be retained in a manner in which they can readily be located and retrieved, generally within 48 hours.

The Use of Quantitative Information and Models in the Credit Rating Process

This analytical process typically includes consideration of both quantitative and qualitative factors. It also may include the use of quantitative models to assist analysis and enhance consistency in decision-making. Assigned Analysts should follow the guidelines outlined in this section when using or presenting quantitative information. This establishes a minimum level of quality assurance for preparing and using quantitative information and models.

1. Quantitative models should adhere to the **Verification Guidelines**, which describe which models need to be verified before use in rating committee and how verifications are to be conducted.[9] For models requiring verification, the assigned Analyst should ensure that the version used for rating committee is current and has been approved for use by the Model Verification team.[10,11] If there are outstanding unresolved error protocols in progress, the assigned Analyst should discuss with the CO and TL if and how the model can be used.[12]
2. Rating committee memos, including tables, model outputs and graphs, should include appropriate labels/references to identify the sources for quantitative information. This is particularly important for non-public quantitative information obtained from Issuers, quantitative information purchased from third party data providers and other situations where the source of the quantitative data would not otherwise be clearly evident to the rating committee members.
3. The assigned Analyst (and any person or persons associated with the initial information acquisition, data aggregation, or modeling, to the extent possible) have the following responsibilities:
    - Review data for reasonableness and completeness; [13]
    - Confirm that data was properly inputted into model(s); and
    - Review initial results from the model for the reasonableness of the outcome given the input data.
4. Where feasible, the completed model(s) with results should be filed as part of the rating record in the applicable record retention system for a given asset class (e.g., EDMS, MDM).
5. Any concerns with the functionality or results generated from a given model should be reported immediately to the appropriate TL or Manager. If the concerns might affect other ratings, the appropriate CO should also be informed.

9 The Verification Team can be contacted by sending email to Moody's – Ratings Model Management.
10 The QTools intranet website will have the most recent approved version and models will be marked to indicate verification status. Models requiring verification should be presented to the Verification Team for posting.
11 All models covered by the Verification Guidelines, whether currently verified or not, should be provided to the Verification Team for central storage and versioning, in accordance with the Verification Guidelines.
12 The most current approved models will typically be stored on the QTools intranet site. If there are outstanding error protocols or other reasons not to use the models, then the models will be appropriately notated on the QTools site. Also, the error protocol has provisions for informing TLs of the model status.
13 Reasonable standards need to be established for each type of analysis. For example, the riskiness of some transactions depends on the collective performance of thousands of loans. The review should ascertain, to the extent possible, whether the data is complete enough not to affect the ratings.

6. In the event any Employee discovers a possible error in the information used in connection with any existing MIS rating, including errors in the coding or input of models or scorecards, the Employee should immediately contact a Manager in the relevant rating group or a CO in the Credit Policy Group, and follow the steps in the document **Analytic Error Identification Protocol and Action Plan Memorandum Template**.

Convening a Rating Committee

The Lead Analyst has the responsibility (either independently or in consultation with his or her Manager) to initiate a rating committee when appropriate. The Lead Analyst, in conjunction with the Chair, must organize a committee comprising appropriate participants and endeavor to see that all relevant issues related to the creditworthiness of the Issuer or obligation are presented and discussed in an efficient and timely fashion.

In addition to the Lead Analyst, a rating committee may be convened by any other Analyst whenever that Analyst believes a rating committee is needed[14]. A rating committee **must** be convened for an Issuer if requested by the Lead Analyst, back-up Analyst, enhanced[15] SCO, enhanced SVP, TL, TMD, GMD, SMD, or CCO, and in the Fundamental Group[16] ("Fundamental"), any CO. Additionally in the Fundamental rating groups, in cases where probability of default ratings ("PDRs") of "D" or "LD" (defined respectively as "default" and "limited default") are anticipated, the Manager of the Credit Policy research team may also require the Lead Analyst to convene a rating committee.

Senior rating committees ("SRC") should be convened when the rating outcome might set a precedent in some way, affect an Issuer that commands a particularly high degree of investor interest, or affect a large number or volume of credits. See **Guidance on the Use of Senior Rating Committees**. Additionally, for these types of committees as well as any that include significant senior management participation and/or multiple attendees from outside the line of business, the Lead Analyst should consult **Advance Preparation for Certain Rating Committees**.

A rating committee is convened:

- To assign a new class of debt for a rated Issuer;
- To consider the rating implications of changed circumstances, including a major transaction, significant event or material change in creditworthiness that may affect the ratings positively or negatively;
- To place a rating on or take a rating off the Watchlist. MIS uses the Watchlist to indicate that a rating is under review for a possible change in the short-term. A rating can be placed on review for possible upgrade, on review for possible downgrade, or with direction uncertain. A credit is removed from the Watchlist when the rating is confirmed, and may or may not remain on the Watchlist after the rating has been upgraded or downgraded;
- To decide on an outlook change;
- To confirm or affirm a Credit Rating. A confirmation occurs when a rating is removed from the Watchlist without a change in rating. An affirmation is used to indicate that the current rating remains in force. For further details, please see **Moody's Rating Symbols & Definitions;**
- To review an amendment of an existing transaction;
- As set out in Annex I F, instances specific to convening a structured finance rating committee;
- As part of the routine process for monitoring the credit rating of an Issuer; or
- To determine whether there is sufficient information to assign a Credit Rating or maintain a rating.

[14] Analysts in the U.S. PFG rating group must refer to Annex I E for guidance on convening Supplemental Committees.
[15] The term "enhanced" connotes the designation of those individuals who have been authorized by the GMD of the group to chair rating committees.
[16] MIS's Fundamental Rating groups are: (1) corporate finance ("CFG"); (2) financial institutions ("FIG"); and (3) public, project and infrastructure finance ("PPIF").

Special note to all Analysts: The Lead Analyst should provide advance notice to the applicable TL/TMD and CO of rating committees involving high profile ratings (significant impact), potential multi-notch rating changes, cross-overs[17] and Franchise Credits[18].

The Rating Committee Chair

The Role of the Chair

The role of the Chair is to be the moderator of the rating committee. In assuming the role of the moderator, the Chair encourages broad-based participation from all rating committee members, regardless of seniority, and the expression of dissenting views. The Chair should encourage the appropriate discussion of issues known to be relevant to the creditworthiness of the Issuer. In cases where there is little or no dissent from the Lead Analyst's rating recommendation, it may be appropriate for the Chair or another participant to take the contrary position so that both sides of an issue are fully discussed.

The Chair has the authority to call for a recess and reconvene a rating committee if he or she believes that the rating conclusion requires broader participation, or that additional information is required before the rating committee reaches a conclusion.

Eligibility for Serving as Chair

Managers with the rank of TMD or above are authorized to serve as Chair[19]. Analysts eligible to serve as Chair are generally of the rank of TL, SCO or SVP[20],[21] and all ranks above. In some circumstances, an Analyst may be authorized to chair committees only for rating certain types of Issuers for which the Analyst is designated.

Based on GMD approval, an Analyst may be authorized to serve as Chair. If an Analyst other than one previously authorized to be Chair is designated by the TMD to serve as a Chair for a particular rating committee, the SMD must approve this exception and the Lead Analyst must document the approval in the rating committee memo. Employees in the Fundamental Rating Groups should refer to Annex I A –E and I- G for further details.

Rating Committee Composition

Determining Composition

The rating committee's composition should vary based on the nature and complexity of the Credit Rating being assigned, but typically includes the following: the Chair, who acts as the moderator of the committee and the Lead Analyst, who presents his or her recommendation and the analysis supporting it. The Lead Analyst and the Chair should also consider other relevant participants throughout MIS. This could include:

- the back-up Analyst;
- one or more Analysts from the same rating team as the Lead Analyst;
- senior-level personnel (including COs);

[17] A cross-over credit refers to Issuers in Fundamental whose reference rating may cross-over up to investment grade or down to speculative grade as a result of the likely rating committee outcome.
[18] Fundamental Lead Analysts should please see Annex I A for further details on Franchise Credits.
[19] FIG Lead Analysts must see Annex I B for chair eligibility.
[20] Sometimes referred to as "enhanced" Senior Credit Officers or "enhanced" Senior Vice Presidents.
[21] Global Sovereign Risk Analysts must see Annex I G for chair eligibility.

- specialists and/or support Analysts, as deemed appropriate[22],[23]; or
- attendance by Analysts from other ratings teams and groups is highly encouraged to provide as wide a range of opinion as possible,[24] such as:
  - ☐ Analysts of rated programs or subsidiaries in other lines of business or regions;
  - ☐ economists or Analysts from the International Public Finance Group; or
  - ☐ Analysts of similarly rated Issuers (i.e. Aaa).

Depending on the type of credit being rated, factors considered in determining the make-up of a rating committee include, but are not limited to:

- The complexity of the credit;
- The rating type and rating level;
- A rating conclusion that may have significant implications in the credit markets;
- Training for junior staff;
- The rating of a previously un-rated Issuer or new type of debt instrument;
- The presence of sovereign risk;
- The relevance of specialist expertise;
- The need to assess the impact of transactions from different lines of business on the credit;
- Whether the rating qualifies for a supplemental committee (see US PFG Annex I E); and
- The presence of related credit issues at another level of government.

In addition to the above, considerations specific to a line of business may apply.

Organizing the Rating Committee

Rating committee invitations should be sent by the Lead Analyst to those Employees with the knowledge and experience to participate in the rating committee, as well as more junior analysts for training purposes. There should be no inclusion or exclusion of individuals based upon their known opinions. When convening a rating committee, consideration should be given to constituting the committee with an odd number of voting members, in order to minimize the likelihood of a 'tie' vote.

In general, participants in a rating committee for a particular Issuer should remain in that committee until a rating outcome is determined. Furthermore, rating committee members should participate in follow-up rating committees for the same Issuer if practicable.

In instances where members of a rating committee are in different regions and time zones, effort should be made to schedule the committee for the convenience of all participants.

Voting

Eligibility

The Chair must establish voting eligibility at the outset of the committee. If the Chair is making any voting eligibility exceptions, the Chair should do so before the committee begins[25]. The rating committee participants

[22] Analysts in U.S. PFG, Infrastructure, & FIG rating groups must refer to Annex I E, I C, & I B respectively, for guidelines specific to rating committee composition.
[23] Analysts in the Global Sovereign Risk Group must refer to Annex I G for guidelines on rating committee composition.
[24] Nothing herein shall limit the number of rating committee members who serve on a rating committee.
[25] Examples of exceptions may include experience in the industry, sector or asset class, research conducted for the rating at issue, and tenure at Moody's.

eligible to vote[26],[27],[28] include COs, EVPs, SMDs, GMDs, MDs, SVPs, SCOs, VPs, AVPs, Senior Analysts, and Analysts. Associate Analysts and Senior Associates may only vote with GMD approval. For the more junior members of MIS's analytical teams or additional associates invited to the rating committee by the TMD, the Chair or the Lead Analyst, as part of their learning process, these members should be encouraged to express their opinions and argue their points in the rating committee, even though their votes will not be counted in the final determination. In rare circumstances, the Chair may decide at the outset of the committee that an analytical support staff's vote will be counted.

In general, it is recommended that rating committees not be concluded during time periods when it is difficult to contact Issuers — e.g., the start of a long holiday or after 3pm on a Friday. In instances when the rating committee would conclude during a time period when it is difficult to contact the Issuer — e.g., at night, or at the start of the weekend — the Chair of the rating committee should withhold his/her vote until the following business day and conclude the rating committee at that time, to allow for more timely communication with the Issuer.

Procedures

The rating committee should conclude in a decision by a majority vote, meaning more than 50% of votes must support a single rating outcome. In cases where important issues with broad implications are being decided, it is more important to strive for consensus[29]. Although consensus is desirable, it may not always be possible and it is the responsibility of the Lead Analyst and the Chair to search for compromise positions that will have the support of a majority or all of the committee members. The rating committee Chair may express opinions and debate issues, but may not use his or her position and authority to pressure members into voting in a particular way. In the event that no single outcome has the support of the majority, the Lead Analyst or the Chair should attempt to reach a compromise position that will have the support of the majority. If this is not possible, the Lead Analyst or the Chair should reconvene the rating committee and bring in a Manager with the rank of at least TMD or a CO who has voting authorization to serve on the rating committee for that class of credits

At the conclusion of a rating committee, each voting member will be asked for her/his vote. All rating committee participants eligible to vote are expected to vote and each voting member is entitled to one vote, with all votes carrying equal weight. Voting should begin with the Lead Analyst (the lead and the back-up). Votes are then solicited from all other rating committee participants, generally in rank order from junior to senior, with the Chair voting last. Generally, rather than simply voting a specific rating level, rating committee participants should endeavor to provide a brief rationale for their conclusion to foster independent thinking. It is the Chair's responsibility to make sure that the vote is tallied and announced to the rating committee members and that the outcome is recorded in the rating committee memo or Addendum. A rating committee may not be reconvened after a final vote, unless an "appeal" is initiated. Please see section on "appeals" below.

Except as otherwise stated herein, the Credit Rating decision may only be communicated to MIS Employees outside of the rating committee that have a "need to know".

Conducting E-mail Rating Committees

In Fundamental, rating committees should generally not be conducted via e-mail and e-mail rating committees require approval by the relevant SMD, GMD or CO.[30]

In Structured Finance, rating committees may be conducted by e-mail only to resolve issues that remain outstanding from a previous live committee, provided that the Manager with the rank of TL or above or the Chair of the original rating committee approves such resolution by e-mail at the outset of the e-mail rating

[26] Analysts in U.S. PFG must refer to Annex I E for specific guidance regarding rating committee voting eligibility and rating committee accreditation.
[27] Please see Annex I D for Best Practices Specific to Voting by Specialists in Fundamental Rating Committees.
[28] Analysts in the Global Sovereign Risk Group must refer to Annex I G for voting eligibility.
[29] In these cases, the Chair is responsible for striving for consensus among the committee participants.
[30] Further guidance on e-mail rating committees for U.S. PFG is located in Annex I E.

committee and the members otherwise follow the guidelines in the following paragraph. Analysts in the Structured Finance Group should please see Annex I F for details regarding conducting e-mail rating committees that must be read in conjunction with these Guidelines.

In general, the committee process is similar for e-mail committees as it is for in-person committees. In the circumstances in which it is appropriate to conduct an e-mail rating committee, the following guidelines apply:

- The Chair needs to confirm, via e-mail or telephone, that no member of the committee has a conflict before he or she, or the Lead Analyst, may begin sending around any substantive information about the subject of the committee;
- All e-mail communications should be sent from and to all members; Analysts in the Structured Finance Group should see Annex I F for exceptions;
- All members of the e-mail rating committee should respond to the Lead Analyst's rating recommendation with either their approval of the recommendation or manner of resolution, comments or questions, or disagreement;
- As with in-person rating committees, after the Lead Analyst has made his recommendation and the back-up Analyst has voted, the senior members of the rating committee should wait for more junior members to respond first, with the Chair voting last;
- As with in-person rating committees, the committee's decision must receive the approval of at least a majority of e-mail rating committee members;
- Where new or greater-than-expected discussion arises, the Chair is responsible for determining that an in-person rating committee should be convened rather than continuing via e-mail. Additionally, any Analyst may request an in-person rating committee of the Chair if he or she feels it necessary or appropriate;
- The Chair is responsible for making sure that all members of the rating committee have responded to the rating recommendation; and
- The Lead Analyst is responsible for documenting a summary of the e-mail responses exchanged in the Addendum or other document in which the committee's decisions are recorded. In assembling e-mail responses, the Lead Analyst should take care not to include voting attribution – the Lead Analyst should summarize the vote tally from the e-mail responses rather than attach the e-mail responses to the Addendum or other document.

Appealing a Rating Committee Determination

External Appeals

There may be instances in which the Issuer has new or additional information that was not available to or considered by the rating committee in reaching its not yet published Credit Rating decision. Issuers may request that MIS reconsider its Credit Rating decision based on this new or additional information, a process that is commonly referred to as an "external appeal".

If an Issuer communicates to MIS its desire to "appeal[31]" a Credit Rating decision before it is published and indicates that the basis of the "appeal" is material information that was not previously available or considered by MIS, then MIS, where not precluded by other circumstances, will delay publishing the Credit Rating while it assesses the relevance and significance of the new information that has been received from the Issuer or its agent(s). If the Lead Analyst and the Chair believe that the new information may reasonably lead the rating committee to reconsider the rating conclusion, the rating committee will be reconvened as quickly as possible to consider the impact of the information on the Credit Rating.

[31] "Appeals" by the Issuer or its agents are generally more prevalent only for rating actions regarding existing transactions. By their nature, new transactions are continuously subject to change until they close and thus new information provided by the issuer or its agent in the form of pool changes and structural modifications is an expected part of the rating process. Internal appeals are relevant for both new and existing transactions.

Issuers may not "appeal" a Credit Rating simply because they do not agree with it nor is it intended to enable an Issuer who is dissatisfied with the current Credit Rating decision to delay publication of the Credit Rating. Rather, as noted above, it is available only where the Issuer can provide MIS with information not previously available or considered that MIS believes is relevant to its credit assessment. As a general rule, the Issuer should provide MIS with documentation surrounding the new information promptly; that is to say, within several hours of the time the Issuer informed MIS of the new information. The Issuer may be given additional time to produce the necessary documents, if the reason for delay is determined by the Lead Analyst, in conjunction with the TMD, CO, GMD or SMD, to be valid and unavoidable.

Internal Appeals

External appeals from Issuers should be distinguished from "internal appeals" in which a member of the rating committee or other MIS analytic staff members, such as a TMD, CO, or GMD, can request a reconsideration of the rating committee decision.

Before the rating outcome is communicated to the Issuer, a member of the rating committee or other MIS analytic staff members (such as a TMD, CO or GMD) can formally lodge an "internal appeal" of the committee's decision with the Chair of the committee or with any CO. In such circumstances, the Chair or CO is obligated to confer with any of the following to determine whether or not to accept the "internal appeal:" the GMD, SMD, CCO of the group, or any member of the Credit Policy Committee. If an "internal appeal" is granted, the senior person whose input and guidance was sought by the Chair or CO will, determine the rating committee composition.

One potential reason for such a request may be if relevant information was available to MIS, but the committee did not consider it. Other examples include, but are not limited to, inappropriate composition of initial rating committee, insufficient breadth of skills represented at the committee, or a lack of well articulated rating rationales among committee members.

If a request for "internal appeal," is thought to have involved a potential breach of law, regulation, policy, procedure or best practice, a party involved in the appeal process must contact a member of the Compliance Department.

Final Decision Following an Appeal

If a rating committee is convened to consider an external or internal "appeal", to the extent practicable, all the participants of the initial committee should participate in the appeals rating committee. Rating "appeals" should be concluded and the results communicated to the Issuer as quickly as feasible.

Disseminating the Credit Rating

Informing the Issuer of the Credit Rating

As soon as practicable after a rating committee reaches a decision regarding a Credit Rating action and where feasible[32], Analysts may communicate the Credit Rating decision only to the Issuer and / or its designated agents, and not to any other external party[33]. Timing may vary, depending on the specific circumstances. The timing of the rating release should also be considered in light of the orderly functioning of the capital markets and broad access to the disseminated information. As stated in MIS Code 3.9, where feasible and appropriate, the Lead Analyst will typically contact the Issuer or its designated agent to inform them of the critical information and principal considerations upon which the Credit Rating is based.

[32] For example, it may not be appropriate to issue a Credit Rating Announcement until an Issuer publicly announces an event, or, with respect to a new Issuer or first time rating, until the Issuer goes to market. Additionally, orderly functioning of the capital markets may capture situations in which banks or regulators may be contacted prior to release.

[33] Analysts in U.S. PFG must refer to Annex I E for specific guidelines on rating dissemination.

Earlier on in the relationship, the Lead Analyst should notify the Issuer that he or she will make reasonable attempts to provide the Issuer or its designated agent(s) with draft Credit Rating Announcements for its review prior to publication so that the Issuer can review them for factual errors and to ensure that no confidential information is disclosed. Although Credit Rating Announcements may be provided to Issuers for such review, MIS retains ultimate editorial control over the form and content of all of its publications. As a result, Analysts may not accept changes from the Issuer that would alter the meaning or tone of the MIS opinion or the Credit Rating Announcement, except where such changes are necessary to correct factual errors or prevent the disclosure of confidential information.

The Lead Analyst should inform the Issuer that the Issuer will only have a very limited amount of time for such review and the Lead Analyst should ask the Issuer in advance of a rating committee to identify a contact or contacts who can promptly review the Credit Rating Announcement.

The Lead Analyst should also notify the Issuer that the Credit Rating Announcement may be published even if the Lead Analyst does not promptly hear back from the Issuer or where the Lead Analyst, after making a reasonable attempt, is unable to reach the Issuer or its agent(s). As stated in MIS Code 3.9, where in particular circumstances MIS has not informed the Issuer prior to issuing or revising a Credit Rating, MIS will inform the Issuer as soon as practicable thereafter and, generally, will explain the reason for the delay.

Where the Issuer or the Issuer's representative has been contacted to review the Credit Rating Announcement prior to dissemination, the Lead Analyst should retain records of those communications in accordance with MIS's **Record Retention Policy** and MIS's **Record Retention Procedures**. Specifically, the Lead Analyst should retain a record of the outgoing draft Credit Rating Announcement and any incoming response from either the Issuer or Issuer's representative (e.g., fax, letter, or e-mail). If the Issuer responds orally, (e.g. over the phone or via voice mail), the Lead Analyst should make notes of the Issuer's comments and retain a record in accordance with the Record Retention Policy. In addition, Lead Analysts in rating groups where communication on draft publications is a "vital" record type must create and retain a record when the Issuer or Issuer's representative has not responded, stating that no comment was received.

The Credit Rating Announcement should be issued as soon as practicable thereafter. To do so, the Lead Analyst, or his or her designee, should enter the rating into the ratings database as quickly as possible. Once the rating is entered into the database and the approval process is completed, it is publicly disseminated. Please see the next section on Announcing the Credit Rating to the Market.

As described in provision MIS Code 3.4, "Upon the request of an Issuer, and solely at MIS's discretion, MIS may agree to keep a Credit Rating confidential. However, if an Issuer or security – including a tranche of a structured finance security — already carries a public Credit Rating from MIS, all subsequent decisions to change or discontinue such Credit Rating will be made available to the public without cost." In those specific circumstances in which a Lead Analyst or Manager believes it is appropriate to keep a credit rating confidential, he or she must obtain approval from the head of the line of business.

Announcing the Credit Rating to the Market

Credit Ratings are communicated to the general public free of charge via Credit Rating Announcements that are published on our website, www.moodys.com, and are distributed to major financial newswires. Credit Rating Announcements should include the key elements underlying the credit rating action. Pursuant to MIS Code provision 3.6, each Credit Rating Announcement must include the date of the last associated Credit Rating Announcement, if any, and the principal action it announced as well as a reference to the principal methodology used in determining the Credit Rating or a description of that methodology. The Credit Rating Announcement also must state that methodologies and other important aspects factored into Credit Ratings can be found on moodys.com.

Under MIS Code 3.7, Credit Rating Announcements for structured finance also must contain key performance statistics so that a financial market professional can understand the basis for the Credit Rating. Furthermore, if the Credit Rating involves a type of structured financial product presenting limited historical data (such as an innovative financial vehicle), MIS Code provision 1.7 requires that such limitation must be made clear in a prominent place.

Credit Rating Announcements are freely available to the public on our website for at least seven consecutive days. After that, the first few lines of Credit Rating Announcements, as well as the related Credit Rating history, continue to be available to the public on our website free of charge. The full text of Credit Rating Announcements may continue to be accessed by subscribers.

Monitoring Credit Ratings

Once a Credit Rating has been published, MIS will monitor the Credit Rating, as deemed appropriate, on an ongoing basis and will change the Credit Rating if our opinion of the creditworthiness of the Issuer or other relevant entity or debt or debt-like securities so indicates. Except for Credit Ratings that clearly indicate that they do not entail ongoing monitoring, once a Credit Rating is published, MIS will monitor it on an ongoing basis until the Credit Rating is withdrawn. See provision 1.10 of the MIS Code for further details.

In most of the credit rating groups that make up our Fundamental Group, monitoring is conducted continuously by the same analytical team that is responsible for the initial rating. This team is supported by institutional monitoring processes overseen by the COs. Lead Analysts conduct and document portfolio reviews once a year or more frequently where appropriate. A portfolio review in the Corporate Finance, Financial Institutions, Project and Infrastructure, Sovereign and International Public Finance groups at MIS is an assessment of the credit quality of issuers comprising an industry sector or sub-sector and is undertaken to examine the quality and consistency of ratings within a peer group subject to specific guidelines proposed by each rating group. Portfolio reviews encourage broad participation to achieve diversity of views and include at least one rating committee chair but do not constitute rating committees.

In PFG, a separate monitoring team conducts the monitoring for segments of the local government portfolio.

In our Structured Finance Group, monitoring is performed primarily by dedicated teams of monitoring Analysts who report up to an independent monitoring Manager as well as a business line Manager. For more detail, please see the **Surveillance Handbook** found on the SFG Credit Posts directory on moodysnet for the particular market sector of interest.

In general terms, when monitoring Credit Ratings, the Analyst should consider all available information and formulate a view as to whether a rating should be reconsidered. For the most part, the committee and pre- and post-committee processes are the same for monitoring rating committees as for original Credit Rating committees (i.e., preparing a recommendation, convening a rating committee, preparing the Credit Rating Announcement, publishing the Credit Rating, etc.).

In monitoring Credit Ratings, Analysts may review public information as well as non-public information provided by the Issuer or its agent(s) through periodic meetings or other means. In addition, Analysts have at their disposal a range of tools to monitor and track their rated Issuers and obligations. These include financial analysis, peer group comparisons, and other ratings (e.g., market implied, competitors) and stock prices, if applicable.

Withdrawing Credit Ratings

As noted above, if, at any time during the Credit Rating process, MIS believes it has inadequate information to assign or maintain an informed Credit Rating, MIS will refrain from publishing a new Credit Rating or withdraw an outstanding Credit Rating. In addition, and as described in **Moody's Guidelines for the Withdrawal of Ratings**, MIS may withdraw a Credit Rating for limited other reasons. For further details, see **Moody's Guidelines for the Withdrawal of Ratings** and **Moody's General Principles and Internal Guidance for Withdrawal of Ratings**. Analysts may also consult with a CO on such points as which reason applies, what approvals are required for withdrawing for business reasons, when a rating committee is required, or what should be communicated in a press release.

Annex I A

Best Practices Specific to the Fundamental Rating Groups

Guidelines on Composition

This Annex sets forth guidelines specific to Moody's Fundamental Rating Groups and is supplemental to Best Practices Guidance for the Credit Rating Process. Both documents should be applied consistently with the Core Principles for the Conduct of Rating Committee. Capitalized terms in this document have the same meaning as in the Best Practices Guidance for the Credit Rating Process.

Multiple Lines of Business Involvement

In instances where the corporate entity is structuring an obligation that will be rated in the Structured Finance Group, it is the dual responsibility of the corporate and structured finance Analysts to communicate with one another. In such a situation, a structured Analyst might participate in the rating committee.

Rating Committees Requiring Invitations to the CO and either the GMD or SMD

The CO and either the SMD or GMD should be invited to any rating committee in which discussion is expected to include an upgrade to investment grade or downgrade to speculative grade or where the outcome may result in a change in the commercial paper rating. However, the CO, GMD and SMD are not required to attend.

Franchise Credits

A Franchise Credit is defined as an Issuer whose ratings may be particularly likely to have significant impact on the capital markets. A list of Franchise Credits for the Fundamental Franchise is available on the Credit Policy page on MoodysNet.

With regard to Franchise Credits, rating committees must include:

- One of the following: the CO, GMD, SMD, or the Chair of the relevant Credit Committee[34] or, if authorized by the GMD, SMD, or Chair of the revelant Credit Committee, two TMDs; and
- The Lead Analyst and the Analyst's TMD (the absence of either should be approved by the respective GMD or SMD or Chair of the relevant Credit Committee); and
- At least 4 voting members.

Rating Committee Composition for Infrastructure Transactions with Multiple Bidders

Please see Annex I C for information on Rating Committee Composition for Infrastructure Transactions with Multiple Bidders.

[34] The relevant Credit Committee shall mean the Fundamental Credit Committee for CFG and FIG; the Public Sector Credit Committee for Sovereign, Infrastructure and U.S. and International Public Finance; and, for purposes of rating committees in the Global Sovereign Risk Group, the senior external participants defined in Annex I G shall satisfy the requirement under the first bullet in this section.

Annex I B

Best Practices Specific to the Global Financial Institution Group

Guidelines on Composition, Chairing and Co-Chairing

This Annex sets forth guidelines on composition of rating committees, chairing and co-chairing in MIS's Global Financial Institutions Group, and is supplemental to Best Practices Guidance for the Credit Rating Process. Both documents should be applied consistently with the Core Principles for the Conduct of Rating Committee. Capitalized terms in this document have the same meaning as in the Best Practices Guidance for the Credit Rating Process.

Rating Committee Composition

For rating committees involving rating changes, new ratings, consideration of reviews and resolution of reviews:

These rating committees must include a Chair and an eligible representative from another team/region (Required Attendee/Co-Chair). In addition, the Lead Analyst and the back-up Analyst for an Issuer must attend rating committees relating to that Issuer whenever possible.

When convening a rating committee, consideration should be given to expanding the size of the committee to allow for an odd number of voting members, in order to minimize the likelihood of a 'tie' vote.

For rating committees involving outlook changes:

These rating committees should include at least the following individuals: the relevant MD, TL, or CO as the Chair; an SCO or SVP from the team can serve as the Required Attendee; the Lead Analyst; and the back-up Analyst.

If the committee concludes that a rating change or a change in review status should be considered, the rating committee may need to be reconvened with the appropriate members (please see above).

Chair

A list of Employees eligible to serve as Chairs or Co-Chairs of FIG rating committees can be found by clicking the following link: **G-Rating Committee Practices And Documents - Eligible Required Attendees**

Whenever the responsible TMD attends a rating committee, he/she should act as the Chair for that committee. Other MIS Employees within FIG can chair rating committees if they fall into one of the following categories:

1. GMDs, MDs, TLs with management responsibilities, COs and any SMD & above can chair rating committees in Global FIG; and
2. SVPs and SCOs with Accurate[35] Level 2 approval rights can chair any rating committee if the committee is within their respective group (banking and insurance) AND within their respective region[36] (EMEA, Americas and Asia Pacific).

If neither the TMD nor any person in either of the categories listed above is available to chair the committee, the global head of the business line must be notified.

Additionally, in all instances in which the relevant TMD is not the rating committee Chair, the Chair should attempt to notify the TMD that the committee is taking place in his or her absence, should strive to provide the

[35] The current system used to database new ratings and rating changes.
[36] For the purposes of this document, Japan and Asia ex-Japan are considered separate regions.

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TMD with an advance copy of the rating committee memorandum, including recommendation, and should inform the TMD of the outcome immediately following the rating committee.

Required Attendee/ Co-Chair

Each rating committee **must** include an attendee from a team **other than the one responsible for the Issuer being rated**. The following MIS Employees outside FIG can co-chair rating committees for FIG:

1. Non-FIG MDs; and
2. Non-FIG TLs/COs/SVPs with Accurate Level 2 approval rights can co-chair FIG rating committee if within their respective region (EMEA, Americas and Asia Pacific).

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Annex I C

Best Practices Specific to Infrastructure Transactions with Multiple Bidders

Guidelines on Eligibility and Composition

This Annex provides guidelines on eligibility and composition of rating committees for indicative ratings for infrastructure transactions with multiple bids. It should be used in conjunction with the guidance provided in Core Principles for the Conduct of Rating Committees and Best Practices Guidance for the Credit Rating Process. This document does not apply to rating committees for a Rating Assessment Service (RAS) engagement. Those are subject to the guidelines outlined in the **RAS Summary Execution and Operating Guidelines**.

Transactions Eligible for These Guidelines

These guidelines apply in cases where MIS has been requested to provide indicative ratings by multiple bidders on an eligible infrastructure project. An eligible transaction is one in which:

- MIS either does not rate the transaction sponsor or the selection of any particular bid over another is not material to the rating of the transaction sponsor; and
- MIS does not, by virtue of any rating relationship, have material information about the asset being auctioned that is not also available to all bidders through an RFP or equivalent document.

Bids on infrastructure finance concessions let by national, regional or local governments would generally fall within the eligibility criteria.

Determining Eligibility of Transactions

The TMD or TL should determine whether particular transactions are subject to the guidelines outlined below or whether they are subject to RAS Guidelines. In cases where the eligibility of the transaction is in question, a determination will be made by the GMD or the GCO for Global Project and Infrastructure Finance. When in doubt, the more restrictive RAS Guidelines should apply.

- Sales of operating businesses by a rated entity would not fall within the eligibility criteria and the composition of analytical teams and rating committees would continue to be governed by the existing RAS Guidelines.

Rating Committee Composition

In circumstances where MIS has been requested to provide indicative ratings by multiple bidders on an eligible infrastructure project, rating committees formed to evaluate the bids should be structured as follows:

- Separate analytical teams (lead and support analysts) will be assigned to evaluate each bid; and
- Each bid will be evaluated by a common rating committee staffed according to MIS's usual and customary practices, amended as follows:
- The analytical teams assigned to evaluate a bid will only attend the portion of the committee dedicated to assessing that particular bid. In particular, analytical teams will not attend any part of the committee discussion which "compares and contrasts" different bids to ensure consistent treatment. The rating committee Chair is responsible for maintaining and documenting that discussions are kept separate;
- Where appropriate, the Chair of the common rating committee will provide common inputs/scores to the relevant methodology for those factors that are not bid-dependent; and
- Members of the common rating committee will not have any direct analytical contact with the consortium members for any particular bid. All such contact (rating meeting, follow up phone calls, emails, etc.) will be with the appropriate analytical team. Exceptions may be approved by the GMD or GCO for Global Project and Infrastructure Finance.

Annex I D

Best Practices Specific to Voting by Specialists in Fundamental Rating Committees

This Annex provides guidelines for Chairs of Fundamental rating committees to determine voting eligibility for MIS's "specialists" (on accounting, corporate governance, hybrid capital, and risk management). It is an addendum to the general guidelines on rating committee composition and voting procedures described in Best Practices Guidance for the Credit Rating Process. Both documents should be applied consistently with Core Principles for the Conduct of Rating Committees.

Responsibility for Determining Voting Eligibility

- The Fundamental Credit Committee is responsible for determining whether the head of the specialist team is eligible to vote in rating committee decisions.
- In the case of all other specialists, voting eligibility of the specialist is determined by the head of the respective specialist team in consultation with the GMD for the sector that the specialist supports.
- Questions about whether a particular specialist is eligible to vote should be addressed to the head of the respective specialist team.

Specialist Participation in Rating Committees

- Specialists may not attend or participate in rating committees where they are conflicted (as set forth in Core Principles for the Conduct of Rating Committees).
- Specialist attendance and participation in rating committees should be determined as set out in Annex I A under Franchise Credits.
- Specialists who are not eligible to vote in rating committees may attend them as part of their training or to provide input on their area of expertise. However, only those specialists designated as eligible to vote may do so.
- Once designated as voting eligible, specialists may vote in rating committees for Issuers in sectors they do not support.

Guidelines for Determining Voting Eligibility

In determining whether a specialist is eligible to vote, the head of the specialist team and the GMD for the sector that the Specialist supports should consider the following:

- Length of tenure at MIS as a specialist and (non-voting) participation in rating committees in that capacity;
- Familiarity with MIS's rating scale and rating methodologies;
- Previous (MIS or non-MIS) credit analysis experience;
- Scope of credit training (MIS or non-MIS); and
- Demonstrated insight in rating committee discussions and in published research.

Annex I E

Best Practices Specific to the U.S. Public Finance Group ("PFG")

This Annex sets forth guidelines specific to MIS's U.S. PFG and is supplemental to Best Practices Guidance for the Credit Rating Process. These documents should be applied consistently with the Core Principles for the Conduct of Rating Committee. Capitalized terms in this document have the same meaning as in the Best Practices Guidance for the Credit Rating Process.

Rating Committee Voting Eligibility

1. Rating committee voting membership, including the breadth of each member's authority, is reviewed and updated on a regular basis by the GMD and the TMDs ("PFG Management Team"), together with the GCO.
2. A record of these decisions is maintained in the Group's Rating Committee Membership and Authorization List ("RC List"), posted on the PFG shared drive, and/or the PFG page on Moody's intranet.
   a) The RC List will indicate whether each committee member has committee voting privileges for each of several sectors, including state government, regional, health care, housing, higher education, infrastructure, municipal structured products, structured local housing, and pre-refunded bonds. Other sectors may be added by the PFG Management Team, as necessary.
   b) The RC List will also indicate, by sector, whether the committee member has the authority to serve as a committee Chair.
3. Accreditation
   a) Earning rating committee membership privileges: The process for first-time rating committee accreditation begins with a nomination of an Analyst by the Analyst's TMD based on performance, as well as the Analyst's experience and expertise in a sector or geographic region.

      The Analyst will then be observed by at least two members of the PFG Management Team and the Group Credit Officer in an actual committee setting where the Analyst is not the Lead Analyst, but is acting as a non-voting committee member. This can be done by both of the PFG Management Team members in the same committee, or separately in two different committees. The observing managers or GCO makes a recommendation which is then discussed by the PFG Management Team. Accreditation is either approved (or rejected) by a majority vote of the PFG Management Team and the GCO. If the recommendation is rejected, the Analyst's manager will provide feedback to the Analyst as to the reasons for the decision and the Analyst can request a follow-up observation.
   b) Rating committee member to Chair and expansion of sector authorizations: The expansion of authority of a rating committee member to serve as a Chair for one or more sectors, or expansion of a rating committee member's committee voting privileges to an additional sector or sectors, is recommended by the Analyst's TMD, and discussed and approved by a majority of votes of the PFG Management Team. Within the regional sectors, expansion of a regional rating committee member's voting authority to include additional states is determined by the Analyst's TL and TMD, and communicated to the PFG Management Team.

Supplemental Rating Committees

In addition to the rating committee process described in the Best Practices Guidance for the Credit Rating Process, ratings in PFG may be assigned by a Supplemental Committee. Supplemental committees can be used only for:

a) Rating affirmations;

b) Assignment of insurance codes;

c) Assignment of new ratings, if the rating and outlook are unchanged from the rating and outlook assigned to parity debt for the same Issuer and, in the judgment of the Lead Analyst and the Chair, there has been no material change in credit position;

d) Assignment of ratings to Bond Anticipation Notes (BAN) except for initial BAN ratings when the Issuer's general obligation rating is lower than A2;

e) Assignment of ratings to municipal cash flow notes (Tax Anticipation Notes, Revenue Anticipation Notes, Tax and Revenue Anticipation Notes, Grant Anticipation Notes), if the Issuer borrows for cash-flow purposes at least annually and has always received a MIG 1 rating on its cash flow notes, and the current recommendation is MIG 1; and

f) In the Municipal Structured Products Group, assignment or update of ratings for standard transactions, credit or liquidity replacements and outstanding derivative programs.

Rating Committee Composition

A regular PFG rating as described in the Best Practice Guidance for the Credit Rating Process should be composed of the Lead Analyst plus at least two additional rating committee members with voting privileges, one of whom with authority to serve as Chair to the committee. A Supplemental Committee as described in II E. above should include the Lead Analyst and at least one rating committee member who has authority to Chair the committee.

Additional guidance in terms of PFG rating committee composition applies as follows:

a) To the extent possible, rating committee composition for a credit on Watchlist should include the same rating committee members who were on the rating committee when the credit was placed on Watchlist;

b) It is the ongoing responsibility of the rating committee Chair of the Supplemental Committee to assess whether a regular committee is appropriate (particularly for rating affirmations, in the case of receipt by the Lead Analyst of new financial statements for the Issuer);

c) The rating committee Chair is generally the most senior rating committee member at the rating committee meeting who is eligible to serve as Chair for that credit. However, the most senior person may designate an alternate Chair. If the most senior person is also the Lead Analyst for the credit under consideration, the next most senior person will serve as Chair;

All other Supplemental Committees, including insurance codes that are being used to offer an estimated rating, require that a person authorized as a Chair for the applicable sector serve as the sole rating committee member

d) If a non-PFG Analyst participates in a PFG rating committee, the Chair of that committee will determine at the outset of the rating committee whether that Analyst's vote will be counted, based on that Analyst's expertise and seniority; and

e) As stated in the Best Practices Guidance for the Credit Rating Process, all rating committee participants eligible to vote are expected to vote and each voting member is entitled to one vote. Additionally, eligibility is documented in the then current RC List. Only the votes of authorized PFG rating committee members and voting non-PFG Analysts will be counted in the total vote tally. If the Lead Analyst is not eligible to be a voting member of rating committee for the credit under consideration, his or her recommendation is not included in the total vote tally.

Further Guidance on the Use of E-mail Rating Committees

Rating committees generally should not be conducted via e-mail. As outlined in the Best Practice Guidance for the Credit Rating Process, subject to approval by the SMD, GMD, or CO, certain exceptions are possible. The following PFG committees can be conducted via e-mail without obtaining such prior approval:

a) Assignment of insurance codes;

b) Rating of obligations issued under specific program documents that have been approved by a previous rating committee; and

c) Follow-up rating committees that resolve issues remaining outstanding from a previous committee, provided that the Chair of the original rating committee approves such resolution by e-mail at such rating committee and the members otherwise follow the guidelines in the following paragraph.

Documentation: Rating Committee Memo and Supporting Material

The contents of a rating committee package are determined on a team specific basis, but generally include a rating committee memo and/or a workbook or workbook equivalent. A workbook is generally an excel spreadsheet with details of the finances of the credit being reviewed. A workbook equivalent may be determined on a team specific basis. The rating committee package may also include (i) a draft New Issue Report or Update, (ii) a rating committee memo, and/or (iii) other supporting documentation.

If new or substantial information is provided to the rating committee as part of the Issuer's credit consideration, the relevant details should be included in the NIR or Update (to the extent that it has not been characterized by the Issuer as confidential) as well as in the workbook or workbook equivalent, rating committee memo, or other supporting documentation.

Rating Dissemination and NIR or Update

In addition to the process for rating dissemination described in the Best Practice Guidance for the Credit Rating Process], the following guidelines apply to PFG:

a) If an Issuer or municipal structured finance tranche already holds a published credit rating, all subsequent rating actions regarding that Issuer or tranche must also be published. In applying this provision to Issuers with multiple classes of debt, each individual class of debt should be treated as a separate Issuer;

b) Lead Analysts should publish research explaining our rating rationale for each initial public rating assigned, and for each outstanding rating confirmed, upgraded, downgraded or placed on Watchlist, and for each outlook change;

c) Lead Analysts should make every effort to release the NIR or Update report simultaneously with the release of the rating action;

d) The TMD or GMD must approve any delay in the public dissemination of ratings and reports by more than two business days after the release of the rating to the Issuer Every effort should be made to disseminate within the shortest time period as possible;

e) Where prior review by the Issuer would be appropriate and is feasible under the circumstances, the Lead Analyst should share a NIR or an Update with the Issuer (or its designated representative) prior to publication;

f) TMDs and Team Leaders will provide guidance to the Analysts on their teams as to the circumstances under which they do not need to send the draft to the Issuer. Every effort should be made to disseminate within the shortest time period possible;

g) If a draft report is not being shared with the Issuer[37], the Lead Analyst should make a note to that effect in the rating committee package, which is retained either electronically or in hard copy in accordance with Moody's Record Retention Policy;

h) The Lead Analyst will advise the Issuer in advance that the report will be published no more than two business days after release of the rating to the Issuer regardless of whether the Issuer has commented on the draft report;

i) If, after reasonable effort, a designated agent cannot be contacted, the Lead Analyst, after consultation with the Team Leader or TMD, can release the research as is; and

j) Except in instances where the GCO or GMD have approved otherwise, the Lead Analyst should fax or e-mail a copy of the disseminated document to the Issuer and/or its designated agent(s).

[37] This documentation requirement does not apply to the Municipal Structured Products and Housing Groups because they do not share draft reports with Issuers.

Annex I F

Best Practices Specific to the Structured Finance Rating Groups

This Annex sets forth guidelines specific to MIS's SFG and is supplemental to Best Practices Guidance for the Credit Rating Process. Both documents should be applied consistently with the Core Principles for the Conduct of Rating Committee. Capitalized terms in this document have the same meaning as in the Best Practices Guidance for the Credit Rating Process.

Multiple Lines of Business Involvement

In instances where the there is a need to assess the impact of changes in corporate ratings on structured transactions, it is the dual responsibility of the corporate and structured finance Analysts to communicate with one another. In such a situation, a Fundamental Analyst might participate in the rating committee.

Convening Structured Finance Rating Committees

Committees are also convened to:

1. To withdraw a rating on a security prior to its payment in full or for other non-business-related reasons such as the writedown of a bond or the bankruptcy, insolvency, or other event relating to the Issuer or a party to the transaction.
2. In the case of a rating committee convened to provide only preliminary feedback to investment bankers or Issuers or their agents on their proposed structure of enhancement levels for new structured products, the TMD determines whether convening a rating committee is appropriate. After the feedback process is complete, if the Issuer decides to proceed, additional committees will usually be necessary.
3. The Lead Analyst, in consultation with a TMD or Chair, may agree to changes to a new transaction subsequent to a rating committee or amendments to the documentation of an existing transaction without convening a full rating committee, provided that the credit impact of such changes are minor in nature and both are in unanimous agreement

Conducting E-Mail Rating Committees

1. Rating committees may be conducted by e-mail that resolve issues that remain outstanding from a previous committee, provided that the Chair of the original rating committee approves such resolution by e-mail at such rating committee and the members otherwise follow the guidelines in the following paragraph. In addition, email committees may be conducted for minor rating agency condition (RACs).
2. The decision to conduct an e-mail rating committee is to be made by the relevant TL, TMD, or Chair, if applicable.
3. In addition, rating committees may be conducted via e-mail with respect to rating confirmations and affirmations, provided that they do not raise issues involving complex structures or require extended discussion.
4. E-mail rating committees are appropriate for ABCP facilities under the following circumstances[38]:
   a) facilities that are fully supported, either through the liquidity funding structure or through highly rated credit enhancement (Aa2 and above);
   b) credit changes with little or no material impact (e.g., small seller additions or facility increases);

[38] The lists in this section are not all inclusive. There may be instances where other situations or categories of RCs may present themselves which had not been hitherto contemplated. In such cases analysts should confer with TMDs.

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c) co-purchase facilities that involve a previously committed transaction and that use liquidity funding structures substantially similar to the committed transaction;

d) partially supported transactions involving the purchase of securities by repeat issuers using structures identical to or substantially similar to previously committed transactions and for which Moody's has rated the underlying security (shadow or public) (e.g., credit card transactions); or

e) amendments or waivers relating to existing transactions that involve one or more of the above features.

Documentation

1. In a new transaction, after MIS's opinion is finalized (the "finalized rating opinion"), the Lead Analyst should document the rating rationales for the final rating opinion and any significant changes that occurred following the rating committee in a final rating committee memo or in the Addendum.
2. If the rating committee involves a new asset class or a new or revised methodology, the final rating committee memo should be sent to the Structured Finance Credit Committee's co-Chairs, CCOs, and the relevant TMDs in MIS's global offices to promote global consistency in Moody's ratings[39].
3. In existing transactions, after the rating committee, and in new transactions, upon closing, the Lead Analyst should prepare an Addendum.

Closing of New Transactions

1. The Lead Analyst is responsible for reviewing the draft transaction documents, as necessary and appropriate, and for providing comments in order that the closing documents do not conflict with MIS's rating criteria and final rating opinion.
2. The Lead Analyst is responsible for issuing a rating letter at the closing of the transaction or subsequently, if MIS rates the transaction after its closing, and retaining a copy thereof as part of the credit file for the transaction and, if applicable, in accordance with Moody's Record Retention Policy.
3. On the press release, it must be issued as soon as practicable thereafter.

[39] New or revised methodologies should be published as soon as practicable in accordance with "Guidelines for the Classification and Review of Research, Policy and Methodology Publications."

Annex I G

Best Practices Specific to the Global Sovereign Risk Group ("SRG")

Guidelines on Composition, Chairing and Voting

This Annex sets forth guidelines specific to Moody's Global Sovereign Risk Group and is supplemental to Best Practices Guidance for the Credit Rating Process. Both documents should be applied consistently with the Core Principles for the Conduct of Rating Committee. Capitalized terms in this document have the same meaning as in the Best Practices Guidance for the Credit Rating Process.

Rating Committee Composition

All analysts in the SRG should be invited to rating committees called by the SRG, as should other "MIS" analytical Employees who, in the opinion of the rating committee Chair, can bring a useful perspective on the country to be discussed at the rating committee. Examples of MIS analytical Employees who may be invited include the lead bank Analyst for the country, the sub-sovereign Analyst for the country, the regional bank Manager, the country Manager, and the regional Manager, provided that Moody's policies don't preclude them from participating in the rating committee process. (For example, a country Manager would be precluded if engaged in business development activities or had an actual conflict of interest with respect to the subject country).

Each SRG rating committee should include at least two "senior external participants." For the purpose of SRG rating committees, any Employee of MIS in the following role and not otherwise precluded from participating in the rating committee process is considered to be an eligible "senior external participant":

- Any SVP from the region;
- Any Fundamental or Structured TMD or GMD (excluding Sovereign);
- Any GCO or CCO from Credit Policy; or
- Any member of the Credit Policy Committee.

Chairing

The Chair should be the SRG TMD or a SRG SVP, preferably from outside the region.

Voting

The following Employees of MIS are authorized to vote at SRG rating committees:

- All associates of the SRG with title of Analyst or above;
- The "senior external participants";
- The regional Manager, provided Moody's policies do not preclude the regional Manager from participating in the RC, and
- The lead bank Analyst. **The country Manager does not have a vote.**

All non-voting participants in the rating committee will be asked to express their opinions before the vote is taken.

Moody's Structured Finance Teleconference and Web Cast:

RMBS and CDO Rating Actions

July 12, 2007

Moody's Investors Service

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Introduction

Presented by:

Richard Cantor
Team Managing Director,
Credit Policy Research Group

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Agenda

- Introduction
- Subprime RMBS
- CDOs backed by subprime RMBS
- Q & A

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Time-Line of Major Rating Actions

- July '07 (1st & 2nd lien RMBS)
  - 451 downgrades, 52 upgrades & 55 placed on review
- July '07 (CDOs of ABS)
  - 184 placed on review
- June '07 (2nd lien RMBS)
  - 131 downgraded & 136 placed on review
- Nov '06
  - 1st 2006 vintage deals placed on review
- Most downgraded securities were originally rated Baa or below

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Rationale Underlying These Rating Actions

- Judging relative credit risk is not a one-time determination
- Current market conditions are unprecedented
- Periodic rating changes are expected and understood by the market

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Number & Magnitude of the Rating Changes

- Multiple rating level downgrades are not uncommon in corporate & structured markets
- This many simultaneous rating changes are, however, unprecedented, particularly in the corporate market
- Correlation in performance within the same vintage is to be expected in structured finance
- Structured finance, by design, eliminates most idiosyncratic risk

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Structured Finance v. Corporate Securities

- Correlation works both ways
  - Long periods of superior credit performance
    - E.g., prime auto & credit card ABS, CMBS, & RMBS till recently
  - Punctuated by poor performance
    - E.g., '97 & '98 HY CBOs, MH ABS in '03-'05
- Averaging across asset classes & over time, correlated performance variation tends to "cancel out"
  - Consistent long-run performance between similarly rated corporate & structured securities
  - See Moody's annual SF impairment & loss studies

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Why Not Downgrade the Entire Sector?

- Correlation in performance is imperfect across different sponsors, issuance dates & structures
- Role of the rating agency is to identify credit risk in individual securities
- Time was needed for 2006 vintage deals to season to properly determine the appropriate rating changes
- ABX indices (and other market-based metrics) have been painting all mortgage-related securities with the same broad & negative brush

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Credit Ratings Do Not Necessarily Track Movements in Credit Spreads

- Credit ratings do address the risk of missed or reduced payments to bondholders
- Credit ratings do <u>not</u> address
  - Risk that bond prices may fluctuate prior to maturity
  - Suitability of investments for individual investors
- Credit spreads reflect not only expected losses from default, but also additional investment risks
  - Liquidity risk
  - Prepayment or extension risk
  - Correlation risk
  - Secondary market supply/demand imbalances

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2006 Subprime RMBS

Presented by:

Nicolas Weill
Team Managing Director and Chief Credit Officer, Asset Finance

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Summary of July 10, 2007 Rating Actions

- Moody's issued negative rating actions on 431 tranches issued in 2006 and backed by 1st lien subprime mortgages
  - 399 tranches downgraded
  - 32 tranches on review for possible downgrade
  - Negative actions affected tranches rated A or below
- Moody's issued rating actions on 127 tranches issued in 2005 and backed by 2nd lien subprime mortgages
  - 52 tranches upgraded
  - 52 tranches downgraded
  - 23 tranches on review for possible downgrade

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Summary of 2006 Vintage Rating Actions
Subprime downgrades and "on review" as of July 12, 2007

High portion of deals have been impacted, though only a small portion of dollar volume. Actions have been mostly limited to smaller tranches rated Baa and below.

	By Original Rated Volume		By # of Tranches		By # of Deals	
	Volume ($mil)	% of Rated	Number	% of Rated	Number	% of Rated
1st Liens	$5,293	1.3%	438	6.9%	189	44.7%
2nd Liens	$3,867	11.6%	275	33.4%	48	66.7%

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2006 Vintage Subprime Rating Transitions

First Lien Rating Transitions

Orig. Rating	Current Rating: A	Baa	Ba	B	Caa or below	Total
A	0	1	0	0	0	1
Baa	0	31	151	37	5	224
Ba	0	0	34	82	63	179

Second Lien Rating Transitions

Orig. Rating	Current Rating: Aaa	Aa	A	Baa	Ba	B	Caa or below	Total
Aaa	0	8	0	0	0	0	0	8
Aa	0	1	11	2	0	0	0	14
A	0	0	0	8	7	3	0	18
Baa	0	0	0	2	20	25	12	59
Ba	0	0	0	0	1	16	42	59

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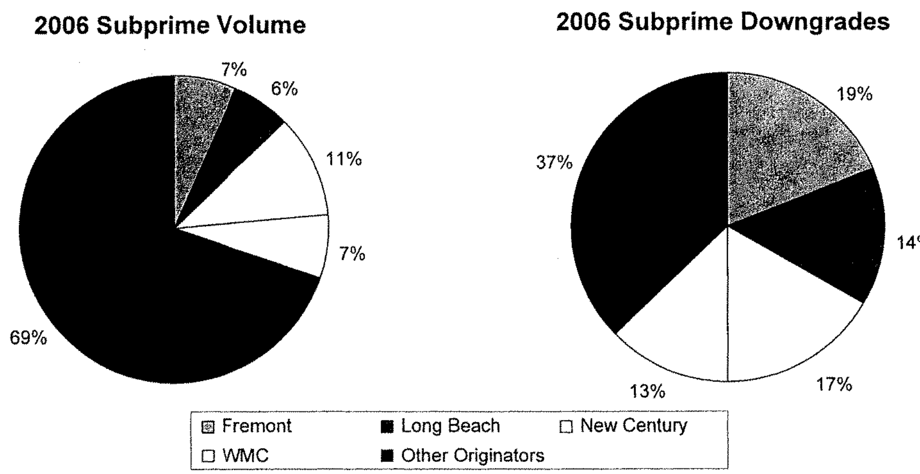
2006 Vintage Subprime Volume & Downgrades

Four issuers accounted for 31% of issuance volume but 63% of downgrade volume to date



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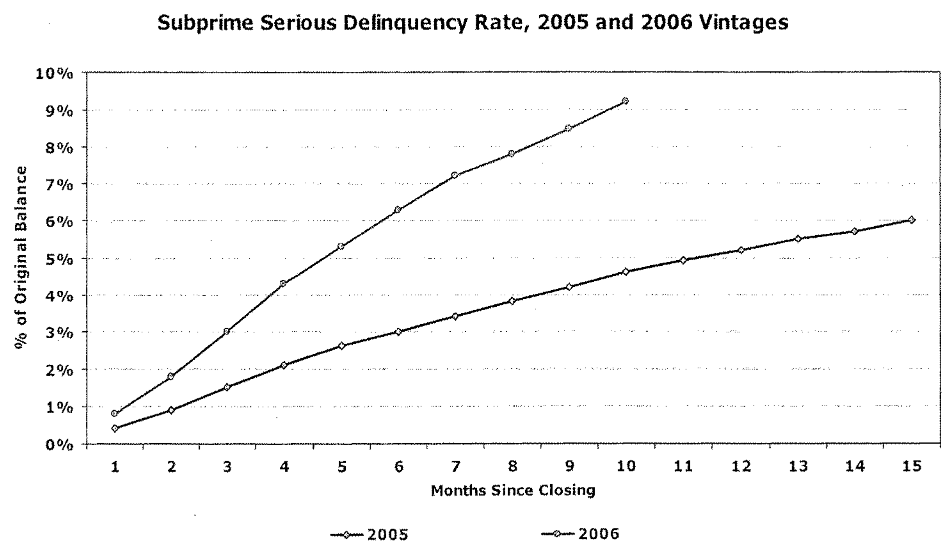
Subprime First Lien Performance: Average Delinquency



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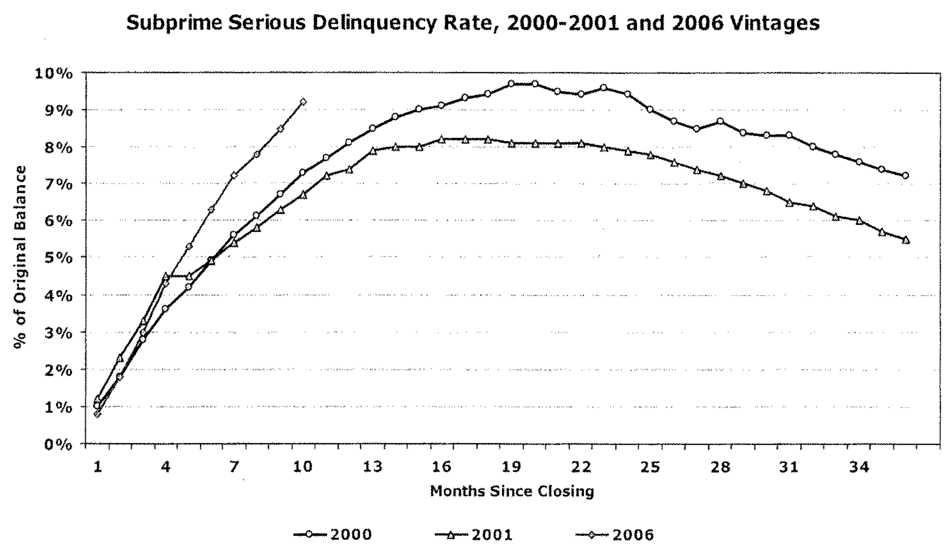
Subprime First Lien Performance: Average Delinquency



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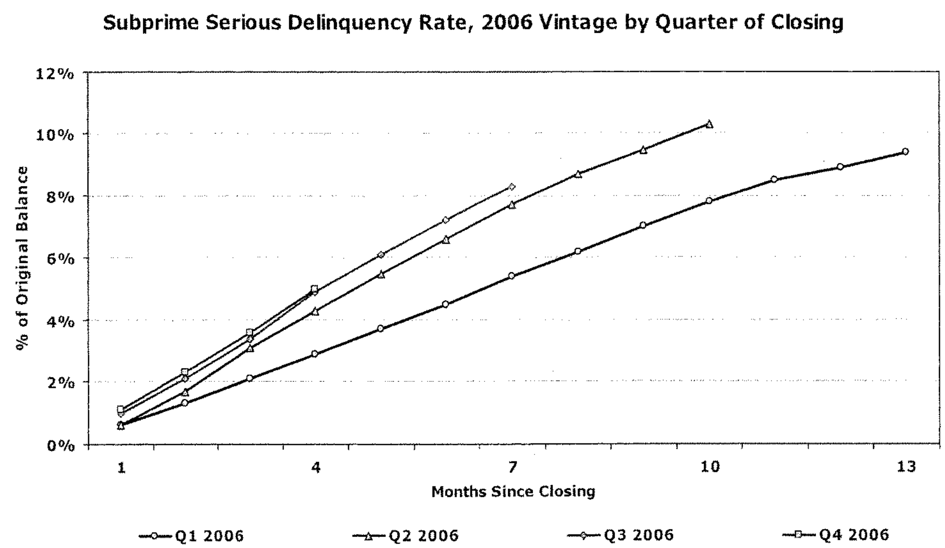
Subprime First Lien Performance: Quarterly Delinquency



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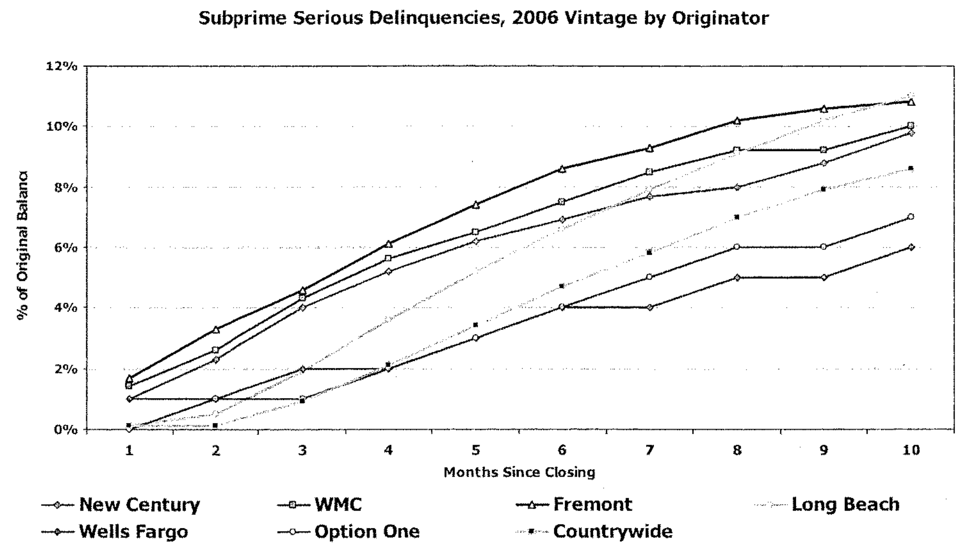
Subprime First Lien Performance: Various Originators

Significant performance variance among originators



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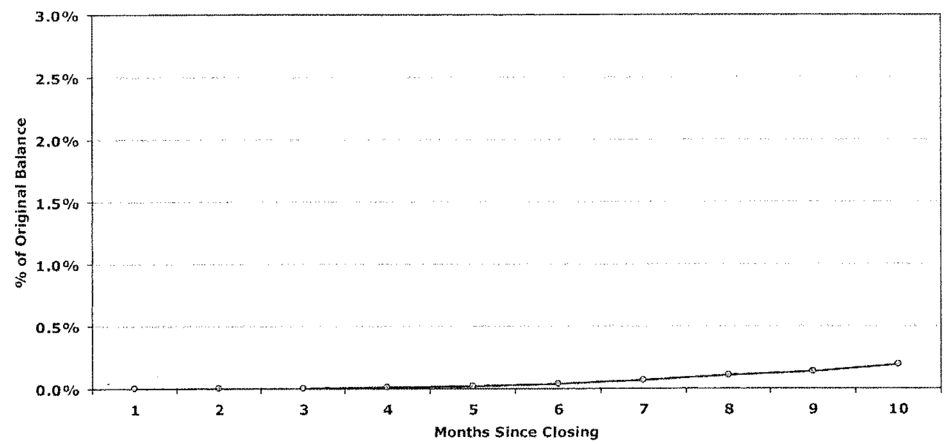
First Lien Subprime Performance: Low Cumulative Loss

Average Cumulative Net Loss Rate, 2006 Vintage



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Projecting Losses from Delinquencies

- First variable: Roll Rates
  - % of severely delinquent loans that eventually default
  - % of severely delinquent loans that cure
- Second variable: Severity
  - Upon default by homeowner what is the severity of loss on the mortgage?

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Significant Uncertainty About Ultimate Losses

- Roll Rates could be between 50% to 100%
- Severity could average 40% to 50%
  - Some auctions yield a 10% severity
  - Other auctions do not attract any bidders

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Surveillance Approach

- Divide Pool between Non-delinquent and Delinquent Loans
- Delinquent Loans: calculated pipeline loss based on various roll rates and severity assumptions
- Non-delinquent Loans: increased original loss expectations by 20%

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Surveillance: One Possible Scenario

- Delinquencies 10% (as a % of current balance)
  - Roll Rate 70% and Severity 40%: 2.8%
- Loss expectation on 90% non-delinquent:
  - Projected Loss 6% X Stress Factor 1.2= 6.5%
- Total cumulative loss: 9.3%

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Surveillance: Coverage Expectations

- Short-term Coverage
  - Timeline of foreclosures: 12-24 months
  - Loans severely delinquent will realize losses over the next 12 to 18 months
  - Limited Benefit to Excess Spread in light of unexpected pace of losses
- Lifetime coverage
  - More Benefit to Excess Spread in Coverage
  - Modifications reduce Excess Spread Utilization Rate

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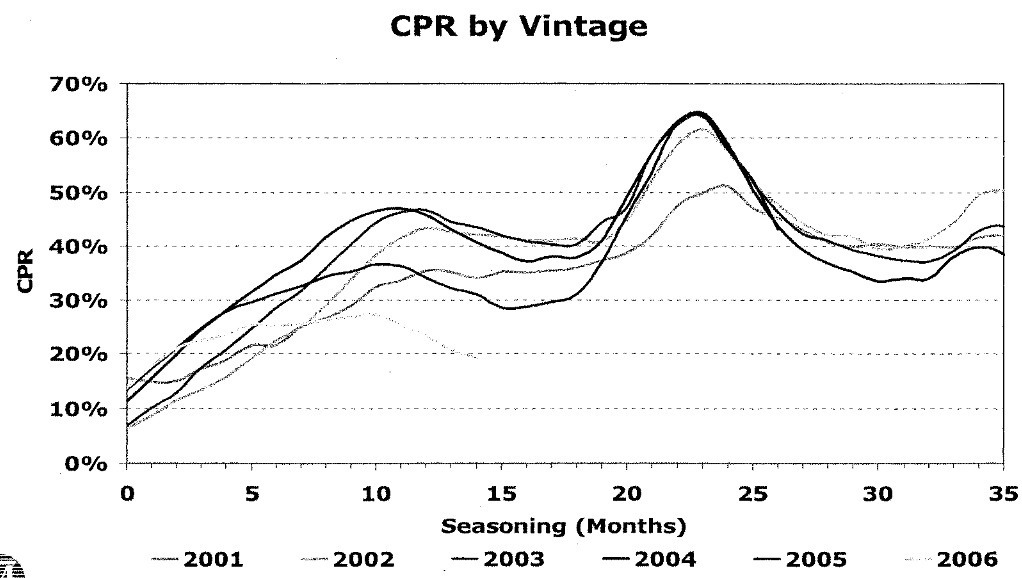
Refinancing ARMs at Reset



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2007 Subprime Methodology Changes

- Increased Loss Expectations
  - Closed End Seconds (approx. 25% - April)
  - Stated Wage Earner (approx. 40% - June)
  - First Time Home Owner (approx. 25% - June)
  - Delinquent Loans (June)
  - Originators (up to 20% - January, ongoing)

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2007 Subprime Methodology Changes

- Expanded Data (April)
  - Depth and Breadth of Credit History
  - Presence of Escrow
  - Presence and Level of Reserves
- Lack of Info Adjustments
  - Delinquency Status at Closing (June)
  - Closed End Seconds – First Lien Loan Info (April)

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Subprime Methodology Changes
Effective July 12, 2007

- Loss Expectation Increases
  - 90%+ LTV and CLTV
  - Low and Stated Doc Loans
  - Seasoning
- Triggers
- Incorporating Loan Modifications into CF Assumptions

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Moody's Recent CDO Rating Actions and Approach to CDO Surveillance

Presented by:

John Park
Senior Vice President,
Derivatives Surveillance
Group

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Summary of Recent ABS CDO Rating Actions

- Yesterday, Moody's placed 184 tranches from 91 U.S. ABS CDOs on review for possible downgrade
- No rating action was taken on any tranche of any European or Asian ABS CDO
- The rating actions affect securities with an original face value totaling $5.0 billion (~0.5% of the total Moody's-rated ABS CDO universe by volume; 3.6% by tranche count)
- The rating actions primarily reflect Moody's recent rating actions on RMBS assets associated with first lien subprime mortgages from the 2006 vintage and second lien loans of the 2005/2006 vintage

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Exposure of Moody's Rated ABS CDOs to the Affected RMBS Assets

	Deal Count	Tranche Count	Average Exposure to Affected RMBS Assets
Total Global ABS CDOs	1,220	5,120	NA
ABS CDOs with Affected RMBS Assets	376	1,852	6.9%
ABS CDOs with Tranches Placed on Review	91	184	15.3%

- Exposure to the affected RMBS assets varies across individual ABS CDOs , with many transactions not having any exposure at all
- Exposure levels range from 1% to roughly 50% of a CDO's portfolio, with an average exposure of 6.9%
- Not all ABS CDO tranches with exposure to the affected RMBS assets have been placed on review

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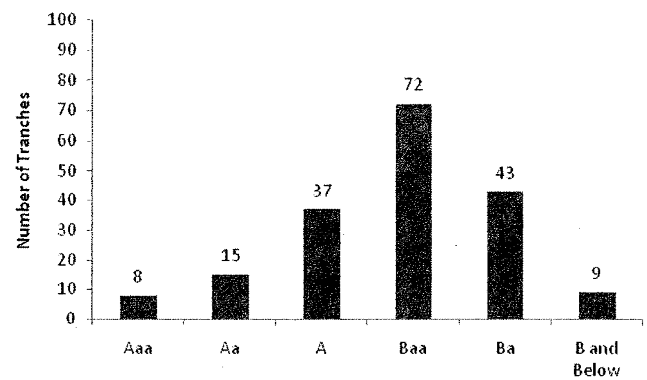
Distribution of Tranches Placed on Review by Rating



- Most of the rating actions were taken on tranches rated Baa and lower
- Several high grade tranches including 8 Aaa CDO tranches were placed on review due mainly to their relatively large exposures to the affected RMBS assets

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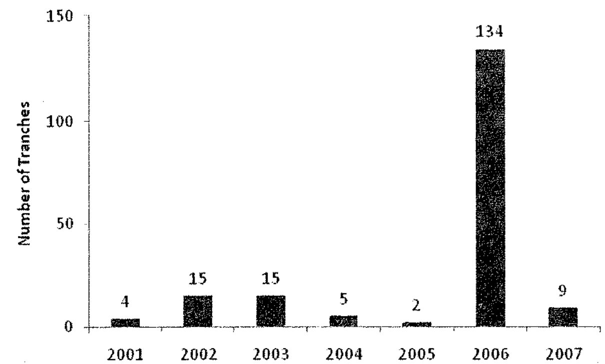
Distribution of Tranches Placed on Review by Vintage



- Not surprisingly, the vast majority of the CDO tranches placed on review were from 2006 vintage deals
- Some older deals may also have 2006 RMBS assets as CDO managers can change the portfolio composition after the CDO closes

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Moody's Approach to CDO Surveillance

- Dedicated Surveillance group in U.S. and EMEA focused on monitoring Moody's CDO Ratings
- "Smart Monitoring" tools, data & automated systems assist in identifying and prioritizing universe of CDO tranches for potential rating actions
- CDO tranches modeled individually to determine whether a formal review is required
- Once a tranche is placed on review, a more in-depth analysis is performed to determine future rating actions

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Surveillance Committee Decisions

- Rating actions decided upon by a Moody's rating committee
- Surveillance committees comprised of highly experienced team leaders and MDs
- After reviewing analysis, if the committee believes the current rating assigned to a CDO tranche may no longer be consistent with its revised loss expectations, it may vote to place the tranche on review
- Upon further analysis, committee is re-convened to determine future rating actions (i.e., downgrade, upgrade or confirmation of existing rating)

Primary Factors in Moody's Surveillance Analysis

- Current CDO portfolio composition
- Rating performance on underlying pool assets
- Diversification within portfolios
- Maturity/average life and expected amortization
- Gains/losses to the par value of the underlying assets
- Effectiveness of structural features
- Remaining subordination
- Ongoing collateral management strategy

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Next Steps

- Continue to review performance of tranches placed on review as new information becomes available
- Engage the collateral managers in a dialogue to better understand loss mitigation strategies
- Review updated information on assets with underwriters on static CDOs
- Start follow-up analysis immediately and convene committees over the coming weeks to finalize review
- Evaluate CDOs with large concentrations of other CDO tranches for potential impact of CDO rating actions
- Continue to monitor entire universe of Moody's-rated CDO tranches

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Question and Answer Session

For the most up-to-date information on ratings, research and events affecting the subprime market, go to www.moodys.com/subprime

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STRUCTURED FINANCE **Rating Methodology**

Moody's Enhanced Approach to Originator Assessments for U.S. Residential Mortgage Backed Securities (RMBS)**

AUTHOR:
Kathryn Kelbaugh
Vice President – Senior Analyst
212-553-3645
Kathryn.Kelbaugh@moodys.com

CONTRIBUTING AUTHOR:
Eric Fellows
Vice President – Senior Credit Officer
415-274-1728
Eric.Fellows@moodys.com

CONTACTS:
Navneet Agarwal
Senior Vice President
(212) 553-3674
Navneet.Agarwal@moodys.com

Linda Stesney
Managing Director
(212) 553-3691
Linda.Stesney@moodys.com

MOODY'S CLIENT SERVICES:
New York
+1-212-553-1653
Tokyo
+81-3-5408-4100
London
+44-20-7772-5454
Hong Kong
+852-3551-3077
Sydney
+61-2-9270-8100
Singapore
+65-6398-8308

WEBSITE:
www.moodys.com

SUMMARY OPINION:

This report describes our enhanced approach to originator assessments. Our enhanced approach will apply to originators seeking to issue new U.S. RMBS after publication of this report. Moody's welcomes your comments pertaining to this special report, please direct them to cpc@moodys.com.

Originator quality can have a significant positive or negative effect on pool performance and, by extension, on the credit enhancement levels called for to support a tranche at a given rating level. The originator assessment looks to isolate the effect an originator's policies and practices have on loan performance from the effects of external factors such as the macroeconomic environment and the ability of the servicer.

Our assessment of originators focuses principally on:

i) Performance: An originator's track record of originating loans that under-perform, meet or exceed Moody's model loss expectations after neutralizing for variations in loan characteristics and economic environments.

ii) Ability: The originator's lending practices, primarily concentrated on the process for assessing a borrower's ability and willingness to repay a loan, originator ability factors include

   a. sales and marketing practices;
   b. consistency in underwriting loans within prescribed underwriting guidelines;
   c. property valuation management practices, policies and procedures;
   d. closing and post closing policies and practices including lien perfection procedures;
   d. management of brokers and correspondents; and
   e. credit risk management.

Overview of Moody's RMBS Enhancement Proposals

On March 26, 2008, Moody's published five proposals to enhance the U.S. RMBS securitization process.[1] Those proposals were: increased loan level data, stronger representations and warranties, independent third-party pre-securitization loan reviews, standardized forensic reviews for underperforming loans, and more comprehensive originator assessments. These enhancements are intended to work together to improve the reliability and transparency of information for RMBS transactions.

This paper addresses Moody's approach to more comprehensive originator assessments.

Separate papers released concurrently with this paper focus on stronger representations and warranties and independent third party pre-securitization reviews and post-securitization forensic reviews.

Moody's continues to work with the American Securitization Forum (ASF) on Project RESTART and the Securities Industry and Financial Markets Association (SIFMA) to achieve an industry consensus for our proposed enhancements for U.S.RMBS securitization, including increased loan level data. The results of these projects are expected to be reported in Moody's publications throughout 2009.

1 See "Moody's Proposed Enhancement to U.S. Residential Mortgage Securitizations: Call for Comments", Moody's Structured Finance, March 26, 2008

*** As of September 22, 2009 this methodology contains an update regarding seasoned loans in the annex at the end of the report.***

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Originally electronically published on November 24, 2008, but due to minor changes republished on October 5, 2009

iii) Stability: The resources that an originator brings to bear in maintaining or improving on the quality of the loans that they originate. Key attributes of originator stability include financial strength, management strength, staff quality, quality control, internal audit, technology and other support functions that lead to operational stability.

Originator assessments are intended to provide a performance-based, third-party assessments that will allow RMBS market participants a consistent comparison across originators. Moody's originator assessments are comprised of component assessments which roll up to an aggregate assessment. Moody's will publish its originator assessment reports on Moodys.com.

Originator Participation

Moody's enhanced reviews will require regular and active originator participation. For originators that want a Moody's rating on future RMBS, Moody's expects that in most cases it will conduct on-site reviews every 12 to 18 months. Moody's expects that these site visits will be supplemented by quarterly reports supplied by the originator that detail loan production characteristics and performance by loan program, changes in underwriting guidelines, underwriting/program exceptions, audited financial statements, repurchase activity, audit findings, significant IT initiatives and other relevant information described in Exhibit 1. In addition, calls with key management to review reports and data trends generally will be held quarterly. Finally, Moody's will seek to review the results of the third-party pre-securitization loan-level review for each transaction to which the originator contributed loan collateral during the latest rolling 18 months, whether the transaction was rated by Moody's or not. Where third-party pre-securitization loan-level review data is sparse, stale or unavailable, Moody's may request that a third party loan-level review be conducted which is unaffiliated with any particular securitization or may look for other alternative methods to evaluate the originator's ability to comply with its own policies and procedures.

Originator assessments will be applicable to lenders that originate and securitize prime, alt-A and subprime, first- and second-lien, U.S. residential mortgage loans.

Originator assessments will also be applicable to aggregators that issue RMBS with underlying loans originated by multiple lenders. Throughout this report the term "originator" will apply to both lenders and aggregators.

Moody's will not rate an RMBS transaction in which any loans are contributed by an originator whose assessment is "unacceptable" or that include loans from unassessed originators that receive a Grade of C or D from the third party pre-securitization review.[2]

For each loan in the securitization, the party providing the loan-level representations and warranties will be considered the originator of that loan for purposes of Moody's originator review. Representation and warranty providers with little or no tangible net worth and no origination platform would likely be assessed as "unacceptable" under our enhanced originator assessments.[3]

Moody's will conduct an originator assessment for any single originator whose loans represent more than 10% of an RMBS pool. For originators contributing 10% or less to the pool, where Moody's does not have a current originator assessment,[4] we generally will require a third-party pre-securitization review of 100% of the loans from that originator.[5] We also may seek to review historic loan level performance of loans originated by originator's contributing more than 5% [but less than 10%] of the loans in the pool.

2 See "Moody's Criteria for Evaluating Independent Third-Party Loan Level Reviews for U.S. Residential Mortgage Backed Securities (RMBS)", Moody's Structured Finance, November 24, 2008.
3 Moody's will consider an entity other than the representation and warranty provider as the originator only if such entity has provided the securitization trust with an irrevocable guaranty of the representation and warranty provider's obligations (or other similar arrangement).
4 Generally, an originator assessment is considered current if Moody's has consistently received the quarterly reporting described in Exhibit 1, had an on site review within the prior 18 months and has had third party review results for securitizations within the prior 12 months.
5 See "Moody's Criteria for Evaluating Independent Third-Party Loan Level Reviews for U.S. Residential Mortgage Backed Securities (RMBS)", Moody's Structured Finance, November 24, 2008.

ORIGINATOR ASSESSMENT

Assessment Levels:

Moody's will assign originators one of six different assessments listed in the table below. Individual assessments will be provided for each originator for each loan type that they originate and securitize (prime, alt-A and subprime, first- and second-lien residential mortgages):

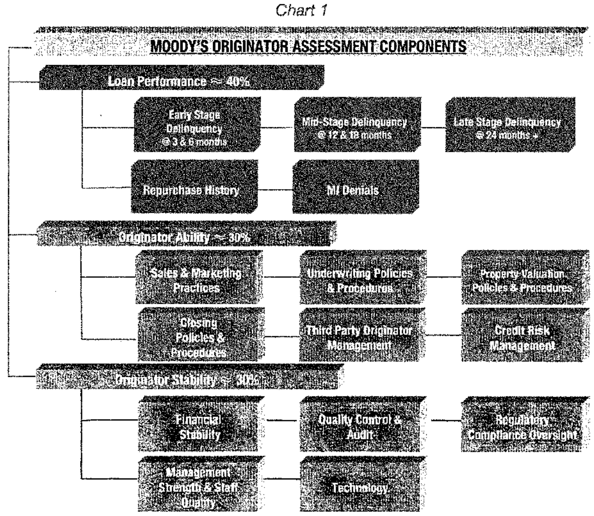
ASSESSMENT LEVEL	Assessment Score
Strong	<=1.5
Above Average	>1.5 and <=2.5
Average	>2.5 and <3.5
Below Average	=>3.5 and <4.5
Weak	=>4.5 and <= 5.0
Unacceptable	> 5.0

As seen on Chart 1, Moody's originator assessment incorporates a review of 1) historical loan performance weighted at 40%, 2) origination ability weighted at 30% and 3) origination stability weighted at 30%. The weightings assigned to each of these components generally reflect the degree to which Moody's believes that component provides insight about an originator's loan credit quality. These weights assume that an originator does not have any significant defects in any of the individual components. The weights may vary under those and certain other circumstances.

The subcomponents for historical loan performance will focus primarily on payment defaults during the first 18 months, while the subcomponents for originator ability will focus on the originator's policies and procedures. The originator stability subcomponents will focus on support functions such as human resources, finance and information technology that lead to operational stability.

The subcomponents shown on Chart 1 will be the focus of Moody's originator assessment. The weightings of the subcomponents will vary based on, among other things, the mortgage type the originator originates as well as any significantly deficient or exceptional finding for any one or more subcomponents. An "unacceptable" assessment in any component is likely to result in an overall originator assessment of "unacceptable".

Chart 1



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Originator Loan Performance

Loan performance accounts for approximately 40% of our overall originator assessment. The assessment for originator loan performance is comprised of five different subcomponents: 1) early stage serious delinquencies measured at 3 and 6 months; 2) mid stage serious delinquencies measured at 12 and 18 months; 3) late stage serious delinquencies measured at 24+ months; 4) representation and warranty repurchase performance; and 5) mortgage insurance claim denials.[6]

Moody's believes the relative strength of an originator's practices, policies and procedures will primarily manifest in early loan performance, generally during the first 18 months. When assessing loan performance, to the extent possible, Moody's will neutralize the effect of variations in loan characteristics and economic environments in order to isolate the effect of the originator's practices on performance. Moody's is of the opinion that early stage serious delinquency rates largely are a function of loan origination quality and that longer-term loan performance is driven mainly by servicing quality (assuming consistent loan quality based on loan characteristics) as well as borrower life events (which are not controlled by the originator). Therefore, while life-of-loan performance is reviewed as part of our originator assessment, Moody's primarily focuses on serious delinquency rates during the first 18 months following origination.

The volume of repurchase demands and mortgage insurance denials are additional metrics that Moody's will utilize to further support our assessment of performance.

Originator Ability:

Moody's review of an originator's ability will primarily serve to evaluate if the originator's future loan performance will be of the same, better or worse quality than its past loan performance.

Moody's review of an originator's overall ability, loan origination strategy, loan origination policies, procedures and credit performance oversight is the next part of the originator assessment process. Originator ability accounts for approximately 30% of our overall originator assessment. This includes a review of the following six subcomponents:

1) *sales and marketing practices* - the manner in which an originator sets its loan production strategy and associated underwriting and sales approach to originate loans of a targeted quality;
2) *underwriting policy and procedures* - the robustness of the originator's loan approval guidelines and adherence thereto;
3) *property valuation policies and procedures* - the process by which an originator establishes an accurate property valuation for the purpose of determining loan-to-value;
4) *closing/funding/post closing policy and procedures* - the process undertaken by an originator to make certain that all loan conditions are met before closing and that liens are perfected and assigned to the trust as appropriate;
5) *third-party originator management* - an assessment of broker and correspondent approval process and the processes in place to monitor and manage broker and correspondent loan credit quality; and
6) *credit risk management* - the oversight implemented by an originator to continually assess actual loan performance against expected loan performance and adjust loan production strategies accordingly.

For aggregators, Moody's originator ability assessment will primarily focus on third party originator (TPO) management and credit risk management.

6 A "seriously delinquent" loan is one that is 60+ days delinquent, in foreclosure, REO, or the loan was modified or a short payoff occurred and the lender experienced a loss or the borrower has filed for bankruptcy.

Sales and Marketing Practices

Moody's assessment of an originator's sales and marketing practices will be a qualitative review. A table with some of Moody's key sales and marketing review criteria is below:

Assessment Level	Moody's Qualitative Sales & Market Policy and Procedures Review: Selected Criteria
Strong Score = 1	• Clear separation of and independence of sales and loan approval functions. • Little or no change in underwriting guidelines through reduced demand cycles. • Underwriting exception rates are constant through demand cycles. • Loan Officers' / Brokers' compensation is significantly tied to loan quality and loan performance. • Loan Officer customer solicitation/advertising is produced, monitored and approved by management.
Average Score = 3	• Sales staff has minimal influence on loan approval functions. • Moderate changes in underwriting guidelines through reduced demand cycles. • Moderate increase in exception rates during reduced demand cycles. • Loan Officers' / Brokers' compensation has some components related to loan performance. • Loan Officer customer solicitation/advertising by Loan Officers is monitored by management.
Weak Score = 5	• Little or no separation of and independence of sales and loan approval functions. • Underwriting guidelines relax significantly through reduced demand cycles. • Exception loans increase drastically during reduced demand cycles. • Loan Officers' / Brokers' compensation not tied to loan performance. • Loan officer customer solicitation/advertising is unrestrained and unmonitored by management.
Unacceptable Score=6	• Sales activity and loan approval handled by same group. • Underwriting guidelines do not exist in a format the enables the assessor to determine if guidelines have been relaxed through reduced demand cycles or that exception loans are being made. • Loan Officers' / Brokers' compensation tied to loan production only. • Loan Officer customer solicitation/advertising is completely untethered to management or compliance reviews.

Moody's believes that separation and independence of the sales function from the loan approval process is a critical element for an originator to consistently originate high quality loans.

During periods of growth in the housing and mortgage markets, increased borrowing demand allows existing mortgage lenders to expand their business and new lenders to enter the market. Eventually these trends create overcapacity in the mortgage lending market as borrowing demand slows or falls. As mortgage demand ebbs, competition among lenders increases for the reduced pool of borrowers, and lenders may lower credit underwriting standards in order to maintain or grow origination volume. Deterioration of underwriting standards is evidenced by relaxed underwriting guidelines, increased exceptions to guidelines or both. Moody's originator assessment will monitor the credit consistency of offered mortgage loan products across economic cycles in order to identify any shifting policy trends from the originator's typical credit risk management to riskier credit practices designed to enhance origination volumes.

Originator compensation plans will be reviewed to assess whether loan officers and sales staff are rewarded not only for production volume, but also for production quality as measured by loan performance for some period of time after origination.

An originator's business strategy and solicitation practices have a material impact on the quality of loans that are originated and their ensuing credit performance. Moody's assesses the marketing methods and targeted markets for each originator to gain an understanding of the originator's customer acquisition model and its associated risks and rewards.

Underwriting Policies and Procedures

Moody's assessment of an originator's underwriting policies and procedures will consist of two parts. The first part will be a qualitative review of the originator's underwriting policies and procedures as shown in the table below.

Assessment Level	Moody's Qualitative Underwriting Policy & Procedures Review: Selected Criteria

Strong Score = 1	• Thorough and unambiguous written guidelines with very limited exception to product guidelines.
	  – Where exception are made there a unambiguous compensating factors which are well documented.
	• Robust process for assessing borrower's willingness and ability to repay the loan, including:
	  – originator does not overly rely on internal or external credit scores;
	    o the number of tradelines and tradeline limits, age and derogatories are analyzed with equal importance to the FICO score.
	  – originator utilizes tri-merge credit reports and does not use the highest FICO score for loan approval;
	  – compensating factors and required approvals are thoroughly documented;
	  – complete and thorough 1008s (underwriting transmittal summary) which accurately portray the key elements used to approve a loan.
	• Underwriters employ robust processes for verifying and reviewing the reasonableness of the information stated on the loan application with a particular focus on :
	  – income, for all loans is checked for reasonableness, including extensive pre-closing use of a 4506T;
	  – assets are verified with bank and other financial account statements;
	  – employment status is verified rigorously, using techniques that involve more than a phone call to the employer.
	• Rigorous effort to confirm occupancy status.
	• Anti-fraud software tools are integrated with the loan origination system (LOS) and utilized pre-closing for each loan. Well-defined procedures exist for clearance of high risk loans.
	• Underwriter compensation plans are based on credit quality not volume.
	• Underwriter approval authority is robust and is based on the underwriter's experience, tenure, and quality of loans underwritten.
	• Underwriters have adequate time to thoroughly review each loan file.

Average Score = 3	• Written guidelines exist, yet underwriter discretion is exercised liberally within 5% of most product parameters, but the required documentation is typically met or exceeded.
	• Standard process for assessing borrower's willingness and ability to repay the loan, including:
	  – originator relies on FICO or other internal or external credit scores with some weight given to trade lines and assets as further support of creditworthiness;
	  – originator utilizes tri-merge credit reports and does not use the highest FICO score for loan approval;
	  – compensating factors occur often but are usually documented and required approvals are documented;
	  – 1008s (underwriting transmittal summary) are completed but fall short of providing a complete depiction of credit worthiness or motivation for approving the loan.
	• Underwriters employ standard processes for verifying and reviewing the reasonableness of the information stated on the loan application, including:
	  – Income is generally checked for reasonableness.
	    o Use of 4506T for income reasonableness check for income is used primarily for self employed borrowers pre-closing and most other post-closing for QC purposes;
	  – assets generally are verified;
	  – employment status is confirmed telephonically.
	• There is discernable effort to confirm occupancy status.
	• Anti-fraud software tools are used for some loans on a pre-closing basis, but used primarily as QC tools post closing.
	• Underwriter compensation plans are based on credit quality and volume.
	• Underwriter approval authority is based on the underwriter's experience, tenure, and quality of loans underwritten.
	• Underwriters generally have adequate time to thoroughly review each loan file, but may be pressed in times of high volume.

Assessment Level	Moody's Qualitative Underwriting Policy & Procedures Review: Selected Criteria
Weak Score = 5	• Written guidelines are often ambiguous; underwriter discretion and exceptions occur on more than 25% of production. • Weak process for assessing borrower's willingness and ability to repay the loan. – underwriter relies heavily on FICO or other internal or external credit scores and obtains documentation only as required by these scores/systems. – single repository FICO score is used o credit tradelines are not regarded – compensating factors are not thoroughly documented, underwriter authority and approval requirements are ambiguous – 1008s are incomplete (underwriting transmittal summary) • Underwriter processes for verifying and reviewing the reasonableness of the information stated on the loan application are weak or non existent, including: – little or no check for the reasonableness of income; – assets are not or poorly or incompletely documented; – employment status is not checked for reasonableness; and – no discernable effort to confirm occupancy status. • Little or no use of anti-fraud software tools. • Underwriter compensation plans primarily based on volume with little regard to past credit performance. • Underwriter approval authority is unclear or lax and not based on past performance. • Underwriters do not have adequate time to thoroughly review each file or production quotas are set.
Unacceptable Score = 6	• No written underwriting guidelines. • No underwriting documentation, no 1008 (underwriting transmittal summary). • No income reasonableness check. • Reasonableness of occupancy status not reviewed. • Loan Officer approves the loan. • No underwriter approval authority policy.

The second part of Moody's underwriting policy and procedure review will incorporate the results of independent third-party loan-level credit reviews conducted for the originator's securitizations for the relevant, recent past. Appendix 1 provides Moody's assessment criteria for this review.

The primary factors in Moody's review of each originator's underwriting policies and procedures are (i) the manner in which originators gauge the ability and willingness of a borrower to repay the mortgage loan, (ii) the depth and robustness of an originator's lending guidelines, and (iii) the level of adherence to underwriting guidelines especially through different economic cycles.

Accurately assessing a borrower's income, employment status and prospects, assets, and overall debt burden is key to evaluating a borrower's ability to repay the loan. Regardless of documentation type, Moody's will assess the rigor of an originator's processes to assess the reasonableness, reliability and stability of a borrower's income. In this age of easily produced fraudulent documentation, it is important that originators employ a variety of measures to test the authenticity and reasonableness of the information provided. To this end, lenders that compare the income stated on the mortgage application to the borrower(s) taxable income reported to the IRS through processing form 4506T (where possible) prior to loan approval are viewed as having best-in-class income verification procedures. Other processes, such as the employment verification and asset verification methods that an originator uses to support the reasonableness of income also are analyzed.

The manner in which an originator qualifies a borrower for a mortgage loan will be reviewed. Another important factor in assessing the ability of the borrower to repay the loan is the method by which a borrower's debt burden is determined. Moody's believes that all reasonably anticipated monthly living expenses and resultant residual income should be considered by a lender when determining a borrower's ability to afford the monthly payments on a mortgage loan. Moody's assessment will include a review of the qualifying rate and associated payment used to calculate the monthly principal and interest payment as well as the extent to which taxes, insurance, homeowners dues and other typical, required housing expenses are included in the debt burden.

Finally, Moody's will review the policies and procedures for underwriters to incorporate monthly payment obligations associated with all other outstanding debt.

The approach taken by an originator to assess a borrower's willingness to repay the loan will also be examined. Moody's will review the processes employed by the originator to determine representative credit scores whether internal or credit repository based. In addition, Moody's will seek to determine if the originator relies solely on credit and mortgage scores to judge willingness to repay, or whether the originator conducts a thorough review of the borrower's credit trade line history. Moody's will take a positive view of originators that analyze the number of trade lines a borrower has as well as the trade line age, limits, outstanding balances and derogatories when underwriting a loan.

The originator's requirement for and verification of the level of the borrower's own equity in the home relative to its market value and the occupancy of the property will be reviewed by Moody's. Inaccuracy surrounding the borrowers' occupancy status has been problematic in recent origination vintages. Moody's evaluates each originator's process for assessing the borrower's actual and intended occupancy status. A lender should be vigilant of inconsistencies that would call into question the occupancy status. Underwriters that proactively verify and document support for the occupancy status will be considered superior to those that simply accept what the borrower states on the mortgage loan application.

Moody's also will analyze the originator's underwriting guidelines, the level of exceptions made to those guidelines and the exception approval process. In general, Moody's positively views originators that have comprehensive underwriting guidelines where the vast majority of loans are originated without exceptions. While an underwriter's discretion and expertise have the ability to add significant value to the underwriting process, the originator's guidelines should be well defined so that underwriters have clear direction on acceptable discretion limits. Further, Moody's will view favorably compensation plans for underwriters that create incentives to produce high credit quality loans that generally adhere to underwriting guidelines.

Moody's will evaluate the benefits of software tools used to not only combat fraud but also substantiate certain critical loan information such as borrower income, occupancy, and employment. Moody's takes a positive view of the use of anti-fraud software tools to identify fraud before closing loans, in conjunction with appropriate processes and practices to proactively respond to the findings.

Property Valuation Policies and Procedures

This subcomponent will also be analyzed in two parts. The first part will be based on our qualitative assessment using the criteria shown in the table below:

Assessment Level	Moody's Qualitative Property Valuation Procedures Review: Selected Criteria
Strong Score = 1	• Appraisers are chosen independently and anonymously from production personnel or brokers • Licensed in-house appraisers review all appraisals for acceptability • A single underwriter assesses appraisal in conjunction with the other credit aspects of the file after the in-house appraiser renders approval for the appraisal • Automated valuation models (AVMs) are independently verified and systematically tested, updated and modified as necessary • Whenever possible, AVMs or broker price opinions (BPOs) are obtained for reasonableness check pre-closing and for post-closing QC • Appraisers are approved and routinely tested for appropriate licensure and other qualifications • Clear escalation procedures exist for circumstances in which appraisals come in lower than borrower or lender expectations

Assessment Level	Moody's Qualitative Property Valuation Procedures Review: Selected Criteria
Average Score = 3	• Appraisers are chosen independently and anonymously from production personnel. • A separate appraisal department exists to review appraisals for acceptability. • The appraisal is reviewed primarily within the appraisal unit and handed off to the primary underwriter. The underwriter generally accepts the findings and performs a cursory review of the appraisal in conjunction with the credit aspects of the file. • AVMs are utilized as necessary. • AVMs or BPOs are utilized for reasonableness check before ordering second appraisals to reach value; AVMs are used primarily for QC purposes. • Appraisers are tested for appropriate licensure. • Although escalation procedures exist, the underwriter or loan office has the ability to reorder appraisals in the case where the initial value comes in lower than borrower or lender expectations..
Weak Score = 5	• Appraisals are ordered by production personnel or brokers who may or may not be familiar with the appraiser. • No licensed in-house appraiser to conduct or review appraisals. • In general, AVMs or BPOs are not used to check the reasonableness of the appraisal value pre or post closing. • Appraisers are not routinely tested for appropriate licensure. • Multiple appraisals are ordered when the initial appraisal comes in lower than borrower or lender expectations. • Credit underwriter accepts the appraisal underwriter's findings and generally does not review the appraisal in conjunction with the other aspects of the file.
Unacceptable Score = 6	• Appraisals are ordered by production personnel who routinely do business with certain appraisers. • Numerous missing property valuations. • Use of unlicensed or unqualified appraisers. • No escalation procedure for suspect property valuations. • Multiple appraisals are ordered when the initial appraisal comes in lower than borrower or lender expectations. • Underwriters are unqualified or inexperienced in appraisal review.

The second part of Moody's property valuation procedures review will incorporate the results of independent third-party loan-level property value reviews conducted for the originator's securitizations for the most relevant, recent past. Appendix 1 provides Moody's assessment criteria for this review.

The accuracy of property valuation is important as it determines the level of borrower equity in the property which is highly correlated to default frequency as well as to loss severity to RMBS investors.

The originator's appraiser selection and management process will be examined. In Moody's opinion, it is important the selection of the appraiser be separated from production personnel, to the extent possible, to reduce the chance of a biased property value. The originator's ability to ensure appropriate and unexpired licensure of their appraisers is also important. Any bias in selecting an appraiser for factors beyond the quality and accuracy of the appraisal will be viewed very negatively.

Moody's will evaluate the rigor of the appraisal review, the level of tolerance for deviation from appraisal requirements before escalation, the comprehensiveness of desk reviews, the quality of on-staff appraisers, and the quality of field reviews. Moody's will examine the rebuttal and second review processes employed when the initial appraisal valuations are not consistent. Moody's will take a negative view of an originator that obtains multiple appraisals to achieve a property value it or the borrower believes to be correct. Moody's considers the use of automated valuation models (AVMs), as well as other valuation tools such as broker price opinions (BPOs), a best practice to substantiate appraisal values in situations where value is suspect.

Closing/Funding/Post Closing Policy & Procedures

Some of the main factors in our assessment of the originator's closing procedures are in the following table:

Assessment Level	Moody's Qualitative Closing & Funding Procedures Review Selected Criteria
Strong Score = 1	• Very low HUD-I error rates or overcharges. • APR calculations are virtually always accurate. • Virtually all Good Faith Estimates (GFEs) are correct and delivered to borrowers within three days of application. • Disbursement account tracked and reconciled daily. • Best in class timelines for trailing documents. • Rigorous QC process to ensure correct data flows from LOS to servicing system.
Average Score = 3	• Average HUD-I error rates and overcharges. • APR calculations are generally accurate (95% accurate). • Less than 5% of Good Faith Estimates (GFEs) are incorrect or are delivered to borrowers later than three days of application. • Disbursement account tracked and reconciled monthly. • Average timelines for trailing documents. • A QC process exists to ensure correct data flows from LOS to servicing system.
Weak Score = 5	• High HUD-I error rates and overcharges. • APR calculations are generally inaccurate (more than 5% inaccurate). • More than 5% of Good Faith Estimates (GFEs) are incorrect or are delivered to borrowers later than three days of application. • Disbursement account is not tracked and reconciled for long periods. • Long timelines for trailing documents. • No QC process to ensure correct data flows from LOS to servicing system.
Unacceptable Score = 6	• Numerous Missing HUD-1's. • GFEs are missing, incorrect or delivered to the borrower later than three days of application more than 10% of the time. • Numerous unreconciled accounts. • Trailing documents not tracked.

Comprehensive closing and funding policies ensure that closing conditions and instructions for a mortgage loan closing are well-defined and complied with on or before loan settlement. Moody's considers a pre-closing call to the borrower to confirm the details of the transaction, including fees and other costs, and to re-confirm the intended occupancy, income and employment status of the borrower as best practice. A confirmation call of this nature is considered particularly vital for brokered loans. Moody's will review the ability of the originator to control receipt and disbursement of appropriate funds required by the terms of the closing instructions. Moody's recognizes that many originators utilize third-party vendors to obtain and clear titles and record new liens. These services often are engaged to effect loan closings and funds disbursement. Moody's will conduct a performance review of the originator's third-party settlement service vendor(s) as a part of the originator assessment.

Post closing procedures should result in clear title and lien perfection to the originator. The effectiveness of post-closing functions including tracking and final receipt of trailing documentation, such as the recorded mortgage or deed of trust, title policy and interim securitization trust assignments, will be reviewed by Moody's. In addition, quality control pertaining to the accuracy of the data transferred from the loan origination function to the servicing function will be assessed.

Third Party Origination (TPO) Management

Moody's will attribute significantly more weight to TPO management relative to the other subcomponents of originator ability when assessing aggregators.

Assessment Level	Moody's Qualitative Third Party Originator (TPO) Management Review: Selected Criteria
Strong Score = 1	• Rigorous process with high standards for broker/correspondent approval. • Robust TPO loan performance monitoring and reporting. • Correspondent business is on a flow or non-delegated underwriting basis. • Proactive use and reaction to anti-fraud software tools. • Pre-closing borrower verification call for broker loans. • Evidence of routine, proactive management of underperforming TPOs.
Average Score = 3	• Standard approval process for brokers and correspondents. • Less than 50% of correspondent business is on a flow or non-delegated underwriting basis; solid sampling techniques are used to monitor bulk / delegated correspondents. • Use and reaction to anti-fraud software tools. • Pre-closing borrower verification call for some broker loans. • Management of underperforming TPOs results in suspensions for offending brokers/correspondents.
Weak Score = 5	• Lax process with high standards for broker/correspondent approval. • Correspondent business is 100% based on a delegated and/or bulk basis. • Limited or no use of anti-fraud software tools. • No pre-closing borrower verification call for broker loans. • No or very limited action taken against underperforming TPOs.
Unacceptable Score = 6	• No broker approval process or tracking. • No correspondent approval process or tracking. • Unfamiliar with anti-fraud software tools.

Moody's will analyze the controls utilized by an originator to manage loan origination from brokers and correspondents. For bulk sellers and delegated correspondent loan originators, Moody's will expect regular quality control reviews to be undertaken by the originator consisting of statistically valid random samples in addition to adverse selection samples. This testing should establish that the TPO's underwriting and appraisal guidelines are in accordance with the originator's guidelines and policies for such third-party loan origination. Moody's will endeavor to review a sample of some of the whole loan purchase agreements, with particular focus on the representation and warranties, between the originator and its TPO. Proactive suspension of brokers and correspondents that consistently violate an originator's guidelines or requirements will be viewed positively by Moody's.

In addition, use of anti-fraud software will be viewed favorably if it is apparent that procedures are in place to act upon the findings in such a way that high-risk brokers and correspondents are removed from the originator's approved seller/broker list. Evidence of pre-closing calls to borrowers acquired via brokers to verify income, employment, occupancy and specific loan terms will be a considered an industry best practice by Moody's.

Credit Risk Management

The table below provides key factors in our assessment of the originator's credit risk management practices.

Assessment Level	Moody's Qualitative Credit Risk Management Review Selected Criteria
Strong Score = 1	• Highly sophisticated systems. • Efficient feedback loop to the business/credit policy group; feedback is the primary driver of credit policy/ program parameter changes. • Experienced financial personnel and trained statistical personnel.
Average Score = 3	• Average risk management systems or completely outsourced function. • Feedback loop to the business/credit policy group exists but is not primary driver of credit policy/ product parameter changes. • Experienced financial and statistical personnel.
Weak Score = 5	• No risk management system. • Originator learns of loan performance from external sources.
Unacceptable Score = 6	• No track record of performance.

Moody's considers the depth and quality of ongoing credit risk management an important aspect of an originator assessment. Originators that proactively undertake in-depth analyses of loan product performance and alter origination practices in a timely manner to effectively manage loan performance will be viewed positively by Moody's. Moody's will review the originator's credit risk management platform and staffing. We will seek to identify the feedback mechanisms in place to effect underwriting guideline changes initiated by the credit risk management team. A demonstrated ability to quickly react to changing market conditions or correct strategic errors is viewed favorably by Moody's.

Originator Stability:

The third major component, generally comprising 30% of Moody's originator assessment, will be a review of the factors that shape the operational and financial stability of an originator. This includes a review of several sub-components including:

1) *financial strength* - an originator that has a strong financial foundation is better able to compete for quality market share and adapt to changing conditions;
2) *quality control and audit functions* - an originator's ability to control the quality of its loan origination through adherence to established operational checks and balances;
3) *regulatory & legal compliance and oversight* - the manner in which an originator establishes systems for and complies with industry-related legislation;
4) *management strength & staff quality* - evaluation of the adequacy of personnel at all levels of an originator's operation; and
5) *technology* - an assessment of the state of an originator's technology to efficiently operate and control its loan production

Financial Strength

The table below indicates our criteria for assessing a rated originator's financial stability:

Assessment Level	Moody's Financial Stability Review: Selected Criteria
Strong Score = 1	• Rated Aa or higher
Average Score = 3	• Rated Baa or higher
Weak Score = 5	• Rated Caa2 or higher
Unacceptable Score = 6	• Rated below Caa2 • Unable to obtain audited financial reports

For non-rated originators, Moody's will review the originator's funding sources, profitability and capital adequacy. Key financial metrics that Moody's will review include but are not limited to: net income, equity and preferred capital amounts, leverage, and short and long term funding options. In addition, Moody's will evaluate the types and sustainability of revenues, such as, gain-on-sale, interest income, or other revenue drivers that contribute to originator profitability.

The financial strength and strategic positioning of the originator (or its parent corporation where the originator is an integrated, operating subsidiary within a holding company structure), has a strong influence on Moody's view of an originator's stability. An originator with strong financial resources will be able to compete and adapt to changes in the market as circumstances warrant.

Quality Control and Audit Functions

The table below presents our general criteria for assessing an originator's quality control and audit functions:

Assessment Level	Moody's Quality Control & Audit Review Selected Criteria
Strong Score = 1	• External Audits reveal low level of violations relative to peers. • Line functions actively engage and work with the QC teams. • Internal audit is a robust, formal and independent process reporting directly to senior management and the board of directors. • Strong feedback loop among management, training, credit policy, QC and the audit team. • Sampling methods are conservative and generally go beyond the minimum requirements to statistically expose defects.
Average Score = 3	• External audits reveal an average level of violations relative to peers. • Active dialogue between the line functions and the QC teams; initiation of contact generally is made by the QC team to the line function. • Internal audit is a formal and somewhat independent process reporting to management. • Feedback loop exists among management, training, credit policy, QC and the audit team with varying levels of intensity. • Sampling methods for internal audit/QC are holistic and robust enough to uncover defects.
Weak Score = 5	• External Audits reveal low level of violations. • Weak or no active dialogue between the line functions and the QC teams. • Internal audit is not independent or non-existent. • No feedback loop among management, training, credit policy, QC and the audit team. • Sampling methods do not exist or do not expose defects.
Unacceptable Score = 6	• No audits performed. • No QC performed.

Quality control (QC) and internal audits are very important factors in a Moody's originator assessment. Moody's will analyze how well an originator's quality control processes are integrated into each functional area. Strong QC processes should include an active dialogue between the line functions and the QC teams. Internal audit should be a robust, formal process that is independent and has separate reporting lines to senior management as well as the originator's board of directors.

The process of utilizing the QC and audit findings to develop improved processes, policies and procedures will be examined along with the effectiveness of the feedback loop among management, training, credit policy, QC and the audit team.

As part of its assessment of internal controls, Moody's will evaluate the extent to which QC and audits focus on risks present in individual functions within the origination platform, such as sales and marketing, loan processing, underwriting, appraisal, closing and post-closing. Quality control procedures should include testing adherence to internal procedures as well as regulatory and legal compliance required for each function. The level of testing and type of sampling, the timely reporting of results and the actions taken to systematically improve processes will be considered in our analysis. Moody's opinion of the value of the quality control process will vary depending upon the degree to which the findings trigger changes in policies and procedures.

Moody's also will analyze the documented results of external party reviews (on site if necessary). This documentation includes items such as regulatory reviews provided by entities such as the Office of the Comptroller of the Currency, the Office of Thrift Supervision and entities within the Federal Home Loan Bank system, among others. Moody's also reviews the results of the originator or the parent corporation's compliance with Sarbanes-Oxley.

Regulatory & Legal Compliance & Oversight

This component will be analyzed in two parts. The first part will be based on Moody's qualitative review. Some the factors we will assess are shown in the table below:

Assessment Level	Moody's Legal & Regulatory Compliance Review Selected Criteria
Strong Score = 1	• Originator has no past and pending litigation or regulatory actions that would result or have resulted in settlements of more than $250,000. • Legal/regulatory compliance staff primarily drives and manages the loan origination system (LOS) updates. • Regulatory requirements programmed, tested and implemented by compliance staff before a statute's effective date. • Staff receives extensive compliance training and testing. • LOS contains compliance rules that cannot be circumvented by employees at any level. • On site, expert mortgage and real estate legal counsel utilize outside counsel and manage formal communication process with line managers.
Average Score = 3	• Originator has no past and pending litigation or regulatory actions that would result or have resulted in settlements of more than $1,000,000. • Legal/regulatory compliance staff drives and manages LOS updates in conjunction with the business lines. • Regulatory requirements usually are programmed, tested and implemented by compliance staff before a statute's effective date but sometimes miss deadlines. • Staff receives periodic compliance training and testing. • LOS contains compliance rules that cannot be circumvented by managers. • Minimal in-house mortgage/ real estate legal counsel with some use of external counsel. Solid but informal communication process with line managers.
Weak Score = 5	• Originator as has numerous past and pending litigation or regulatory actions that have or will result significant monetary settlements. • LOS does not contain or contains insufficient compliance rules. • Staff can override or work around system rules. • LOS is modified after external audits or litigations reveal deficiency. • No on-site, expert mortgage and real estate legal counsel. Informal, if any, communication between business lines and regulatory compliance staff.
Unacceptable Score = 6	• Numerous looming litigation and /or regulatory action that will result in bankruptcy of the company. • Not familiar with regulations and statutes pertaining to mortgage lending. • No legal counsel.

The second part of the regulatory and legal compliance review will be based on the loan level results of internal audits results, regulator audit results and third party pre-securitization sample reviews for the most recent, relevant period. The assessment criteria for the third party pre-securitization review results can be found in Appendix I.

Non-compliance with federal, state and local laws can result in significant losses. Moody's legal and regulatory compliance review will seek to gauge the ability of the originator to mitigate legal and regulatory risk by preventing loans that are out of compliance with local, state and federal statutes from being originated and subsequently securitized.

Best practice compliance procedures are those in which lenders have loan origination systems that programmatically ensure, from the time of application through closing, that only allowable fees and rates are charged. The origination system also should have the capability to automatically produce any required disclosures. Effective regulatory compliance procedures should be used consistently and not be easily circumvented.

Management Strength and Staff Quality

The table below indicates our general criteria for assessing management, staffing and training:

Assessment Level	Moody's Management Strength and Staff Quality Review Selected Criteria
Strong Score = 1	• Best in class turnover. • Code of Ethics or similar document is acknowledged and enforced. • Separate and distinct training team. • Best-in-class training for product knowledge, regulatory compliance and special training specifically related to the employees position. • Strong RFP process with high service level standards for all 3rd party vendors.
Average Score = 3	• Average turnover relative to peers. • Code of Ethic exists and is distributed upon employment. • Small training team, training primarily conducted by line managers. • Periodic training and testing of employees for product knowledge. Regulatory compliance is conducted as needed. • RFP process exists. Service standards are set for all 3rd party vendors.
Weak Score = 5	• High turnover relative to peers. • No Code of Ethics exists. • No separate training team. • Sporadic training by line managers. • No RFP process or low / ambiguous service level standards for 3rd party vendors.
Unacceptable Score = 6	• Unable to track turnover rate. • No training provided to staff. • Outsourced functions are not under contract; 3rd party performance is not tracked.

Moody's believes that the originator's investment in personnel at both the managerial and staff levels is critical to the quality and stability of its operations. Moody's will analyze the sufficiency of staffing at all levels and the levels of experience and expertise in relation to job functions. Moody's also will review the adequacy of technology support related to origination staff functions. In its assessment of management capabilities, Moody's will focus on management's ability to respond to market changes, such as its aptitude for efficiently allocating or reallocating resources during periods of volume growth and contraction. Moody's also will assess management's ability to maintain a consistent level of oversight and controls as product types ebb and flow over time.

To assess management's ability to compensate (by performance measures), retain and motivate staff, Moody's will examine the annual level of voluntary and involuntary turnover in the originator's operations. Specifically, Moody's considers high turnover levels or turnover concentrated within particular functions an indication of potential operational deficiencies. Moody's will review and evaluate the scope and frequency of the training received by both new hires and existing staff.

To the extent an originator out-sources functions to vendors such as title work for review and clearance and lien perfection, contract underwriting, information and telecommunication technology, and others, Moody's will endeavor to review the contractual arrangements, track record, and originator audit processes to affirm such arrangements are effective and do not impose undue risk on an originator from operational or compliance perspectives.

Technology

The final component of Moody's originator assessment will examine the systems and information technology utilized by the originator. The following table presents some of the key criteria Moody's will use in its assessment:

Assessment Level	Moody's Originator Technology Review: Selected Criteria
Strong Score = 1	• Minimal ability to manipulate date or circumvent system rules. • Formal change process that – prioritizes system changes; – elevates regulatory compliance items; – thoroughly tests for before major changes are rolled out. • Ability to deliver all required data to Moody's. • Field tested disaster recovery plan.
Average Score = 3	• System covers most business and regulatory compliance rules, however, some manual processes are necessary to ensure compliance. • Formal change process that tests for before major changes are rolled out. • With minor exception, has the ability to deliver most of the required data to Moody's. • Written disaster recovery plan.
Weak Score = 5	• Staff has the ability to manipulate date or circumvent system rules. • No formal change process • Little or no testing before major changes are rolled out. • Cannot deliver key fields required to Moody's. • No disaster recovery plan.
Unacceptable Score = 6	• Limited or no system support. • Cannot deliver required data to Moody's for ratings analysis. • Does not recognize the need for a disaster recovery plan.

As part of its assessment of an originator's technological capabilities, Moody's will review the systems utilized by the originator to control and enhance its processes. Moody's will analyze the ability of the originator to minimize manual data manipulation outside of the loan origination system as an industry best practice. An example of a strong approach to technology by an originator is the integration of information technology requirements into business planning such that systems within the originator's operations possess robust functionality to meet changing loan products, underwriting guidelines and regulatory compliance demands on a timely basis. Moody's will take a favorable view of originators that establish a process framework to allow for the adequate testing of system changes well in advance of full implementation. The quality of back-up arrangements also is an important consideration in the assessment of technology adequacy. The ability of an originator to capture and transmit key data required by Moody's to rate and monitor RMBS transactions will be considered in our assessment.

APPENDIX I

Independent 3rd Party Pre-Securitization Review (TPR) Results[7]

Moody's assessment of an originator's underwriting policies and procedures, property valuation policies and procedures and legal and regulatory compliance are comprised of two parts. The first part, the qualitative review, was presented earlier in this special report. For the second part, Moody's will utilize the aggregated component review[8] results of the TPRs for an originator's past 18 months of securitization to attain more insight into the originator's ability to comply with its own policies and procedures.[9]

During the course of a TPR, the TPR firm will assign an event grade for each loan reviewed. Loans receiving event grades A and B are deemed to have materially met underwriting guidelines, the ability and willingness of the borrower to repay the loan has been established, the property value as stated is supported and the loan complies with all applicable laws and regulations. Event grade C[10] indicates that one or more of the factors mentioned above have been deemed materially deficient by the TPR firm.

Table A reflects the range of event grade C loans an originator may experience for any of the component TPRs and the associated assessment Moody's will assign based on the TPR findings.

Table A

Assessment Level	3rd Party Pre-Securitization Loan-Level Results:	
	Prime	Non-Prime
Strong Score = 1	Grade C <= 1.0%	Grade C <= 2.5%
Above Average Score = 2	Grade C <=2.5%	Grade C <=5.0%
Average Score = 3	Grade C <=5.0%	Grade C<=7.5%
Below Average Score = 4	Grade C <= 7.5%	Grade C <= 15.0%
Weak Score = 5	Grade C <= 15.0%	Grade C <= 30.0%
Unacceptable Score = 6	Grade C > 15.0	Grade C > 30.0%

7 Refer to "Moody's Criteria for Evaluating Independent Third-Party Loan Level Reviews for U.S. Residential Mortgage Backed Securities (RMBS)", Moody's Structure Finance, 11/24/08
8 Component TPRs are comprised of a credit review, property valuation review and regulatory compliance review.
9 When Moody's is unable to obtain sufficient pre-securitization review results for an originator's past securitizations, we may request that a third-party loan-level review be conducted which is unaffiliated with any particular securitization or find an alternative method.
10 An event grade D indicates a key document or file was missing during the TPR. Event grade D's will be included as deficient loans for purposes of Moody's assessment.

EXHIBIT A

Quarterly Reporting Package

1. Mortgage Bankers' Financial Reporting Form (attached)
   a. Moody's requests that Schedule A-060 (Loans Originated for Sale / Held for Investment) should Modified to break down the "Other - Fixed/ARM" further to reflect Alt-A, Subprime and Other.
   b. ***www.efanniemae.com/sf/formsdocs/forms/pdf/contractualobligs/1002eff100108.pdf***
2. Underwriting Guidelines
   a. Initially, Moody's will need a complete set of underwriting guides and guidelines: thereafter, changes should be communicated quarterly.
   b. Exception loans % for the quarter
3. Audit Results - to be reviewed on site if necessary
   a. Internal QC audits
      i. u/w
      ii. appraisal
      iii. title/lien perfection
      iv. 4506 reviews
      v. TIL-A compliance
      vi. High cost compliance
4. External Audit Reports- to be reviewed on site if necessary
   a. Any State/Fed/ other oversight reviews
   b. FCRA
   c. HMDA
   d. High Cost
   e. Results of any regulatory audit should be reported quarterly
5. Process Flow Diagrams - Initial baseline than submit changes thereafter
   a. Lead generation
   b. Sales/ application taking
   c. Processing
   d. Appraisal ordering
   e. Underwriting
   f. Title Clearance
   g. Funding
   h. Lien perfection
6. Major IT changes
   a. LOS
   b. Delivery systems
   c. Servicing systems (if applicable)
   d. Status (commencement, in process, implemented)
7. Training program schedule
   a. Topic
   b. Attendees
   c. Facilitator

ANNEX:

Updated Criteria For Moody's Enhanced Approach To Originator Assessments In U.S. RMBS For Seasoned Loans[1]

Actual payment histories and other updated loan data will provide Moody's with pertinent and more relevant data needed for credit analysis which cannot otherwise be obtained from defunct originators or by reviewing outdated practices of originators that are still operating. Therefore, all of the original originator assessment criteria are not applicable for seasoned or non-performing loans. Instead, Moody's will look to obtain the following data (in addition to our standard data set) in order to gauge the loan quality:

i. **Pay history** of the loan

1. Seasoned loans
   a. All available history should be provided.
   b. A minimum of 12 months pay history is necessary to be eligible for an investment grade rating.
   c. Moody's may consider seasoned loans with less than 12 month payment history however the pool will most likely not be eligible for an investment grade rating. The highest rating achievable will depend on the payment history available.
   d. For option ARMs, in conjunction with the pay string history, the payment type should be provided for each payment[2]
2. Non-Performing Loans
   a. Lower of 12 months or life of loan
3. Real Estate Owned Properties ("REO")
   a. No pay histories required since no loan exists

ii. **Updated property values** (required for Seasoned, Non-performing loans and REO)

1. Automated Valuation Model ("AVM"), Broker Price Opinion ("BPO") or full or short form appraisals are acceptable
2. If AVM model(s) is used Moody's will analyze:
   a. frequency and method of updating the database supporting the AVM's valuation results
   b. confidence level of output, if provided by the AVM model
   c. depth of data by geographical location
3. AVM values should be validated by an independent third party using a random sample of BPOs or full appraisals[3].
4. Date of updated property value to be provided to Moody's
   a. Updated property value should be no older than 120 days upon submission to Moody's
      1. Moody's will apply the most recent Moody's Economy.Com ("MEDC") HPI change (at the Metropolitan Statistical Area ("MSA") level) from date of updated property value.
      2. If updated property value is greater than 120 days old upon receipt by Moody's or if no updated value is supplied, Moody's will apply the MEDC index and, at a minimum, an additional 10% reduction in property value provided.

1 For purposes of this document a seasoned loan is defined as a currently performing loan that is at least 18 months from its first scheduled payment date. Generally all loans in the pool must be seasoned to be eligible for the annexed criteria, however, non-performing loans less than 18 months seasoned that are included in seasoned pools will be eligible for the seasoned loan criteria as well.
2 Reportable payment types are: "minimum payment", "I/O payment" or "fully amortizing payment".
3 Refer to "Moody's Criteria for Evaluating Independent Third-Party Loan Level Reviews for U.S. Residential Mortgage Backed Securities (RMBS) - Annex " dated 9/22/09.

iii. Updated FICO scores

1. Single credit repository FICO is acceptable
2. Date of updated FICO
   a. R&W that updated FICO is no older than 120 days at time of submission to Moody's
3. If available, the history of FICO scores and corresponding dates should be provided

iv. Updated occupancy

1. Data tape should provide city, state and zipcode of the mailing address for each loan in addition to the city, state and zip code of the subject property address

2. If the mailing address, city, state and zip code are not provided, all properties will be presumed to be investor properties

v. Modification information (provided at loan level)

1. Date of last modification
2. Number of modifications
3. Type of modification
4. DTI at modification
5. CLTV at time of modification
6. Pre-mod UPB
7. Post-mod UPB
8. Pre-mod monthly P&I
9. Post-mod monthly P&I
10. Modification Terms (maturity, loan type, rate, etc)

vi. Other Additional Data

1. Any other loan level information available to the sponsor[4] should be provided to Moody's, including but not limited to
   a. Reserves at time of closing
   b. Job title and industry of borrower(s)

4 Sponsor refers to the issuer, banker, originator or any party supplying data to Moody's for credit evaluation

Doc ID# SF148785

SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations
to
YURI YOSHIZAWA
Group Managing Director
Structured Finance
Moody's Investors Service

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF CREDIT RATING AGENCIES
April 23, 2010

Please provide the answers to the following question by June 15, 2010:

1. Please identify each occasion from January 1, 2004 to December 31, 2008, on which you removed a Moody's analyst from working on a particular CDO transaction or from working with a particular investment bank with respect to a CDO transaction. For each such occasion:

   (a) identify the Moody's analyst, the CDO transaction, and the investment bank involved;
   (b) the date on which you made the decision to remove the Moody's analyst;
   (c) the reason that you determined to remove the Moody's analyst;
   (d) whether the investment bank had complained to Moody's about the analyst prior to the removal and if so, the nature of the complaint;
   (e) whether the analyst objected to the removal;
   (f) whether you informed any of your superiors of your decision and, if so, whom you informed and how; and
   (g) how long the analyst was barred from working on the specified CDO transaction or with the specified investment bank.

2. Please provide copies of any documentation associated with such a removal decision, including any correspondence, memoranda, or email, that is in your or Moody's possession or control.

###

Permanent Subcommittee on Investigations
EXHIBIT #107

AKIN GUMP
STRAUSS HAUER & FELD LLP
Attorneys at Law

STEVEN R. ROSS
202.887.4343/fax: 202.887.4288
sross@akingump.com

August 4, 2010

Senator Carl Levin
Chairman
Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Washington, D.C. 20510

Re: Moody's Corporation Response to Follow-Up Questions

Dear Senator Levin:

On behalf of our client, Moody's Corporation ("Moody's"), we respectfully submit this letter as Moody's response to the follow-up questions posed by the Permanent Subcommittee on Investigations ("Subcommittee") to Yuri Yoshizawa[1] after the hearing conducted on April 23, 2010.

Moody's response to the Subcommittee's questions is based on information known at this time and is set forth without prejudice to Moody's right to supplement this response should additional information discovered.

These requests call for information that is highly sensitive, proprietary and not available to the public. For these reasons, Moody's requests that the Subcommittee treat all such information with appropriate confidentiality, and not inappropriately disclose any non-public Moody's information to third parties.

Moody's Response:

As a preliminary matter, Ms. Yoshizawa is not personally aware of any instance in which analysts were made to believe that their jobs were in jeopardy if an issuer complained about their performance on a deal. To the contrary, during Ms. Yoshizawa's tenure as a Managing Director at Moody's, there were only one or two Derivatives Group analyst terminations prior to the reductions in force in the fall of 2007 caused by the negative impact of the financial crisis on the number of issuances presented for rating. Neither of those terminations were caused by issuer complaints about the analysts.

[1] The statements in this letter are based upon information provided by Ms. Yoshizawa and Moody's.

AKIN GUMP
STRAUSS HAUER & FELD LLP
Attorneys at Law

Ms. Yoshizawa's testimony before the Subcommittee was and remains consistent with her memory that she never removed an analyst from a deal because of pressure from an issuer, has never removed an analyst from a deal to appease an issuer, and has never banned an analyst from working on future transactions for an issuer because of that issuer's complaints.

At Moody's, analysts are assigned to transactions based upon an analyst's availability and their particular expertise given the features of a given transaction. There are several reasons why the analyst or analysts assigned to a particular deal might change during a transaction. Generally, analysts are assigned to transactions weeks if not months in advance. Accordingly, an analyst originally assigned to a transaction might be unavailable once the transaction actually begins (depending on the current status of the analyst's other assigned transactions, or an individual analyst's personal or vacation schedule). In such instances, a new analyst would be assigned to the transaction. This is a relatively common occurrence, especially during times of high transaction volume. Moody's does not have a compilation of such instances.

As Ms. Yoshizawa discussed before the Committee, interactions between Moody's analysts and issuers can be contentious and at times adversarial. This often results from the stressful time constraints inherent in many transactions. Moody's takes great care to ensure that its analysts are equipped to push back against any unreasonable demands and to insist upon applying the appropriate methodologies and analysis. It is important to distinguish between the very common complaint that an analyst is not moving quickly enough or not simply agreeing to the methodology/analysis being advocated by the issuer versus substantive complaints about the quality of an analyst's work. The former occurs with such regularity that Ms. Yoshizawa would have difficulty recalling the specific circumstances regarding any single such instance.

If an issuer raises particular concerns about the quality of the analysis of a particular transaction, Moody's will address those concerns with the analyst and/or the issuer. The solution to such a concern is never simply to remove the analyst from the deal. When an analyst encounters significant difficultly – for any reason – with a particular issuer, it is not Moody's practice to remove that analyst from the deal. Instead, Moody's will assign additional – and generally more senior – staff to the deal to support the analyst. This was precisely the scenario that Ms. Yoshizawa discussed during the April 23, 2010 Subcommittee hearing. On this specific transaction, an analyst had a particularly difficult experience with an investment banker. The analyst was not removed from the deal; instead, additional staff were added to support the analyst, and the deal closed as expected. Later, despite the contentious relationship between the analyst and the banker, the banker requested that the same analyst be assigned to the next deal. Because of the uniquely difficult interactions with that banker, the analyst asked to not be assigned to the next transaction, and Moody's honored that request.

AKIN GUMP
STRAUSS HAUER & FELD LLP
Attorneys at Law

August 4, 2010
Page 3

Ms. Yoshizawa's deal assignments and staffing decisions have not been guided by a desire to appease issuer demands. Instead, analyst assignments are made, first and foremost, to guarantee an efficient and robust credit quality analysis for every deal rated by Moody's.

* * *

Please contact me with any questions at (202) 887-4343.

Sincerely,

Steven R. Ross
Counsel for Moody's Corporation

cc: The Honorable Tom Coburn, Ranking Minority Member

SUPPLEMENTAL QUESTIONS FOR THE RECORD
FROM
SENATOR CARL LEVIN
Permanent Subcommittee on Investigations
to
PETER D'ERCHIA
Current Managing Director, U.S. Public Finance
(Former Global Practice Leader, Surveillance)
Standard & Poor's

PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
WALL STREET AND THE FINANCIAL CRISIS:
THE ROLE OF CREDIT RATING AGENCIES
April 23, 2010

Please provide the answers to the following question by June 15, 2010:

1. Please provide a detailed narrative and timeline of decisions taken by S&P to downgrade large numbers of residential mortgage backed securities (RMBS) and mortgage-related collateralized debt obligations (CDOs) during the recent financial crisis, including, but not limited to providing the following:

   (a) The total number of RMBS and CDO credit rating downgrades issued each month beginning in July 2007 and ending in March 2009;
   (b) The S&P executives who made the final decisions to issue these downgrades;
   (c) The process for making these downgrade decisions;
   (d) The dates of the meetings in which the downgrades were discussed;
   (e) The reasons for the downgrades.

2. On July 10, 2007, S&P placed 612 residential mortgage backed securities (RMBS) on a negative credit watch and two days later, on July 12, downgraded the credit ratings for most of those securities.

   (a) Why did S&P decide to take the actions that it did on July 10 and July 12, 2007?
   (b) Please identify by name and job title the persons who made the final decisions to take the actions on July 10 and 12, 2007.
   (c) Did you or any other executive consult with the S&P CEO prior to the actions taken on July 10 and 12, 2007? If so, please identify by name and job title the persons who consulted with the CEO, and describe the circumstances and your role in the decisionmaking process.
   (d) Please describe how and when the list of 612 RMBS securities was compiled. Please identify by name and job title the persons involved in compiling this list, when they began working on this list, and how long it took to compile.

Permanent Subcommittee on Investigations
EXHIBIT #108

(e) Please describe the extent to which S&P personnel informed or alerted any financial institution or investment bank about the actions taken in July 2007, prior to actually taking those actions. Please identify what companies were alerted, when, and the persons from S&P who provided the information.
(f) Please identify by name and job title the persons involved with coordinating the issuance of the credit watch and downgrades on July 10 and 12, 2007.

3. On January 30, 2008, S&P downgraded nearly 8,000 RMBS and CDO securities.

   (a) Why did S&P decide to take that action on January 30, 2008?
   (b) Please identify by name and job title the persons who made the final decisions to issue the credit rating downgrades on January 30, 2007.
   (c) Did you or any other executive consult with the S&P CEO prior to the actions taken on January 30, 2008? If so, please identify by name and job title the persons who consulted with the CEO, and describe the circumstances and your role in the decisionmaking process.
   (d) Please describe how and when the list of nearly 8,000 RMBS and CDO securities was compiled. Please identify by name and job title the persons involved in compiling that list, when they began working on it, and how long it took to compile.
   (e) Please describe the extent to which S&P personnel informed or alerted any financial institution or investment bank about the actions taken in July 2007, prior to actually taking those actions. Please identify what companies were alerted, when, and the persons from S&P who provided the information.
   (f) Please identify by name and job title the persons involved with coordinating the issuance of the downgrades on January 30, 2008.

4. A number of credit ratings were issued by S&P for new RMBS and CDO securities in the months immediately preceding the mass downgrades in July 2007 and January 2008. With respect to those credit ratings, please provide the following information:

   (a) The total number of credit ratings issued for RMBS securities in April, May, June, and the first week of July 2007;
   (b) The total number of credit ratings issued for RMBS and CDO securities in November and December 2007, and January 2008;
   (c) How these new ratings related to the rating downgrades issued soon thereafter.

5. Please identify other days in the last 20 years on which S&P issued hundreds or thousands of RMBS and CDO downgrades on the same day and explain the circumstances.

6. Does S&P currently factor into its credit rating analysis whether the assets in a particular transaction are provided by a lender with a reputation for issuing poor quality assets? If so, please explain how the process works. If not, please explain why.

# # #

CAHILL GORDON & REINDEL LLP
EIGHTY PINE STREET
NEW YORK, NY 10005-1702

TELEPHONE: (212) 701-3000
FACSIMILE: (212) 269-5420

1990 K STREET, N.W.
WASHINGTON, DC 20006-1181
(202) 862-8900
FAX: (202) 862-8958

AUGUSTINE HOUSE
6A AUSTIN FRIARS
LONDON, ENGLAND EC2N 2HA
(011) 44.20.7920.9800
FAX: (011) 44.20.7920.9825

WRITER'S DIRECT NUMBER

(212) 701-3137

June 24, 2010

Re: Standard & Poor's

Dear Ms. Robertson:

Enclosed please find responses to the Permanent Subcommittee on Investigations' supplemental letter of May 24, 2010.

We have stamped the enclosed responses "confidential," and respectfully request that the Subcommittee keep these responses confidential and only use and/or disclose them to the extent necessary for the conduct of its investigation.

Sincerely,

Adam Zurofsky

Mary D. Robertson
Chief Clerk
Permanent Subcommittee on Investigations
199 Russell Senate Office Building
Washington, DC 20510

BY FEDEX

CAHILL GORDON & REINDEL LLP

cc: David Katz, Esq. (with encl.)

RESPONSES TO SUPPLEMENTAL QUESTIONS SET FORTH IN THE MAY 24, 2010 LETTER FROM THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

Following are responses to the supplemental questions set forth in the May 24, 2010 letter from the Permanent Subcommittee on Investigations. The answers that follow result from a review of the records and information of Standard & Poor's.

1. Please provide a detailed narrative and timeline of decisions taken by S&P to downgrade large numbers of residential mortgage backed securities (RMBS) and mortgage-related collateralized debt obligations (CDOs) during the recent financial crisis, including, but not limited to providing the following:
(a) The total number of RMBS and CDO credit rating downgrades issued each month beginning in July 2007 and ending in March 2009;
(b) The S&P executives who made the final decisions to issue these downgrades;
(c) The process for making these downgrade decisions;
(d) The dates of the meetings in which the downgrades were discussed;
(e) The reasons for the downgrades.

The process that led to the downgrades in the second half of 2007 and thereafter was an evolving one. S&P noticed the potential for deteriorating RMBS performance as early as 2005, as reflected in an April 20, 2005 article entitled *Subprime Lenders: Basking In The Glow Of A Still-Benign Economy, But Clouds Forming On The Horizon*, attached as Exhibit A. S&P also conducted a simulation of what effect a potential housing downturn and weakening economy might have on its ratings on U.S. RMBS securities. S&P published the results of that simulation in a September 13, 2005 article entitled *Simulated Housing Market Decline Reveals Defaults Only In Lowest-Rated U.S. RMBS Transactions*, attached as Exhibit B.

On January 19, 2006, S&P published an article entitled *U.S. RMBS Market Still Robust, But Risks Are Increasing And Growth Drivers Are Softening*, attached as Exhibit C. That article noted that: "Standard & Poor's expects that some of the factors that drove growth in 2005 will begin to soften in 2006 . . . . Furthermore, Standard & Poor's believes that there are increasing risks that may contribute to deteriorating credit quality in U.S. RMBS transactions; it is probable that these risks will be triggered in 2006." S&P also conducted a simulation in 2006 based on a more prolonged and stressful housing downturn and weaker economy than had been simulated in 2005, and published the results in a May 15, 2006 article entitled *A More Stressful Test Of A Housing Market Decline On U.S. RMBS*, attached as Exhibit D. Both the 2005 and 2006 housing simulations indicated that AAA rated RMBS would, as a general matter, likely withstand the simulated housing downturns and economic slowdowns.

2006 was a "record" year for RMBS downgrades, particularly in the subprime area. S&P issued 400 total downgrades on 279 classes of U.S. RMBS securities in 2006, and noted this record number of downgrades in the Transition Study published on January 26, 2007, entitled *Transition Study: U.S. RMBS Upgrades Are Down And Downgrades Are Up In 2006*, attached as Exhibit E. That transition study highlighted that "[s]ubprime mortgage collateral accounted for 229 (56%) of the downgrades in 2006."

S&P continued to monitor the deteriorating performance of RMBS in late 2006 and early 2007. Then, as announced in a February 14, 2007 press release entitled *18 Subprime, Alt-A, Closed-End Second-Lien Ratings From 2006 Vintage Deals Put On Watch Neg* (attached as Exhibit F), S&P took the unprecedented step of putting on CreditWatch Negative securities issued only months before, even though the pools underlying those transactions had to that point experienced no actual losses. The market recognized S&P's action as a "watershed" event, as noted in the Los Angeles Times article entitled "S&P to speed mortgage warnings," dated February 16, 2007, attached as Exhibit G.

As monthly performance data reflected increasing weakness, S&P continued to take action throughout the first half of 2007, consistently downgrading and placing on CreditWatch numerous classes of U.S. RMBS. Through a series of actions between January and June 2007, S&P downgraded a total of 739 classes of U.S. RMBS and placed 1,006 classes of U.S. RMBS on CreditWatch Negative. The precise numbers of downgrades each month are set forth in the chart below on page 6.

In July, 2007, S&P announced further revision to its analysis, resulting in a significant number of downgrades of U.S. RMBS issued in late 2005 and 2006. Those adaptations are described in more detail in response to question 2, and in the July 11, 2007 and July 12, 2007 press releases entitled *612 U.S. Subprime RMBS Classes Put On Watch Neg; Methodology Revisions Announced*, and *Various U.S. First-Lien Subprime RMBS Classes Downgraded*, attached as Exhibits H and I, respectively.

As reflected in the chart below on page 6, downgrades continued on a regular basis as new monthly performance data suggested to S&P's analysts that additional securities may no longer have sufficient credit support to maintain their existing ratings. The Subcommittee has specifically asked about the January 30, 2008 downgrades, which are described in response to question 3, below. However, it is worth noting that there were also significant actions taken in between July 2007 and January 2008.

For example, on October 15, 2007, S&P lowered ratings on 402 subprime U.S. RMBS issued in the first three quarters of 2005. As detailed in Exhibit J, entitled *Ratings Lowered On 402 First-Lien Subprime U.S. RMBS Classes From 1Q-3Q Of 2005*, this decision was based on performance data current through September 2007. The announcement explained that: "[W]e are refining our surveillance approach for the 2005 vintage of U.S. RMBS backed by first-lien subprime mortgages. We employed and complemented the subprime surveillance assumptions that were used for our July 2007 subprime rating actions, which were described in [the July 11, 2007 press release.] We assumed a loss severity of 33% on defaulted loans for transactions that closed during the first half of 2005 and a loss severity of 40% for transactions that closed during the second half of 2005. This is because loans originated in the first half of 2005 have experienced some home price appreciation. The 40% loss severity assumption reflects the increased stress applied for the 2006 transactions we reviewed in July 2007." The downgrades resulted from application of these revised assumptions to outstanding transactions from the affected vintages.

On October 17, 2007, 1,713 classes of 2007 U.S. RMBS were downgraded and 646 placed on CreditWatch Negative based on application to securities rated in early 2007 of certain revisions to S&P's LEVELS model enacted in mid-2007. These downgrades affected U.S. RMBS that were issued between January and June, 2007 and backed by subprime, Alt-A, and closed-end second liens. As explained in Exhibit K, entitled *Review Of U.S. RMBS From First-Half 2007 Yields Downgrades, Watch Placements, Affirmations*, the downgrades resulted from reviewing all of the early 2007 transactions with S&P's updated default, loss, and cash flow assumptions for rating new deals that became effective in the summer 2007. S&P "then subjected these results to qualitative adjustments in order to more appropriately match rating actions with increases in credit risk, but concurrently mitigate minor differences in model results and account for increasing ratio of credit support to outstanding pool balance."

In addition, on October 19, 2007, S&P downgraded 1,413 subprime U.S. RMBS ratings from the fourth quarter 2005 and 2006. As explained in Exhibit L, entitled *Ratings Cut On 1,413 1st-Lien Subprime RMBS Classes From Fourth-Quarter 2005 And 2006 Vintages*, those downgrades were based on data from the September 2007 distribution date, which showed that cumulative losses for the fourth-quarter 2005 through fourth-quarter 2006 vintage had increased by 138% since the time of S&P's July 2007 review.

Decisions to change criteria and methodology and/or to take the rating actions are made through a committee process. The people involved in any particular action are generally identified in the relevant publication announcing the action. As identified in the relevant reports, the Primary and Secondary Credit Analysts involved in the ratings actions discussed above included: Susan Barnes, Robert Pollsen, Ernestine Warner, Michael Stock, Monica Perelmuter, Martin Kennedy, Scott Mason, Brian Grow, Becky Cao, Andrew Giudici, and Allen Zimmerman.

Total number of U.S. RMBS and CDO credit rating downgrades issued each month beginning in January 2007 and ending in March 2009:[1]

Month	RMBS Downgrades	CDO of RMBS Downgrades
January 2007	59	0
February 2007	50	6
March 2007	129	5
April 2007	97	3
May 2007	185	7
June 2007	219	4
July 2007	1028	98
August 2007	518	79
September 2007	335	23
October 2007	4128	162
November 2007	876	479
December 2007	2235	433
January 2008	4629	400
February 2008	1163	1442
March 2008	1400	1199
April 2008	3943	446
May 2008	3234	411
June 2008	1223	247
July 2008	2140	527
August 2008	2803	760
September 2008	3321	715
October 2008	7498	659
November 2008	2922	421
December 2008	1725	383
January 2009	1354	46
February 2009	4421	198
March 2009	3283	86

[1] The numbers of downgrades of U.S. RMBS and CDOs of RMBS presented in response to Questions 1 and 4 were determined by querying S&P's central database of ratings actions. The data used for these responses reflect the dates of ratings actions as recorded in the S&P's database. Each downgrade on each tranche of a deal is counted separately, and certain tranches may have been downgraded more than once over the timeframe covered.

2. On July 10, 2007, S&P placed 612 residential mortgage backed securities (RMBS) on a negative credit watch and two days later, on July 12, downgraded the credit ratings for most of those securities.

(a) Why did S&P decide to take the actions that it did on July 10 and July 12, 2007?

(b) Please identify by name and job title the persons who made the final decisions to take the actions on July 10 and 12, 2007.

(c) Did you or any other executive consult with the S&P CEO prior to the actions taken on July 10 and 12, 2007? If so, please identify by name and job title the persons who consulted with the CEO, and describe the circumstances and your role in the decisionmaking process.

(d) Please describe how and when the list of 612 RMBS securities was compiled. Please identify by name and job title the persons involved in compiling this list, when they began working on this list, and how long it took to compile.

(e) Please describe the extent to which S&P personnel informed or alerted any financial institution or investment bank about the actions taken in July 2007, prior to actually taking those actions. Please identify what companies were alerted, when, and the persons from S&P who provided the information.

(f) Please identify by name and job title the persons involved with coordinating the issuance of the credit watch and downgrades on July 10 and 12, 2007.

As set forth in response to Question 1, in the time leading up to the July 2007 downgrades, S&P was constantly monitoring U.S. RMBS performance data to determine if changes were warranted. Based on S&P's analysis of the deteriorating U.S. RMBS performance in the first half of 2007, S&P modified both its criteria for new issuances of U.S. RMBS and its approach to surveillance of outstanding ratings.

As explained in Exhibits H and I, the July 2007 actions were the result of S&P's adaptation of a forward looking expectation that factored in the likelihood that some borrowers who were current on their loans would eventually become delinquent. More particularly:

The level of loss severity assumed in S&P's surveillance analysis was increased to 40% from 33% to reflect the average severity that subprime servicers were experiencing, which was determined through data collected in the company's SEAM (Servicer Evaluation Analytical Methodology) database. As explained in Exhibit H:

"Specifically, for subprime collateral, we assume that the REO loans are liquidated evenly within six months. During the same six-month period, 25% of foreclosures and 10% of loans that are 90-plus-days delinquent would be evenly liquidated. During months seven through 12, the remaining 75% of foreclosures and 30% of the loans that are 90-plus-days delinquent will be evenly liquidated. In order to account for the movement of the remaining 90-plus-days delinquent and future delinquent loans through the delinquency pipeline, we assume that our projection of the losses used in month 12 continues and amortizes down in months 13 through 36, which allows for loans presently 60- or 30-days delinquent, or current, to enter into the delinquency pipeline in the future."

Incorporating actual losses, S&P stressed the delinquency pipeline using the 2/1 historical default curve. Since many of the mortgage loans included in these securitizations had already experienced interest rate resets, and since many were approaching their step-down dates, S&P ran additional scenarios to measure the impact of stressed defaults and the timing of losses. Specifically, for U.S. first-lien subprime mortgage loans, S&P assumed that the REO loans would be liquidated evenly over eight months and loans in foreclosure were liquidated evenly over 15 months. These time lines were consistent with market data and residential mortgage loan servicer experience and expectations.

The selection of securities upon which ratings actions were taken in July 2007 was based on application of the above criteria to the outstanding deals in the relevant vintages. S&P lowered its rating to 'CCC' on any class that did not pass its stress test scenario within 12 months, regardless of its current rating. Similarly, S&P lowered its rating to 'B' on any class that did not pass the stress test scenario within 13 to 24 months.

Also, S&P lowered its rating to 'BB' on any class that did not pass the stress test scenario within 25 to 30 months. Finally, S&P lowered its rating to 'BBB' on any class that did not pass the stress test scenario within 31 to 36 months. In cases where the remaining loss protection on a more senior class was materially eroded by stressed losses, S&P adjusted the rating lower to reflect the reduced relative protection of that class.

In addition, Exhibit H explains that "we have modified our approach to reviewing the ratings on senior classes in a transaction in which subordinate classes have been downgraded. Historically, our practice has been to maintain a rating on any class that has passed our stress assumptions and has had at least the same level of outstanding credit enhancement as it had at issuance. Going forward, there will be a higher degree of correlation between the rating actions on classes located sequentially in the capital structure. A class will have to demonstrate a higher level of relative protection to maintain its rating when the class immediately subordinate to it is being downgraded."

There were numerous meetings and discussions in the weeks preceding this announcement. The list of securities was compiled within the week preceding the announcement through the application of the assumptions above to outstanding transactions from the relevant vintages. As identified in the relevant reports, the Primary and Secondary Credit Analysts involved included: Susan Barnes, Robert Pollsen, Ernestine Warner, Michael Stock, Monica Perelmuter, and Martin Kennedy. The act of compiling the lists of U.S. RMBS classes was a group effort conducted with the assistance of a dedicated group of S&P's research assistants. As Ms. Corbet testified at the April 23, 2010 hearing, while she did not make the analytical decisions, she was involved with S&P's communications efforts around these events.

There are no central records identifying whether any particular companies were alerted beforehand as to the July 2007 ratings actions, or whether S&P made contact with any particular institution(s).

3. On January 30, 2008, S&P downgraded nearly 8,000 RMBS and CDO securities.
(a) Why did S&P decide to take that action on January 30, 2008?
(b) Please identify by name and job title the persons who made the final decisions to issue the credit rating downgrades on January 30, 2007.
(c) Did you or any other executive consult with the S&P CEO prior to the actions taken on January 30, 2008? If so, please identify by name and job title the persons who consulted with the CEO, and describe the circumstances and your role in the decisionmaking process.
(d) Please describe how and when the list of nearly 8,000 RMBS and CDO securities was compiled. Please identify by name and job title the persons involved in compiling that list, when they began working on it, and how long it took to compile.
(e) Please describe the extent to which S&P personnel informed or alerted any financial institution or investment bank about the actions taken in July 2007, prior to actually taking those actions. Please identify what companies were alerted, when, and the persons from S&P who provided the information.
(f) Please identify by name and job title the persons involved with coordinating the issuance of the downgrades on January 30, 2008.

The January 30, 2008 ratings actions were the result of further revisions to the assumptions used by S&P in connection with its surveillance of U.S. RMBS and CDO ratings. These updated assumptions, which were based on S&P's review of additional performance data, were announced on January 15, 2008 in the press release entitled *U.S. RMBS Surveillance, CDO Of ABS Assumptions Revised Amid Defaults, Negative Housing Outlook*, attached as Exhibit M. As described in that announcement, S&P made several changes to its surveillance assumptions for U.S. RMBS at that time. As part of S&P's evaluation of the credit enhancement in transactions being surveilled, S&P extended stresses of the expected loss amount over the lifetime of the transactions (compared with the 36-month period S&P had used previously). As delinquencies continued to rise, S&P

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also revised its overall expected losses for the 2006 vintage subprime collateral to 19% from 14% and recalculated lifetime loss expectations for all vintages of U.S. RMBS. S&P also revised its assumptions on availability of excess spread to reflect its view that the increasing numbers of loan modifications were likely to reduce future excess spread available to cover credit losses.

The list of the nearly 8,000 U.S. RMBS and CDO classes was generated by applying these modified assumptions to outstanding U.S. RMBS and CDO transactions, as explained in the January 30, 2008 press release entitled *S&P Takes Action On 6,389 U.S. Subprime RMBS Ratings And 1,953 CDO Ratings*, attached as Exhibit N. As identified in the relevant reports, the Primary and Secondary Credit Analysts involved in this process included: Ernestine Warner, Andrew Giudici, Robert Pollsen, Stephen Anderberg, Ramki Muthukrishnan, and Jimmy Kobylinski. The act of compiling the lists of U.S. RMBS and CDO classes was a group effort conducted with the assistance of a dedicated group of S&P's research assistants. As a general policy, S&P's President is not involved in making ratings decisions and that was true in this instance. Mr. Sharma does not recall being informed of the ratings actions before they were made public, but may have been made generally aware.

There are no central records identifying whether any particular companies were alerted as to the January 2008 ratings actions, or whether any S&P employees made contact with any particular institution(s).

4. A number of credit ratings were issued by S&P for new RMBS and CDO securities in the months immediately preceding the mass downgrades in July 2007 and January 2008. With respect to those credit ratings, please provide the following information:

(a) The total number of credit ratings issued for RMBS securities in April, May, June, and the first week of July 2007;

(b) The total number of credit ratings issued for RMBS and CDO securities in November and December 2007, and January 2008;
(c) How these new ratings related to the rating downgrades issued soon thereafter.

Total number of credit ratings issued for U.S. RMBS securities in April, May, June, and the first week of July 2007:

Month	RMBS New Issues
April 2007	1638
May 2007	1762
June 2007	1793
First Week of July 2007	1548

None of the U.S. RMBS securities issued from April 2007 through the first week of July 2007 were among the securities downgraded in July 2007.

Total number of credit ratings issued for U.S. RMBS and CDO securities in November and December 2007, and January 2008:

Month	RMBS New Issues	CDO New Issues
November 2007	551	19
December 2007	318	29
January 2008	288	5

None of the U.S. RMBS or CDO of RMBS securities issued from November 2007 through January 2008 were among the securities downgraded in January 2008.

5. Please identify other days in the last 20 years on which S&P issued hundreds or thousands of RMBS and CDO downgrades on the same day and explain the circumstances.

S&P announced lowered ratings on one hundred or more U.S. RMBS and one hundred or more CDOs of RMBS on each of the following dates: February 26, 2008 and October 6, 2008.

S&P's February 26, 2008 ratings actions on U.S. RMBS and CDOs of RMBS are described in press releases entitled *374 U.S. RMBS Ratings Lowered, 264 Affirmed After FGIC, XLCA, And MBIA Rating Actions* (Exhibit O); *66 Ratings Lowered On 15 U.S.*

CDO Of ABS, Synthetic Deals; $7.265 Bil. In Issuance Affected (Exhibit P); and *240 Ratings On 164 U.S. Synthetic CDOs Of ABS Lowered; 21 Ratings From 18 CDOs Affirmed* (Exhibit Q). The U.S. RMBS classes downgraded were guaranteed by Financial Guaranty Insurance Co. (FGIC) and XL Capital Assurance Inc. (XLCA). These downgrades resulted from the fact that on February 25, 2008, S&P lowered the rating on FGIC to 'A' from 'AA' and kept it on CreditWatch with developing implications, and also lowered the rating on XLCA to 'A-' from 'AAA' and kept it on CreditWatch with negative implications.

With respect to the CDO ratings lowered on February 26, 2008, Exhibit P explains: "Today's CDO downgrades reflect a number of factors, including credit deterioration and recent negative rating actions on U.S. subprime RMBS securities (see 'S&P Takes Action On 6,389 U.S. Subprime RMBS Ratings And 1,953 CDO Ratings,' published Jan. 30, 2008, on RatingsDirect), as well as changes Standard & Poor's has made to the recovery rate and correlation assumptions it uses to assess U.S. RMBS held within CDO collateral pools (see 'Correlation And Recovery Assumptions Revised For CDOs Of ABS Backed By RMBS,' published Feb. 4, 2008, on RatingsDirect)." In addition, synthetic CDOs were downgraded, as explained in Exhibit Q, in order to "resolve the Jan. 30, 2008, CreditWatch placements affecting the U.S. synthetic CDO of ABS classes."

S&P's October 6, 2008 ratings actions on U.S. RMBS and CDOs of RMBS are described in press releases entitled *193 Ratings Lowered On 24 U.S. Neg-Am Alt-A RMBS Deals Issued In 2006 And 2007; 127 Affirmed* (Exhibit R); *331 Ratings Lowered On 22 U.S. Hybrid Alt-A RMBS Transactions From 2006, 2007; 61 Affirmed* (Exhibit S);

95 Ratings Lowered, 126 Affirmed On 13 U.S. Alt-A RMBS Deals Issued In 2005-2007 (Exhibit T); *80 Ratings Lowered On 22 U.S. CDOs Of ABS, 1 Synthetic CDO; $10.696B Of Issuance Affected* (Exhibit U); and *37 Ratings Lowered On 9 U.S. CDOs Of ABS Transactions; $8.161B Of Issuance Affected* (Exhibit V). As explained in Exhibits R and S, the U.S. RMBS downgrades reflect "our opinion that projected credit support for the affected classes is insufficient to maintain the previous ratings given our current projected losses, as stated in 'S&P Publishes Revised Projected Losses For '06/'07 U.S. Alt-A Short-Reset Hybrid, Neg-Am RMBS,' published Aug. 20, 2008, on RatingsDirect." Exhibit T explains: "Although cumulative losses for most of these transactions have been relatively low, we are projecting an increase in losses due to increases in delinquencies and the current condition of the housing market. Additionally, due to the negative amortization feature, losses may be amplified relative to those for standard forward mortgages if the balances of those particular loans should grow." As explained in Exhibit U, the CDO downgrades were generally "a result of stress in the U.S. residential mortgage market and credit deterioration of U.S. RMBS."

6. Does S&P currently factor into its credit rating analysis whether the assets in a particular transaction are provided by a lender with a reputation for issuing poor quality assets? If so, please explain how the process works. If not, please explain why.

S&P's current U.S. RMBS rating criteria take into consideration various information regarding mortgage originators as reflected in, among other things, the November 25, 2008 article entitled *Standard & Poor's Enhanced Mortgage Originator And Underwriting Review Criteria For U.S. RMBS*, attached as Exhibit W. As more fully described in that publication, S&P's criteria provide for it to "rank mortgage originators based on the past historical performance of their loans, and based on our reviews of their process and guidelines for loan origination and underwriting. After controlling for loan attributes (e.g., FICO score, loan-to-value {LTV}), we will evaluate the performance of each originator's products in relation to our projections and to the performance of the originator's peers. Then we will assess the originator's policies and procedures and how they've changed over time. We will factor our overall assessment of the originator into our credit enhancement levels when we rate U.S. RMBS."

The November 25, 2008 article explains that S&P's criteria call for originators to be ranked in the Top Tier, Middle Tier, or Bottom Tier ranking categories. "After we have ranked mortgage originators based on their historical performance as well as our view of their underwriting and origination processes, we will assign credit enhancement adjustments to each originator. For example, if we ranked an originator in the Top Tier (approximately the top 15% of the population), our ratings analysis would reduce credit enhancement by up to 30%, or by a factor of 0.70x. On the other hand, if we ranked an originator in the Bottom Tier (approximately the bottom 15% of the population), our ratings analysis would increase credit enhancement by up to 30% or more, or a factor of 1.30x or more, depending on the information that is reported to us. The aggregate of originator adjustment factors will be maintained at 1.0x for the population."

EXHIBIT A

STANDARD & POOR'S

Global Credit Portal
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April 20, 2005

Subprime Lenders: Basking In The Glow Of A Still-Benign Economy, But Clouds Forming On The Horizon

Primary Credit Analysts:
Steven Picarillo, New York (1) 212-438-2574; steven_picarillo@standardandpoors.com
Lisa J Archinow, CFA, New York (1) 212-438-7364; lisa_archinow@standardandpoors.com
Daniel Martin, New York (1) 212-438-7390; dan_martin@standardandpoors.com

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Subprime Lenders: Basking In The Glow Of A Still-Benign Economy, But Clouds Forming On The Horizon

The subprime mortgage and auto lenders continue to perform well owing to the current benign business environment. Over the near-term, however, operating performance will face some challenges, as these companies face heightened competition, reduced margins, and higher funding costs. Moreover, Standard & Poor's Ratings Services remains concerned about how these subprime lenders will perform in a prolonged rising interest rate environment, since the traditional subprime customer is already overextended in terms of debt burden and is also stretched in terms of free cash flow after debt service costs. Accordingly, Standard & Poor's views both of these sectors with a certain amount of caution. These concerns, as well as other industry trends specific to the subprime mortgage and subprime auto lending sectors, are addressed in the following article.

Subprime Mortgage Lending

The subprime mortgage industry will be facing some significant challenges in 2005. Of primary concern is the likelihood of increased competitive pressures, as traditional mortgage lenders look to enter or rev up their production in the sector as rising interest rates dry up refinancing volumes in the prime sectors. Of particular concern to Standard & Poor's is the temptation for subprime lenders to relax credit standards to maintain origination volume. However, this scenario would likely play out over a longer time horizon than is being considered for this article, and any negative asset quality trends would not emerge immediately. For 2005 at least, a strong economy, the relative insensitivity of subprime mortgage demand to rising interest rates, and the earnings from portfolioed loans should allow the specialty subprime mortgage lenders rated by Standard & Poor's to enjoy a successful year. As a result, the ratings outlooks on most companies in the sector are stable.

Spreads and margins at the loan level are off historic highs and are expected to remain tighter throughout 2005. As such, maintaining attractive spreads through this period of increasing short-term rates and a flat yield curve will be a challenge for the sector. In addition, competition continues to increase as other financial institutions enter the market, using excess capacity from their prime mortgage businesses. There are several effects of this trend. First, the increased competition will continue to keep pricing in both the primary and secondary markets tight. Of greater concern, however, is the temptation to relax underwriting standards in order to compete in the growing crowd of lenders, many of which have a cost-of-funds advantage over the established lenders in the sector.

The growing popularity of hybrids, interest-only (IO) mortgages, and extended maturity mortgages (typically to 40 years) in the subprime sector suggests that Standard & Poor's concerns are justified. Especially worrisome is the growing popularity of IO mortgages, which allow borrowers to reduce their monthly payment. However, these loans are more likely to feature adjustable rates in the current environment in order to help keep monthly payments down, setting borrowers up for potential problems should mortgage rates rise dramatically. Moreover, the steep run-up in home prices over the past two years has been broadly based geographically, and while regional price differences can vary dramatically, the overall trend has been more sweeping. According to the Office of Federal Housing Enterprise Oversight, markets making the top 20 list for greatest price appreciation in 2004 included Bakersfield, Calif. (number two with a 30.46% increase) and Punta Gorda, Fla. (number 20 with a 22.87%

increase). This suggests that affordability is becoming an issue even in these lower income and less urban markets, sustaining or even increasing the demand for such payment-reducing options as the IO loan. In addition, careful underwriting in these markets is even more critical as home prices may be more volatile, leaving subprime lenders with a less creditworthy borrower and reduced home equity coverage should mortgage rates increase significantly. Approximately 10.9% of all subprime originations in 2004 were IO loans (see "Trends in U.S. Residential Mortgage Products: Subprime Sector Fourth-Quarter 2004, published April 12, 2005 on RatingsDirect).

Standard & Poor's will continue to monitor the mix of mortgage products originated by subprime lenders it rates as well as look for evidence of any general relaxation of underwriting standards. However, any increase in the lenders' risk profile will likely develop gradually and not be an issue in 2005. There should be sufficient subprime mortgage demand to permit origination levels to remain healthy for all players this year. For one thing, the move by prime players into the Alt-A and subprime market is likely to be incremental rather than torrential. Secondly, the subprime mortgage lender and its typical borrower are less sensitive to swings in interest rates than their counterparts in the prime marketplace. The classic subprime borrower is tapping into the equity of their home to pay off other consumer debt. Even in the current rising interest rate environment, the interest rate on a new mortgage is lower than the rate on the credit cards that will be paid off. As such, the mortgage's refinancing remains a powerful financial tool for the subprime borrower. Finally, despite the reduced margins at the loan level, profitability measures are expected to remain acceptable. Quality of earnings will continue to improve, as predictable reoccurring revenues such as servicing, interest, and other fee revenues are becoming a larger part of the income statement.

A number of consumer lending sectors are likely to be affected by changes in the personal bankruptcy law, and subprime mortgage lenders may not be completely exempt. However, the overall subprime sector is not expected to feel as strong an impact as the prime lending sector. The reform is aimed principally at making it more difficult for borrowers to file under Chapter 7, where greater debt relief is possible, forcing many borrowers to file under Chapter 13 instead. Subprime borrowers filing for bankruptcy would be affected only if they earn an annual income that is more than one half the median income level of the state in which the borrower resides. While certainly not all subprime borrowers have limited incomes, many do, allowing them to escape Chapter 13. Even if a subprime borrower earns above the median, the filer must meet a means test to be booted out of Chapter 7 in which he or she demonstrates the financial wherewithal to repay the lesser of $10,000 or 25% of unsecured, nonpriority debt over a five-year period.

Perversely, one consequence for subprime mortgage lenders could appear in the form of higher delinquencies and foreclosures. The debt-servicing burden of some borrowers could be heavier under the new law vis-à-vis the existing law as the filer will not be able to discharge as much debt. The reform bill will affect not only the debt service ability of existing mortgage borrowers who enter bankruptcy, but could also perversely make the pool of potential customers in the form of recent bankruptcies even less creditworthy.

Subprime Auto Lending

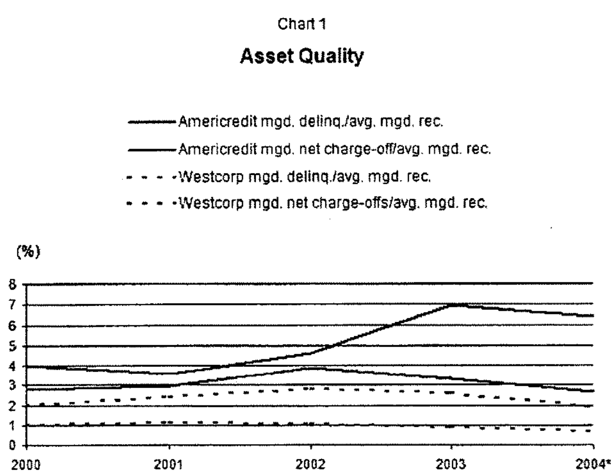
Subprime auto finance companies are expected to continue to turn in improved asset quality measures and profitability in 2005, which can be attributed to the stronger economy, better credit characteristic of borrowers, and the stabilization of used vehicle values. The continued focus on increasing the credit profiles of the portfolios through strengthening of credit standards, which has positively affected profitability in 2004, is expected to continue throughout 2005.

Traits characterizing the subprime borrowers such as limited income opportunities, high household debt and high debt burden, vulnerability to layoffs during a weak economy, and high personal bankruptcy rates continue to keep these lenders at risk. The wild card for this sector is the velocity and magnitude of the interest rate hikes and the borrower's ability to manage their increased debt service costs. Countering these concerns are the likelihood that interest rate increases will accompany an improving economy, the probable benefit for the subprime sector from brighter employment prospects, and declining personal bankruptcies.

Importantly, subprime lenders are moving to shore up their weaknesses. In addition to tightening underwriting standards by seeking borrowers with higher FICO scores, lenders have also increased minimum down payments, enhanced collection efforts, and slowed origination growth. Lenders have also redirected their lending to higher-quality, newer cars and limited financing of dealership inventory to the more profitable dealers.

As a result, credit quality has improved over the past few quarters, setting the stage for continued improvements into 2005. For example, AmeriCredit Corp.'s credit quality measures reflect the enhanced underwriting and collection efforts put in place. The chart below illustrates the improvements in credit quality.

Chart 1



*Data for quarter ended Sept. 30, 2004. Ratios annualized where appropriate. Americredit's fiscal year ends in June. Westcorp's fiscal year ends in December. Delinquencies for accounts 60 days past due.

At the same time, Westcorp's auto financing arm has garnered the benefits of the tougher credit standards imposed in 2003 for its subprime borrowers. Its asset quality has improved, and Standard & Poor's expects this trend to continue.

Stronger used car values continue to bolster performance. According to the Manheim Used Car Value Index, used car prices, on a seasonally adjusted basis, improved steadily throughout fourth-quarter 2004 and remain slightly higher than those of last year. The improved values translate into higher collateral values and reduce the severity of default, which bodes well for auto lenders. While we expect used vehicle values and recovery values to remain largely steady in 2005, we are concerned about potential weakness in large and midsize SUV values given weakened demand and sustained high gas prices. Moreover, the renewed increase in incentives by U.S. manufacturers also threatens the strength of used car values.

We still have a number of concerns about subprime auto lenders. These companies may once again ratchet up growth in the future following a period of benign credit quality issues and an improvement in the economy. Their portfolios hold a high percentage of re-aged accounts (loans that have been either extended or restructured), which could possibly point to delayed loss recognition. Moreover, the heavy use of extending out loan terms to more than 72-month contracts remains a concern, as the reduced amortization rates of these loans significantly trail the depreciation rate of the vehicles, leaving the consumer with auto loans with principle values that are far larger than the value of the vehicle. Although we expect continued impressive performance, caution remains the watchword for subprime auto.

For the reasons discussed above, the impact of the pending changes in the bankruptcy law on subprime auto lenders is not likely to be as significant as it will be for prime borrowers. In theory, should more subprime auto borrowers enter Chapter 13, the likelihood of continued debt servicing will be increased, which will benefit the lenders. For one thing, Chapter 13 requires that continuation of payments on the loan and past-due payments held by the trustee ultimately be surrendered to the lender. Moreover, the amount of the loan covered under new provisions within Chapter 13 for repayment is determined by new car replacement value rather than market value for the financed auto.

EXHIBIT B

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

September 13, 2005

Simulated Housing Market Decline Reveals Defaults Only In Lowest-Rated U.S. RMBS Transactions

Primary Credit Analysts:
Michael Stock, New York (1) 212-438-2611; michael_stock@standardandpoors.com
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com
Kyle Beauchamp, New York (1) 212-438-2505; kyle_beauchamp@standardandpoors.com
Lal Mahabir, New York (1) 212-438-2395; lal_mahabir@standardandpoors.com
Andrew J Giudici, New York (1) 212-438-1659; andrew_giudici@standardandpoors.com

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Simulated Housing Market Decline Reveals Defaults Only In Lowest-Rated U.S. RMBS Transactions

When Federal Reserve Chairman Alan Greenspan warns, as he has in recent weeks, that home prices could fall and "leave some mortgages vulnerable to adverse events," it's probably time to ask: What impact would a housing downturn have on private-label U.S. residential mortgage-backed securities (RMBS)?

A nationwide house price decline has not occurred since the Great Depression. But speculation over the effects of a presumed housing "bubble" has been so widespread lately that Standard & Poor's Ratings Services set out to analyze what might happen to the $1.9 trillion worth of such bonds that have been issued since 2003, should home prices take a tumble.

The results of that study are reassuring in many respects: Except in the case of a national recession, most investment-grade RMBS would weather a housing downturn without suffering a lowered credit rating. Speculative-grade RMBS might suffer a crueler fate, however. Depending upon the severity of the housing downturn, many of them would be at risk for default. To arrive at these conclusions, Standard & Poor's simulated a 20% national decline in home prices over the next two years, including a 30% decline on the East and West coasts and 10% in the middle of the country. We assumed that unemployment rose (to 5.8% in 2006, and 6.5% in 2007) and that GDP growth slowed (to 1.2% in 2006 and 2.3% in 2007)--but that there was no recession. This scenario would be unprecedented in U.S. economic history, because never has such a rapid and extreme housing market decline occurred in such a relatively strong economy.

We also assumed that borrowers who rely on house price appreciation (e.g., investor properties) would be hurt more than those who don't. And we figured that the risk to adjustable-rate mortgage (ARM) borrowers would be no greater than the risk to fixed-rate borrowers during 2006 and 2007, because short-term interest rates will remain low.

Study Analyzes Impact Of A 20% Decline On Transactions

We limited the time frame of the simulation to the years 2003 to 2005, since homes purchased before 2003 have appreciated so much that the RMBS based on those mortgages are reasonably insulated from a housing downturn.

Having set those parameters, we conducted a three-step research process to determine:

- The overall rating environment we would expect given the projected scenario;
- The losses and timing of losses that the simulated RMBS pools would experience; and
- The subsequent ratings for the various tranches as of 2008.

We simulated the effect of these conditions on four major segments of the RMBS market:

- Fixed-rate prime jumbo transactions;
- Fixed-rate Alt-A transactions;
- Adjustable-rate Alt-A transactions; and

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- Subprime transactions.

Our simulation placed 65% of the loans in these categories (on a balance basis) on the coasts. This is consistent with information in Standard & Poor's Trends Database™, which compiles the loan level and performance characteristics for every RMBS transaction that we have rated since 1998. Table 1 illustrates the characteristics of the four simulated pools.

Table 1

Performance Of The Simulated Pools

Characteristic	Prime	Alt-A (fixed-rate)	Alt-A (ARMs)	Subprime
W.A. FICO score	733.67	711.42	717.84	621.97
LTV (%)	67.84	74.15	72.77	80.03
Investor (%)	7.55	16.81	9.96	6.15
Cashout (%)	27.19	39.88	25.11	58.37
WAC (%)	5.96	6.21	4.89	7.31
W.A. remaining term (mos.)	343	346	359	357
Fixed-rate (%)	100	100	0	13.97
ARMs (%)	0	0	23.13	1.24
Hybrid ARMs (%)	0	0	76.87	84.79
Second liens (%)	0	0	0	1.85
Loss coverage (%)				
AAA	2.75	5.25	7.00	24.75
AA	1.40	2.90	4.10	16.50
A	0.90	1.90	2.75	12.00
BBB	0.60	1.25	1.90	9.00
BB	0.35	0.70	1.10	5.70
B	0.15	0.30	0.45	3.10

W.A.—Weighted average. WAC—Weighted average coupon. ARM—Adjustable-rate mortgage.

Determining The Amount Of Loans That Default

To help create a more realistic default environment, Standard & Poor's used regression analysis performed by UBS Securities LLC (UBS) in its May 18, 2004, "Mortgage Strategist" article to analyze the relationship between market value declines, and the unemployment rate and defaults.

Combining the simulated data with UBS' regression analysis indicates that over the next three years defaults should increase by approximately 90% on the coasts and 60% in the middle of the country. A 90% increase in defaults equates approximately to an increase in foreclosure frequency to a 'BB' from a 'B' environment, and a 60% increase in defaults equates approximately to an increase in foreclosure frequency to a 'B+' from a 'B' environment. Therefore, we assumed that from 2005 to 2008, borrowers on the coasts will default at a rate equal to Standard & Poor's 'BB' foreclosure frequency and borrowers in the middle of the country will default at a rate equal to Standard & Poor's 'B+' foreclosure frequency.

Prime jumbo borrowers have experienced significantly fewer losses than Standard & Poor's 'B' loss coverage level every year since 1998. With this in mind, for prime jumbo loans, we assumed a 'B+' and 'B' foreclosure frequency, respectively, on the coasts and in the middle of the country. Investor property borrowers are significantly more dependent on house price appreciation than owners who occupy their properties, because borrowers have less incentive to make mortgage payments on depreciating properties that they do not occupy than on those properties in which they reside. Similarly, subprime borrowers are more dependent on house price appreciation than prime jumbo and Alt-A borrows because they typically have less equity in their homes.

For investor property borrowers, therefore, Standard & Poor's assumed 'BBB' and 'BB' foreclosure frequencies, respectively, for loans on the coasts and loans in the middle of the country. For subprime borrowers, Standard & Poor's assumed 'BB+' and 'BB-' foreclosure frequencies, respectively, for loans on the coasts and in the middle of the country.

Determining The Loss Amount On Defaulted Loans

For this study, Standard & Poor's assumed that almost all drivers of loss severity remain constant except for market value decline, and both the overall economy and house prices affect the number of defaults. To determine the loss on a defaulted loan originated in 2005 on the coasts, we evaluated our hypothetical pools using our 'AA' loss severity stress test, which loosely corresponds with the market value decline that certain metropolitan statistical areas in Texas experienced in the mid-1980s.

For the loss amount on loans in the middle of the country, we used our 'BBB' loss severity stress, which is roughly associated with a mild recession.

Assuming that 2003 transactions will experience the same loss severities as 2005 transactions is overly conservative because significant house price appreciation has occurred in the past two years. OFHEO data indicate an 8.41% appreciation from first-quarter 2003 to fourth-quarter 2004 and 12.50% from first-quarter 2004 to first-quarter 2005. For a 2003 transaction, we assumed 'BBB' and 'BB' loss severities, respectively, for the loans on the coasts and for the loans in the middle of the country. Tables 2a and 2b show Standard & Poor's loss assumptions for all products.

Table 2a

Rating Categories For 2005 Through 2008

		Prime jumbo		Alt-A (fixed-rate)		Alt-A (ARMs)		Subprime	
Year of origination	**Location**	**FF**	**LS**	**FF**	**LS**	**FF**	**LS**	**FF**	**LS**
2005	Coasts	B+	AA	BB	AA	BB	AA	BB+	AA
	Middle of the country	B	BBB	B+	BBB	B+	BBB	BB-	BBB
2003	Coasts	B+	BBB	BB	BBB	BB	BBB	BB+	BBB
	Middle of the country	B	BB	B+	BB	B+	BB	BB-	BB

ARM—Adjustable-rate mortgage. FF—Foreclosure frequency. LS—Loss severity.

Table 2b

Investor Rating Categories By Location

Location	FF	LS
Coasts	BBB	AA
Middle of the country	BB	BBB

FF—Foreclosure frequency. LS—Loss severity.

We used this analysis to determine the cumulative losses for prime jumbo fixed, Alt-A fixed-rate, Alt-A ARMs, and subprime transactions originated in 2003, 2004, and 2005. We also divided cumulative losses into four categories:

- Losses experienced from origination through second-quarter 2005;
- Expected losses between 2005 and 2008;
- Expected losses after 2008; and
- Total losses.

We calculated these losses (see table 3) as a percentage of the original pool balance, which helps explain why the 2003 pools incur significantly fewer losses in our simulation than 2005 pools; a large percentage of the loans in the transaction have already prepaid. Also, the 2003 transactions have the benefit of two years of significant house price appreciation.

Table 3

Total Projected Losses

Year of origination	Prime jumbo	Alt-A (fixed-rate)	Alt-A (ARMs)	Subprime
Cumulative losses through second-quarter 2005 (%)				
2003	0.01	0.07	0.03	0.47
2004	0.00	0.00	0.01	0.07
Projected losses between 2005 and 2008 (%)				
2003	0.10	0.29	0.43	1.93
2004	0.14	0.43	0.67	3.05
2005	0.15	0.45	0.67	3.43
Projected losses after 2008 (%)				
2003	0.03	0.05	0.08	0.37
2004	0.08	0.14	0.23	1.16
2005	0.15	0.27	0.42	2.40
Total losses (%)				
2003	0.14	0.42	0.54	2.77
2004	0.22	0.57	0.91	4.28
2005	0.30	0.72	1.08	5.82

ARM—Adjustable-rate mortgage.

We then used these expected losses to determine the performance of the simulated pools. Table 4 shows the comparison of what the 12 simulated pools' bond ratings would be in 2008. We figured the original size of the subprime pool by running Standard & Poor's current cash flow stress tests.

Table 4

2008 Ratings For Subprime Transactions

Original structure			2008 rating		
Rating	**Size (%)**	**Sub (%)**	**2005 origination**	**2004 origination**	**2003 origination**
AAA	77.05	22.95	AAA	AAA	AAA
AA	8.75	14.20	AA	AA	AA
A	4.90	9.30	A	A	A
A-	1.05	8.25	A-	A-	A-

Table 4

2008 Ratings For Subprime Transactions (cont.)

BBB+	1.50	6.75	BBB+	BBB+	BBB+
BBB	0.75	6.00	BBB	BBB	BBB
BBB-	1.15	4.85	BBB-	BBB-	BBB-
BB	2.55	2.30	CCC	BB	BB
OC	2.30	—	—	—	—

Sub—Subordination. OC—Overcollateralization.

Subprime transactions cushioned by excess spread...

The result is that subprime transactions perform very well, due in large part to the pool's sizable excess spread. The simulated economic environment shows the U.S. Federal Reserve cutting short-term interest rates, which traps a significant amount of excess spread in the pools. The 4.44% excess spread on the 2005 origination at year three absorbs the losses that would be incurred by the trust. The 2004 and 2003 transactions perform well due for the most part to rapid prepayments, low losses, and significant home price appreciation before the simulated housing market decline.

...but they would be adversely affected by swaps

If a subprime transaction were to contain a swap to hedge interest rate risk, the swap would adversely affect the structure because most swaps are based on the one-month LIBOR, which would cause the trust to pay the swap counterparty, thus decreasing the excess spread. Whereas a small percentage of subprime transactions contained swaps in 2003 and 2004, the majority of the 2005 subprime transactions that Standard & Poor's has rated contain swaps. The bond originally rated 'BB' would fall to 'D' and the bond originally rated 'BBB-' to 'BB'. The poor performance of pools with swaps is a result of a unique characteristic of the simulated environment: big home price declines coincide with an environment of falling interest rates. Table 5 demonstrates how the same subprime transaction would perform if it contained a five-year swap with a strike rate of 4.75%.

Table 5

Performance Of Subprime Transaction With Swap

	Original structure		
Rating	Size (%)	Sub (%)	2005 origination*
AAA	77.05	22.95	AAA
AA	8.75	14.20	AA
A	4.90	9.30	A
A-	1.05	8.25	A-
BBB+	1.50	6.75	BBB+
BBB	0.75	6.00	BBB
BBB-	1.15	4.85	BB
BB	2.55	2.30	D
OC	2.30	—	—

*2008 rating. Sub—Subordination. OC—Overcollateralization.

The prime and Alt-A transactions exhibited similar results. The bonds with initial ratings of 'B' all defaulted or nearly defaulted. There were no downgrades on the 'BB' or higher rated bonds issued in 2003, and no downgrades on the investment-grade bonds issued in 2004 or 2005. Tables 6, 7, and 8 demonstrate how prime jumbo, Alt-A fixed-rate, and Alt-A ARM transactions would perform.

Table 6

Prime Jumbo Transactions: Comparison Of Original Structure And 2008 Rating

Original structure			2008 rating		
Rating	**Size (%)**	**Sub (%)**	**2005 origination**	**2004 origination**	**2003 origination**
AAA	97.25	2.75	AAA	AAA	AAA
AA	1.35	1.40	AA	AA	AA
A	0.50	0.90	A	A	A
BBB	0.30	0.60	BBB	BBB	BBB
BB	0.25	0.35	CCC	BB	BB
B	0.20	0.15	D	D	D
N.R.	0.15	—	—	—	—

Sub—Subordination.

Table 7

Alt-A (Fixed-Rate) Transactions: Comparison Of Original Structure And 2008 Rating

Original structure			2008 rating		
Rating	**Size (%)**	**Sub (%)**	**2005 origination**	**2004 origination**	**2003 origination**
AAA	97.25	2.75	AAA	AAA	AAA
AA	1.35	1.40	AA	AA	AA
A	0.50	0.90	A	A	A
BBB	0.30	0.60	BBB	BBB	BBB
BB	0.25	0.35	D	B+	BB
B	0.20	0.15	D	D	D
N.R.	0.15	—	—	—	—

Sub—Subordination.

Table 8

Alt-A (ARM) Transactions: Comparison Of Original Structure And 2008 Rating

Original structure			2008 rating		
Rating	**Size (%)**	**Sub (%)**	**2005 origination**	**2004 origination**	**2003 origination**
AAA	93.00	7.00	AAA	AAA	AAA
AA	2.90	4.10	AA	AA	AA
A	1.35	2.75	A	A	A
BBB	0.85	1.90	BBB	BBB	BBB
BB	0.80	1.10	D	B+	BB
B	0.65	0.45	D	D	D
N.R.	0.45	—	—	—	—

ARM—Adjustable-rate mortgage. Sub—Subordination.

Only Lowest-Rated Tranches Defaulted In Simulated Environment

Overall, the simulated RMBS transactions hold up well in the modeled environment, with only the lowest-rated tranches experiencing defaults. It's best to remember, though, that the simulated pools reproduce major RMBS markets as whole, not market niches.

For example, investor properties may be highly concentrated on the coasts and account for a large portion of certain Alt-A pools. Such pools will likely experience significantly higher losses in a housing downturn than forecasted by our simulation.

Option ARM borrowers also rely on house price appreciation, and most pools of these have a high concentration of loans on the coasts. These transactions may experience higher losses than a typical Alt-A transaction, although one positive note for option ARMs in the simulated scenario is that with short-term interest rates decreasing, the loan will hit its rate cap later, delaying the payment shock that the borrower experiences.

The simulated environment could be off the mark in other respects. For instance, it assumes that unemployment is relatively uniform throughout the country and peaks at 6.5%. Defaults are very sensitive to unemployment, and if a pool isn't well diversified, it may represent borrowers who reside in areas with a significantly higher unemployment rate than the national average--which could boost defaults. Similarly, if home prices fell more than 30% in parts of the country, then both defaults and loss severity in those areas will be higher than the simulation shows. Poorly diversified pools heighten this risk.

If a recession occurs in conjunction with a nationwide 20% decline in home prices, even investment-grade bonds would likely suffer downgrades. However, the Standard & Poor's simulation of a housing bubble burst without a recession concludes that for the RMBS products we rate, including prime jumbo, Alt-A, and subprime transactions, speculative-grade bonds would likely sustain the most damage.

The McGraw-Hill Companies

EXHIBIT C

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Global Credit Portal
RatingsDirect

January 19, 2006

U.S. RMBS Market Still Robust, But Risks Are Increasing And Growth Drivers Are Softening

Primary Credit Analyst:
Thomas Warrack, New York (1) 212-438-2634; thomas_warrack@standardandpoors.com
Surveillance Credit Analyst:
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com

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U.S. RMBS Market Still Robust, But Risks Are Increasing And Growth Drivers Are Softening

Although the frenzied pace of U.S. private label RMBS issuance is expected to cool slightly, Standard & Poor's Ratings Services is forecasting issuance of as much as $900 billion in 2006, making it the market's second-best year in history. Reasonably low interest rates, stable home price values, continued favorable demographic factors, and receptive capital markets will drive volume. The sector will experience generally strong rating performance, although increasing risks presented by the recent popularity of affordability products could contribute to deteriorating credit quality in the coming year.

In 2005, record issuance of $1.2 trillion for RMBS was led by the subprime sector, which reached $450 billion, due to an increasing number of leveraged borrowers coupled with aggressive lenders, which were willing to extend credit. Issuance volume in the Alt-A/B sector doubled over 2004 to more than $300 billion, largely due to the popularity of innovative loan products, such as option adjustable-rate mortgages and IO (interest-only) loans. The prime jumbo sector ($275 billion) remained steady due to low interest rates. The second-lien, net interest margin (NIM), and scratch-and-dent markets also recorded modest growth in 2005.

Slight Softening Seen In Growth Drivers

Standard & Poor's expects that some of the factors that drove growth in 2005 will begin to soften in 2006. We believe that interest rates will increase by 25 basis points (bps) to 50 bps, but still remain in the normal range. Home-price appreciation will moderate. In addition, it is possible that small pockets of the country that have experienced high rates of house appreciation in recent years will see slight declines in appreciation.

Furthermore, Standard & Poor's believes there are increasing risks that may contribute to deteriorating credit quality in U.S. RMBS transactions; it is probable that these risks will be triggered in 2006. Affordability products such as option ARMs, IO loans, and "piggy-back seconds" are known to carry a higher default risk. Mortgage products originated in years with rising interest rates tend to perform in a substandard fashion. Also, as home-price appreciation moderates, loss severities on defaulted loans can be expected to increase. We believe that our criteria and modeling assumptions address these concerns. Nevertheless, investors should be on guard for losses that are somewhat higher than in the recent past.

Growing Concerns In The Capital Markets

The RMBS market will experience greater volatility in the capital markets as well. While competition for mortgage product from conduits remains (through both traditional lenders and investment banks) whole loan prices in the subprime market have declined significantly as the spread between origination coupons and LIBOR-based funding costs have diminished, resulting in smaller NIM bonds and less-profitable securitizations.

Traditional RMBS investors continue to voice their disappointment in the size of credit spreads, particularly in subordinate certificates, as CDO managers continue to be heavy buyers of mortgage-backed bonds. The growth in the synthetic market, fueled by the use of RMBS and ABS credit default swaps, has allowed market participants, including hedge funds, to express conflicting views on the market. While enhancing market liquidity, this may also add to spread volatility and challenges in today's market.

Despite Increasing Risks, Rating Performance Should Remain Good

Despite the moderation of growth in the U.S. RMBS market, as well as the risks presented by an array of affordability products, Standard & Poor's anticipates positive rating performance through 2006. Upgrades will once again outpace downgrades in each of the rating categories, with overall rating volatility declining modestly from previous years. We also anticipate that the upgrade-to-downgrade ratio will continue to be compressed.

Historically, upgrades of RMBS resulted primarily from the shifting interest feature of the transactions, coupled with fast principal prepayments and low losses. Rising interest rates cause principal repayment rates to slow, reducing the impact of shifting interest on the transactions, thereby slowing upward rating migration. At the same time, longer terms to maturity, coupled with a softening in home prices will increase the likelihood and magnitude of losses, again reducing positive rating migration. The upgrade-to-downgrade ratio will shrink due to fewer upgrades—many seasoned transactions have already received upgrades to the highest levels possible. While rising interest rates and slowing home-price appreciation may create some credit challenges for RMBS, there have already been counterbalances to this pressure. Refinance activity, as well as the home-price appreciation of recent years, has already taken hold in many of the existing transactions.

Transactions largely comprised of various affordability products became very common during 2005 and the last quarter of 2004. In 2006, transactions that include a great variety of various affordability products will lack the seasoning typically present at the time of rating changes. Due to the added risks of these types of loans, it is anticipated that the transactions will have less rating volatility overall than their prime-jumbo counterparts.

The McGraw-Hill Companies

EXHIBIT D

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

May 15, 2006

A More Stressful Test Of A Housing Market Decline On U.S. RMBS

Primary Credit Analysts:
Michael Stock, New York (1) 212-438-2611; michael_stock@standardandpoors.com
Kyle Beauchamp, New York (1) 212-438-2505; kyle_beauchamp@standardandpoors.com

Secondary Credit Analyst:
Andrew J Giudici, New York (1) 212-438-1659; andrew_giudici@standardandpoors.com

Surveillance Credit Analysts:
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com
Lal Mahabir, New York (1) 212-438-2395; lal_mahabir@standardandpoors.com

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A More Stressful Test Of A Housing Market Decline On U.S. RMBS

Although some recent evidence points to a gradual deflating of the housing bubble rather than the dramatic burst that the market and homeowners have feared, the potential remains, though highly unlikely, for a sharp turn in the U.S. housing market, particularly if mortgage rates were to spike. If such a pop came to pass, the private-label U.S. residential mortgage-backed securities (RMBS) would surely feel it.

To gauge that impact, Standard & Poor's Ratings Services has performed a follow-up analysis to its September 2005 housing-bubble simulation, "Simulated Housing Market Decline Reveals Defaults Only In Lowest-Rated U.S. RMBS," which is available on RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com.

The earlier simulation had concluded that most investment-grade RMBS would weather a housing downturn without suffering a credit-rating downgrade, while speculative-grade RMBS might not fare so well. That study's findings relied on the following assumptions: a 20% national decline in home prices over the next two years, including a 30% drop on the East and West coasts and 10% in the middle of the country during a slowing, but not recessionary, economy where the Federal Reserve funds rate falls to 2.75%, followed by a strong recovery in 2008.

In the updated simulation, Standard & Poor's assumes the same levels of decline in home prices. However, this time we assumed that a minor recession occurs in late 2007, the Fed doesn't lower short-term interest rates due to fear of inflation, and a strong recovery doesn't follow. These more stressful macroeconomic assumptions lead to some downgrades in lower-rated investment-grade bonds.

As in the first simulation, we assumed that borrowers who rely on house-price appreciation (for example, investor properties) would be hurt more than borrowers who don't. But in this simulation, we figured that the risk to adjustable-rate mortgage (ARM) borrowers would be greater than the risk to fixed-rate borrowers because ARM borrowers will be forced to make higher payments when their teaser period ends without an affordable refinance opportunity due to the conforming mortgage rate increasing from the current 6.25% to 8.96% by 2008.

A Three-Step Process

We limited the new simulation to 2006 new issuance, since the first study showed that this was the most stressful scenario.

Having set those parameters, we conducted a three-step research process to determine:

- The overall rating environment we would expect given the projected scenario;
- The losses and timing of losses that the simulated RMBS pools would experience; and
- The subsequent ratings for the various tranches over the next seven years.

We simulated the effect of these conditions on five major segments of the RMBS market:

- Prime jumbo, fixed-rate transactions;
- Alt-A, fixed-rate transactions;

- Alt-A, adjustable-rate transactions;
- Negative amortization transactions; and
- Subprime transactions.

Our simulation placed 65% of the loans in these categories (on a balance basis) on the coasts. This is consistent with information in Standard & Poor's Trends Database™, which compiles the loan level and performance characteristics for every RMBS transaction that we have rated since 1998. Table 1 illustrates the characteristics of the five simulated pools.

Table 1

Performance Of Simulated Pools

	Prime	Alt-A fixed-rate	Alt-A ARMs	Neg am	Subprime
W.A. FICO score	733.67	711.42	717.84	707.83	621.97
LTV (%)	67.84	74.15	72.77	74.85	80.03
Investor (%)	7.55	16.81	9.96	16.94	6.15
Cashout (%)	27.19	39.88	25.11	40.61	58.37
WAC (%)	5.96	6.21	4.89	3.94	7.31
W.A. remaining term (mos.)	343	346	359	360	357
Fixed-rate loans (%)	100	100	0	0	13.97
ARMs (%)	0	0	23.13	100	1.24
Hybrid ARMs (%)	0	0	76.87	0	84.79
Second liens (%)	0	0	0	0	1.85
Loss coverage (%)					
AAA	3.34	5.42	7.74	9.63	26.30
AA	2.00	3.29	4.78	6.18	18.58
A	1.29	2.16	3.22	4.28	13.74
BBB	0.88	1.49	2.27	3.06	10.40
BB	0.49	0.84	1.32	1.78	6.75
B	0.20	0.34	0.57	0.75	3.90

ARM—Adjustable-rate mortgage. Neg am—Negative amortization. W.A.—Weighted average. WAC—Weighted average coupon.

A Higher Default Rate This Time

We assumed that from second-quarter 2006 to second-quarter 2009, borrowers on the coasts will default at a rate equal to Standard & Poor's 'BB+' default rate, and borrowers in the middle of the country will default at a rate equal to Standard & Poor's 'BB-' default rate. The default rates are one rating category higher than in our first study because real GDP growth is lower in this simulation. For ARM borrowers, we assumed a two-rating category increase after the reset date (for example, 'BB+' to 'BBB') to address the risk of an increased monthly mortgage payment without a reasonable refinance opportunity.

Prime jumbo borrowers have experienced significantly fewer losses than Standard & Poor's 'B' loss coverage level every year since 1998. With this in mind, we assumed a 'BB-' and 'B+' default rate for prime jumbo loans on the coasts and in the middle of the country, respectively. Investor property borrowers are significantly more dependent on house-price appreciation than owners who occupy their properties because the former have less incentive to make mortgage payments on depreciating properties that they don't occupy. Similarly, subprime borrowers are more dependent on house-price appreciation than prime jumbo and alt-A borrowers because they typically have less equity in their homes.

For investor property borrowers, therefore, Standard & Poor's assumed 'BBB' and 'BB' foreclosure frequencies, respectively, for loans on the coasts and loans in the middle of the country. For subprime borrowers, Standard & Poor's assumed 'BBB-' and 'BB+' foreclosure frequencies, respectively, for loans on the coasts and in the middle of the country.

Determining Losses On Defaulted Loans

For this study, Standard & Poor's assumed that almost all drivers of losses on defaulted loans remain constant except for market value decline, and both the overall economy and house prices affect the number of defaults. To determine the loss on a defaulted loan on the coasts, we evaluated our hypothetical pools using our 'AA' stress test, which loosely corresponds with the market value decline that certain metropolitan statistical areas in Texas experienced in the mid-1980s. For the loss amount on loans in the middle of the country (see table 2), we used our 'BBB' stress test, which is roughly associated with a mild recession.

Table 2

Default Environment

Product type	Rating before reset	Rating after reset
Middle of the country		
Prime jumbo	B+	N/A
Alt-A fixed-rate	BB-	N/A
Alt-A ARMs	BB-	BB+
Alt-A neg-am	BB-	BBB-
Subprime fixed-rate	BB	N/A
Subprime ARMs	BB	BBB-
Investor fixed-rate	BB	N/A
Investor ARMs	BB	BBB-
Coasts		
Prime jumbo	BB-	N/A
Alt-A fixed-rate	BB+	N/A
Alt-A ARMs	BB+	BBB
Alt-A neg-am	BB+	BBB+
Subprime fixed-rate	BBB-	N/A
Subprime ARMs	BBB-	BBB+
Investor fixed-rate	BBB	N/A
Investor ARMs	BBB	BBB+

ARM—Adjustable-rate mortgage. Neg am—Negative amortization. N/A—Not applicable.

We used this analysis to determine the cumulative losses for prime jumbo fixed-rate, alt-A fixed-rate, alt-A ARMs, negative amortization, and subprime transactions. We also divided cumulative losses into four categories:

- Expected losses through second-quarter 2008;
- Expected losses from second-quarter 2008 to second-quarter 2009;
- Expected losses after second-quarter 2009; and
- Total losses.

We calculated these losses (see table 3) as a percentage of the original pool balance.

Table 3

Total Projected Losses

Prime jumbo	Alt-A fixed	Alt-A neg am	Alt-A ARMs	Subprime fixed	Subprime ARMs
-- Losses between second-quarter 2006 and second-quarter 2008 (%) --					
0.16	0.37	0.72	0.55	2.06	2.98
-- Losses between second-quarter 2008 and second-quarter 2009 (%) --					
0.11	0.26	0.74	0.52	1.44	2.54
-- Losses after second-quarter 2009 (%) --					
0.21	0.48	1.69	1.15	3.22	5.88
-- Total losses (%) --					
0.48	1.11	3.14	2.23	6.73	11.41

Neg am—Negative amortization. ARM—Adjustable-rate mortgage.

We then used these expected losses to determine the performance of the simulated pools. Table 4 shows the comparison of what the five simulated pools' bond ratings would be in second-quarter 2009. We figured the original size of the subprime pool by running Standard & Poor's current cash flow stress tests. Table 4 contains the ratings for each class level by year. The asterisks indicate bonds that have been downgraded, and a bond with a rating of 'D' has defaulted.

Table 4

Projected Ratings By Year

Class	Day 1	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Prime jumbo								
A-1	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
B-1	AA	AA	AA	AA	AA	AA	AA	AA
B-2	A	A	A	A	A	A	A	A
B-3	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
B-4	BB	BB	BB	BB	BB	BB	B*	B*
B-5	B	B	B	CCC*	D*	D*	D*	D*
B-6	NR	NR	NR	NR	NR	NR	NR	NR
Alt-A fixed-rate								
A-1	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
B-1	AA	AA	AA	AA	AA	AA	AA	AA
B-2	A	A	A	A	A	A	A	A
B-3	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB
B-4	BB	BB	B	B*	B*	CCC*	D*	D*
B-5	B	B	D	D*	D*	D*	D*	D*

Table 4

Projected Ratings By Year (cont.)

B-6	NR	NR	NR	NR	NR	NR	NR	NR
Alt-A ARMs								
A-1	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
B-1	AA	AA	AA	AA	AA	AA	AA	AA
B-2	A	A	A	A	A	A	A	A
B-3	BBB	BBB	BBB-*	BBB-*	BB+*	BB*	B*	D*
B-4	BB	BB	B*	B*	CCC*	D*	D*	D*
B-5	B	B	CCC*	D*	D*	D*	D*	D*
B-6	NR	NR	NR	NR	NR	NR	NR	NR
Negative amortization								
A-1	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
B-1	AA	AA	AA	AA	AA	AA	AA	AA
B-2	A	A	A	A	A	A	A	A
B-3	BBB	BBB	BBB-*	BBB-*	BB+*	BB*	B*	D*
B-4	BB	BB	B*	B*	CCC*	D*	D*	D*
B-5	B	B	CCC*	D*	D*	D*	D*	D*
B-6	NR	NR	NR	NR	NR	NR	NR	NR
Subprime								
A-1	AAA	AAA	AAA	AAA	AAA	AAA	AAA	AAA
M-1	AA	AA	AA	AA	AA	AA	AA	AA
M-2	A	A	A	A	A	A	A	A
M-3	A-	A-	A-	A-	A-	A-	A-	A-
M-4	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+
M-5	BBB	BBB	BBB	BBB	BBB	BBB	BB	BB*
M-6	BBB-	BBB-	BBB-	BBB-	BB*	B*	CCC*	D*
M-7	BB	BB	BB	BB	CCC*	D*	D*	D*

*Downgrade. ARM—Adjustable-rate mortgage. NR—Not rated.

Which Transactions Hold Up And Which Don't?

As should be expected, transactions backed by borrowers with equity invested in their homes and holding a fixed-rate mortgage hold up relatively well in a high interest rate environment with decreasing home prices. This is because they will not experience any payment shock. The alt-A, fixed-rate transaction, which has a noticeable investment property concentration, experience defaults at the 'B' and 'BB' rating levels, whereas the prime jumbo transaction defaults only at the 'B' category and has a small downgrade at the 'BB' level.

The combination of payment shock when ARM loans reset, decreasing home prices, and an increasing conventional mortgage will leave both ARM and negative amortization borrowers with very high interest payments and very few refinance options. The simulation reveals defaults at the 'BBB' rating category and all speculative-grade bonds.

Excess spread absorbs losses for the first few years of the subprime transaction, but as losses continue to mount, the 'BBB-' bond defaults, and the 'BBB' bond is downgraded to speculative grade.

Where The Simulation Can Be Off The Mark

Overall, the simulated RMBS transactions hold up relatively well in the modeled environment, even though transactions with ARMs experience some downgrades and defaults at the 'BBB' rating level. It's best to remember, however, that the simulated pools reproduce major RMBS markets as whole, not market niches.

For example, investor properties may be highly concentrated on the coasts and account for a large portion of certain alt-A pools. Such pools will likely experience significantly higher losses in a housing downturn than our simulation forecasts.

Negative amortization borrowers also rely on house-price appreciation, and most pools of these have a high concentration of loans on the coasts. These transactions may experience higher losses than a typical alt-A transaction.

The simulated environment could be off the mark in other respects. For instance, it assumes that unemployment is relatively uniform throughout the country and peaks at 6.5%. Defaults are very sensitive to unemployment, and if a pool isn't well diversified geographically, it may represent borrowers who reside in areas with a significantly higher unemployment rate than the national average, which could boost defaults. Similarly, if home prices fell more than 30% in parts of the country, then both defaults and loss severity in those areas will be higher than the simulation shows. Poorly diversified pools heighten this risk.

If a more severe or prolonged recession occurs in conjunction with a 20% national decline in home prices, even more investment-grade bonds would likely suffer downgrades. However, Standard & Poor's simulation of a housing bubble that bursts with a rise in mortgage rates and a mild recession concludes that for the RMBS products we rate (including jumbo, alt-A, and subprime transactions) speculative-grade and some 'BBB' bonds would likely sustain the most damage.

(See related article, " As Housing Slows, So Slows The Economy?" published May 15, 2006, on RatingsDirect.)

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Transition Study:

U.S. RMBS Upgrades Are Down And Downgrades Are Up In 2006

Primary Credit Analysts:
Robert B Pollsen, New York (1) 212-438-2577; robert_pollsen@standardandpoors.com
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com

Secondary Credit Analysts:
Thomas Warrack, New York (1) 212-438-2634; thomas_warrack@standardandpoors.com
Erkan Erturk, Ph.D., New York (1) 212-438-2450; erkan_erturk@standardandpoors.com

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Transition Study:

U.S. RMBS Upgrades Are Down And Downgrades Are Up In 2006

Executive Summary

The U.S. residential mortgage-backed securities (RMBS) market saw only a slight drop in volume (2.76%) in 2006, from its record-setting volume in 2005. Of the 26,765 U.S. RMBS credit ratings outstanding at the beginning of 2006, only 279 of them had their ratings lowered, representing 1% of the outstanding ratings. There were several classes that had their ratings downgraded multiple times, resulting in 400 total downgrades on 279 different classes for 2006. While the 400 total downgrades set a new high, the total isn't as alarming as it may first appear because of the large number of credit ratings outstanding.

Key observations about U.S. RMBS rating performance in 2006 include:

- RMBS surveillance activity for the year resulted in 1,416 rating changes: 1,015 performance-related upgrades, 400 performance-related downgrades, and one upgrade due to added credit support;
- 98.96% of the outstanding credit classes at the beginning of 2006 were at the same rating level or higher by year-end; and
- The issuance of private-label RMBS in 2006 dropped slightly to $1.158 trillion, reflecting a 2.76% decrease from 2005 issuance volume. This amount also included newly issued securities backed by Alternative A (Alt A) mortgage loans totaling approximately $365.6 billion, which surpassed the 2005 record level by 10%. In addition, second-mortgage loans continued to set a record for the third consecutive year, climbing 22.2% to $74.2 billion.

During the past 29 years, Standard & Poor's Ratings Services rated 46,912 RMBS credit classes from 11,042 transactions.

During 2006, surveillance activity for RMBS transactions resulted in the third-highest number of rating changes, at 1,416, including 1,015 performance-related upgrades, 400 performance-related downgrades, and one bond-insured upgrade. The similarities among the upgraded transactions continued from previous years, as the raised ratings were fueled by extraordinarily fast principal prepayments, the transactions' shifting-interest features, increased credit support percentages, stable collateral performance, market value appreciation, moderate delinquencies, low losses, and average seasoning of two years and eight months.

Approximately half (51.5%) of the 2006 downgrades were from speculative ratings, which was in contrast to 2005, when more than two-thirds of the downgraded classes were rated speculative-grade before they were downgraded. The average seasoning of the downgraded classes in 2006 was 3.82 years.

2006 Saw Changes In Subsector Issuance Volumes

Private-label RMBS issuance dropped 2.76% to $1.158 trillion in 2006, from 2005's record-setting volume (see table 1). Alt A mortgage loan securitization totaled approximately $365.6 billion in 2006, surpassing the 2005 record level by 10%. In addition, second-mortgage loans continued to set a new record for the third consecutive year, climbing 22.2% to $74.2 billion. Prime jumbo issuance accounted for the largest decline, dropping 22% to $219 billion, its lowest issuance level since 2002's $171.5 billion.

Even though the dollar volume was down slightly in 2006, Standard & Poor's provided credit ratings on another record 1,591 new RMBS transactions that contained 11,075 credit classes (see tables 2, 3, and 4), to facilitate the dramatic new-issuance expansion. Please note that table 2 shows cumulative transactions and credit classes as of each year-end. However, tables 3 and 4 show yearly new credit ratings, which are not cumulative. In addition, for years 2002-2006 in table 4, there are higher percentages for the 'BBB' credit ratings (compared with 'AAA' credit ratings) because there sometimes was more than one 'BBB' rated class ('BBB+', 'BBB', or 'BBB-') within the same transaction, whereas all 'AAA' rated classes were only counted as one credit rating.

Table 1

Annual Issuance of U.S. Rated RMBS By Type Of Underlying Collateral, 1978-2006

	(bil. $)			
Year	**Prime jumbo/Alt-A**	**Subprime/home equity**	**SRMBS other**	**Total**
1978	0.7			0.7
1979	0.4			0.4
1980	0.2			0.2
1981	0.1			0.1
1982	0.3			0.3
1983	1.6			1.6
1984	0.2			0.2
1985	2.0			2.0
1986	7.0			7.0
1987	11.1			11.1
1988	15.4			15.4
1989	14.2	2.7		16.9
1990	24.4	5.6		30.1
1991	49.3	10.2		59.6
1992	89.5	6.2		95.7
1993	98.5	7.1		105.6
1994	62.9	10.5		73.3
1995	27.1	19.8	2.1	48.9
1996	34.0	35.9	0.0	69.9
1997	56.7	61.5	0.9	119.1
1998	119.2	83.2	0.8	203.2
1999	87.4	59.1	1.4	147.9
2000	71.3	62.6	2.1	136.0
2001	158.3	102.6	6.4	267.3
2002	239.4	147.5	27.1	414.0
2003	319.4	215.3	51.6	586.2
2004	413.3	411.7	39.1	864.2
2005	629.8	525.7	35.7	1,191.3

Table 1

Annual Issuance of U.S. Rated RMBS By Type Of Underlying Collateral, 1978-2006 (cont.)				
2006*	598.1	523.1	37.2	1,158.4

Sources: Standard & Poor's, Inside MBS & ABS. *Estimate for 2006. ¶Subprime/home equity include second mortgages, line-of credit home equity loans, conventional home imporvement loans, and high CLTV loans. §Figures for "other mortgages," include scratch & dent, FHA-insured Title I home improvement loans, reverse mortgages, and net interest margin securities.

Table 2

Standard & Poor's U.S. RMBS Credit Ratings, 1978-2006

	Credit classes			Transactions		
Year	**Rated**	**Matured**	**Year-end outstanding**	**Rated**	**Matured**	**Year-end outstanding**
1978	7		6	7		6
1979	21		27	21		27
1980	20		47	20		47
1981	21		68	21		68
1982	24		92	24		92
1983	45		137	41		133
1984	37		174	37		170
1985	56		230	56		226
1986	149	3	376	141		367
1987	252	3	625	219	2	584
1988	267	11	881	230	9	805
1989	277	3	1,155	182	4	983
1990	429	35	1,549	192	34	1,141
1991	485	13	2,021	305	12	1,434
1992	676	24	2,673	363	16	1,781
1993	624	38	3,259	314	15	2,080
1994	582	133	3,708	302	98	2,284
1995	486	293	3,901	252	95	2,441
1996	483	297	4,087	257	130	2,568
1997	649	190	4,546	321	145	2,744
1998	899	266	5,179	404	152	2,996
1999	674	480	5,373	378	269	3,105
2000	679	464	5,588	321	330	3,096
2001	1,549	418	6,719	452	242	3,306
2002	3,069	720	9,068	688	402	3,592
2003	5,014	1,531	12,551	1,031	697	3,926
2004	7,591	2,477	17,665	1,333	882	4,377
2005	10,772	1,672	26,765	1,539	546	5,370
2006	11,075	1,515	36,325	1,591	584	6,377

Table 3

Standard & Poor's Annual RMBS Credit Ratings By Collateral, 1978-2006

	(%)			
Year	**Prime (jumbo/Alt-A)**	**Subprime/home equity***	**RMBS other¶**	**Total ratings (no.)**
1978	100			7
1979	86		14	21
1980	100			20
1981	86	5	10	21
1982	100			24
1983	93		7	45
1984	68		32	37
1985	64		36	56
1986	94		6	149
1987	96.8	0.4	2.8	252
1988	89	1	10	267
1989	87	4	9	277
1990	93	6	1	429
1991	87	12	1	485
1992	89.8	9.8	0.4	676
1993	88	12	1	624
1994	86	13	1	582
1995	81	19		486
1996	63.8	36	0.2	483
1997	39.6	60.1	0.3	649
1998	57	41	2	899
1999	47	47	6	674
2000	47	42	11	679
2001	58	33	10	1,549
2002	64	27	9	3,069
2003	58	31	10	5,014
2004	46	43	12	7,591
2005	45	46	9	10,772
2006	39	50	11	11,075
All years	**53**	**38**	**9**	**46,912**

*Subprime/home equity include subprime, closed-end second liens, line-of-credit home equity loans, conventional home improvement loans, and high-CLTV loans. ¶RMBS other includes document deficient, outside the guidelines, reperforming, nonperforming, net interest margin securities, reverse mortgages, tax liens, and miscellaneous transactions.

Table 4

Standard & Poor's Annual RMBS Credit Ratings By Major Rating Category, 1978-2006

Year	**AAA (%)**	**AA (%)**	**A (%)**	**BBB (%)**	**BB (%)**	**B (%)**	**CCC (%)**	**Total ratings (no.)**
1978		100						7
1979	24	71	5					21
1980	95	5						20
1981	71	24	5					21

Table 4

Standard & Poor's Annual RMBS Credit Ratings By Major Rating Category, 1978-2006 (cont.)

1982	50	50						24
1983	38	62						45
1984	57	41	3					37
1985	36	61	4					56
1986	38	61					1	149
1987	40	60						252
1988	38	57	4	1				267
1989	30	66	2	2				277
1990	26	69	2	3				429
1991	41	48	8	3				485
1992	47	38	9	5	1	1		676
1993	45	27	11	7	5	5		624
1994	47	22	11	9	5	6		582
1995	49	15	11	8	7	10		486
1996	53	12	13	8	6	7		483
1997	48	16	15	13	5	3		649
1998	45	16	13	14	7	6		899
1999	56	13	11	12	4	4		674
2000	44	17	15	15	5	4		679
2001	26	19	18	19	10	9		1,549
2002	20	18	19	22	11	10		3,069
2003	17	18	20	25	10	9		5,014
2004	14	21	22	26	10	7		7,591
2005	12	24	23	25	11	6		10,772
2006	11	27	24	25	9	3		11,075
All	**19**	**24**	**20**	**22**	**9**	**6**		**46,912**

RMBS Credit Ratings Continued Their Strong Performance

Of the 26,765 credit classes outstanding at the beginning of 2006, 95.2% maintained their credit ratings and 4.8% experienced rating changes. During 2006, there were 1,278 credit classes from 536 transactions affected, resulting in 1,416 rating changes. There were 1,016 upgrades and 400 downgrades, resulting in an upgrade-to-downgrade ratio of 2.54 to 1 (see table 5). There were 46 defaults among the downgrades, which is the most performance-related defaults in one year (see the "Structured Finance Global Ratings Roundup Quarterly," reports published on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com for a detailed analysis of rating changes for each of the four quarters of 2006.)

Table 5

Standard & Poor's RMBS Rating Upgrades And Downgrades, 1980-2006

Year	Upgrades	Downgrades	Upgrade-downgrade ratio
1980	1		N/A
1981			N/A

Table 5

Standard & Poor's RMBS Rating Upgrades And Downgrades, 1980-2006 (cont.)			
1982		3	N/A
1983		4	N/A
1984			N/A
1985		7	N/A
1986		6	N/A
1987		7	N/A
1988		25	N/A
1989	50	6	8.33
1990	7	292	0.02
1991	2	101	0.02
1992	13	34	0.38
1993	27	31	0.87
1994	132	62	2.13
1995	74	55	1.35
1996	43	39	1.10
1997	96	56	1.71
1998	88	67	1.31
1999	132	29	4.55
2000	552	164	3.37
2001	551	64	8.61
2002	634	106	5.98
2003	1,192	96	12.42
2004	1,427	69	20.68
2005	1,417	150	9.45
2006	1,016	400	2.54

N/A—Not applicable.

Upgrades Took A Hit, But They Still Trumped Downgrades

RMBS credit classes experienced 401 fewer rating upgrades in 2006 than 2005's total of 1,417 (see table 5). This decrease in upgrades tightened the upgrade-to-downgrade ratio to 2.54 to 1, down from 9.45 to 1 in 2005. Prime jumbo mortgages accounted for nearly 62% of the upgrades (see table 6). In addition, Alt A collateral accounted for almost 15% of the upgrades, followed by subprime collateral at 10%, closed-end second-lien at 4%, and risk transfers at less than 4%.

The strong collateral performance, coupled with the senior-subordinate cash flow structure, again was the fundamental reason for RMBS credit ratings' continued strong performance in 2006. Most RMBS transactions use the senior-subordinate structure, whereby prepayment cash flows are first used to retire the principal balances of the most senior credit classes, which are usually rated 'AAA'.

Downgrades Saw A Record Increase, But Were Still Only A Small Percentage Of Outstanding Ratings

The number of RMBS downgrades increased by 267% to 400 downgrades in 2006, from 150 in 2005 (see table 5). It's important to note, however, that the number of outstanding credit-rated classes was 26,765 at the beginning of 2006, which is more than double the number of rated classes outstanding in 2004 and almost three times the amount in 2003 (see table 2). In addition, only 279, or 1%, of the classes outstanding were affected by downgrades in 2006, and two classes from one transaction issued in 2006 saw downgrades.

The 400 downgrades in 2006 broke the record of 292 set in 1990, when two downgrades of Citicorp's senior debt—due to Citicorp using a limited guarantee as its primary form of credit support—resulted in 289 lowered ratings. Subprime mortgage collateral accounted for 229 (56%) of the downgrades in 2006, jumping from only 56 (37%) of the downgrades in 2005. Prime jumbo had the next highest number (40, down from 45 in 2005), followed by Alt A collateral (36, up from 32 in 2005), reperforming loans (26, up from three in 2005), closed-end second-lien (20, the first downgrades), first-lien high loan-to-value (LTV) (14, up from one in 2005), and outside-the-guidelines (14, up from five in 2005).

Table 6

Standard & Poor's Total RMBS Rating Changes By Underlying Collateral And Reason For Change In 2006

Collateral Type	Upgrades (no.)		Downgrades (no.)		Total rating changes (no.)	
Reason	**Performance**	**Other**	**Performance**	**Other**	**Performance**	**Other**
Prime jumbo	628		40		668	
Alt-A	151		36		187	
Home equity						
Subprime	104	1	229		333	1
1st lien high LTV	2		14		16	
2nd lien high CLTV	14		1		15	
Closed-end 2nd liens	42		20		62	
HELOCs						
Home improvement						
Conventional	5				5	
Scratch & dent						
Document Deficient	5				5	
Nonperforming	3		9		12	
Outside the guidelines	2		14		16	
Reperforming	13		26		39	
Other						
NIMS	2		3		5	
ReREMIC			5		5	
Risk transfers (synthetic)	37				37	
Seasoned loans	7		3		10	
Total	1,015	1	400		1,415	1

CLTV—Combined loan-to-value. NIM—Net interest margin.

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Table 7

Standard & Poor's 2006 U.S. RMBS Rating Transition (%) By Collateral Type

		(%)				
Collateral type	**Beginning no. of ratings**	**Stable**	**Upgrade**	**Upgrade/stable**	**Total downgrade**	**Default**
Prime jumbo	7,254	90.90	8.66	99.56	0.44	0.14
Alt-A	4,978	96.71	2.71	99.42	0.58	0.18
Home equity						
Subprime	9,997	97.42	1.05	98.47	1.53	0.13
1st lien high LTV	161	93.79	1.24	95.03	4.97	
2nd lien high CLTV	266	94.36	5.26	99.62	0.38	
Closed-end 2nd liens	702	92.17	5.98	98.15	1.85	0.28
HELOCs	172	100.00		100.00		
Home improvement/Title I	46	91.30	8.70	100.00		
Scratch & dent						
Document deficient	155	96.77	3.23	100.00		
Nonperforming	118	91.53	2.54	94.07	5.93	2.54
Outside the Guidelines	348	96.55	0.57	97.13	2.87	1.15
Reperforming	767	96.35	1.69	98.04	1.96	
RMBS other						
NIMS	1,002	99.50	0.20	99.70	0.30	
ReREMIC	122	95.90		95.90	4.10	3.28
Risk transfers (synthetic)	239	84.52	15.48	100.00		
Seasoned loans	90	88.89	7.78	96.67	3.33	1.11
Other	348	98.28	1.72	100.00		
Total	**26,765**	**95.20**	**3.75**	**98.96**	**1.04**	**0.17**

CLTV—Combined loan-to-value. NIM—Net interest margin. Downgrade rate includes defaults. Rating modifiers (+ and -) are used when determining rating transitions such as upgrades and downgrades. 'AAA' ratings from the same transaction are treated as a single rating in the calculation of this table. When ratings are withdrawn due to redemptions during the year, their last rating before withdrawal is used in the transition rate calculation.

Ratings actions on prime jumbo mortgage collateral decreased

Prime jumbo mortgage collateral experienced 282 fewer rating changes in 2006 (668) than in 2005 (950). The number of upgrades decreased by 277 to 628 in 2006, from 905 in 2005, and the number of downgrades decreased to 40 from 45. Various Washington Mutual mortgage transactions led the number of prime jumbo upgrades in 2006 (96). The other top issuers with upgraded classes were Residential Funding Mortgage Securities I Inc. (73), CHL Mortgage Pass-Through Trusts (59), and Banc of America Mortgage Trusts (54). These four issuers together accounted for almost 45% of 2006's raised ratings in prime jumbo mortgages, down from 53% for these same top four issuers in 2005. On the other hand, 72.5% of the 40 prime jumbo mortgage downgrades came from two different issuers, Credit Suisse First Boston (16) and SASCO (13). There was a total of 10 prime jumbo defaults (half of those ratings were lowered twice during 2006), while the remaining 30 prime jumbo downgrades resulted in ratings of 'CCC' (19), 'B' (six), 'BB' (three), and 'BBB-' (two). In addition, there were five prime jumbo classes with investment-grade ratings that experienced downgrades, including IndyMac ARM Trusts, which saw its class B-2 from series 2001-H1 downgraded to 'BBB-' from 'A' and its class B-3 from series 2001-H2 downgraded to 'BB' from 'BBB'; and Credit Suisse First Boston Mortgage Securities Corp., which saw its rating on class II-B-3 from series 2002-10 downgraded to 'BB' from 'BBB-'. The remaining investment-grade downgrades were to one confidentially rated class from a SASCO deal, which saw its rating lowered twice in 2006.

Alt A collateral ratings changes were comparable with 2005

Alt A collateral experienced 12 fewer rating changes in 2006 than in 2005. Upgrades decreased by 16 to 151, and downgrades increased by 4 to 36. RALI Series Trusts experienced the most Alt A collateral upgrades in 2006 (58), followed by Credit Suisse First Boston Mortgage Securities Corp. (37) and various Bear Stearns Trusts (23). These top three issuers accounted for approximately 78% of the upgrades in this sector, compared with 71% for 2005's top three issuers. Three issuers accounted for 83% of the downgrades: Countrywide's Alternative Loan Trust (14), Credit Suisse First Boston Mortgage Securities Corp. (11), and various SASCO deals (five). There was a total of nine defaults to Alt A collateral in 2006, all of which had been downgraded to 'CCC' before their defaults. The same top three issuers accounted for all nine defaults: Countrywide's Alternative Loan Trust (four), Credit Suisse First Boston Mortgage Securities Corp. (four), and SASCO (one).

Downgrades overwhelmed upgrades for subprime mortgage collateral

Subprime mortgage collateral experienced the greatest shift in the number of upgrades and downgrades in 2006 compared with 2005, as the number of downgrades more than doubled the number of upgrades. 2006 saw 104 subprime upgrades and 229 subprime downgrades, compared with 239 upgrades and 56 downgrades in 2005. It's important to note, however, that only 154 different subprime classes experienced downgrades in 2006, which is 1.5% of the 9,997 subprime classes outstanding at the beginning of 2006. The 104 subprime collateral upgrades in 2006 were among 63 series from 29 different issuers. Long Beach Mortgage Loan Trust 2004-1 accounted for 10 of the upgrades (10 classes from one series), followed by various home-improvement and/or home equity loan trusts originally issued by Green Tree Financial Corp. (nine) and Fremont Home Loan Trusts (eight). The 229 downgrades occurred on 154 classes out of 116 series from 37 different issuers. The top four subprime issuers with downgraded classes were Morgan Stanley Dean Witter Capital I Inc. Trusts (30), CSFB ABS Trust Series (26), Long Beach Mortgage Loan Trusts (21), and CDC Mortgage Capital Trusts (18). Despite the large increase in the number of subprime downgrades in 2006, those resulting in default increased by only one to 13 in 2006, compared with 12 in 2005. The only two 'AAA' rating downgrades (both of which were downgraded to 'AA') of any collateral type in 2006 were on classes that had not originally been rated 'AAA'. Long Beach Mortgage Loan Trust 2000-1 class M-1 was originally rated 'AA' and was subsequently upgraded to 'AAA' in 2003, three years after issuance, before being downgraded back to its original 'AA' level in 2006. Merrill Lynch Mortgage Investors Inc. series 2002-NC1 class B-1 was originally rated 'BBB' and subsequently raised to 'AAA' in December 2004, two-and-a-half years after issuance, after receiving new loan-level information in connection with a CDO issuance.

First-lien high LTV and second-lien high CLTV collateral experienced opposing results

First-lien high LTV and second-lien high combined-loan-to-value (CLTV) saw opposite results in 2006. First-lien high LTV experienced a jump in rating actions with two upgrades and 14 downgrades (up from five total rating actions in 2005), while second-lien high CLTV saw 14 upgrades and one downgrade. Two issuers accounted for all 16 first-lien high LTV rating actions. First Franklin Mortgage Loan Trusts had six classes from three series experience 12 downgrades, with five classes experiencing multiple downgrades in 2006. RAMP Series Trust 2002-RZ2 and 2002-RZ3 each had its rating on class M-1 raised and its rating on class M-3 lowered. Second-lien high CLTV had 15 classes from seven series by three issuers account for its 15 rating changes. The loan downgrade was on MESA 2002-1 Global Issuance Co. class B-2, which saw its rating lowered to 'CCC' from 'B'. In addition, MESA 2002-1 Global Issuance Co. had two other classes receive upgrades. Three Empire Funding Home Loan

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Trusts and two FirstPlus Home Loan Owner Trusts accounted for the remaining upgrades.

Closed-end second-lien collateral saw its first-ever downgrades

Closed-end second-lien mortgage collateral saw another increase in the number of upgrades in 2006. The 42 upgrades were 16 more than 2005's 26 upgrades. However, there were 20 closed-end second-lien downgrades in 2006, marking the first time this collateral type has experienced a downgrade. The 42 upgrades were among 42 classes from 19 series by nine different issuers. Four First Franklin Mortgage Loan Trusts accounted for 18 upgrades, with three other issuers each having five upgrades. The 20 downgrades were more concentrated, as SASCO accounted for 11, followed by MASTR Second Lien Trusts with five, SACO I Trusts with three, and First Franklin Mortgage Loan Trust 2002-FFA with one. Two SASCO deals experienced this collateral type's first defaults: class B-3 from series 2004-S4 and class B-4 from series 2005-S5.

Conventional home-improvement loans posted five upgrades

Conventional home-improvement loans had five upgrades and zero downgrades in 2006. Home Improvement & Home Equity Loan Trusts originally issued by Green Tree Financial Corp. had three ratings raised to 'AAA' and one raised to 'AA+'. Home Improvement Loan Trust 1995-A (also originally issued by Green Tree Financial Corp.) had its class B defaulted ('D') rating raised to 'BB+', becoming the first U.S. RMBS defaulted class to have its rating raised without additional credit support added to the deal. The delinquencies had departed and monthly excess spread had been sufficient to make all investors whole, despite the removal of Conseco Finance Corp.'s guarantee.

Scratch-and-dent downgrades more than doubled upgrades

Scratch-and-dent collateral, which consists of document-deficient, outside-the-guidelines, and reperforming and nonperforming collateral, had 23 upgrades and 49 downgrades in 2006, compared with 21 upgrades and nine downgrades in 2005. For document-deficient collateral, three Quest Trust 2003 deals issued by Ameriquest Mortgage Securities Inc. had all five ratings raised and no downgrades. Nonperforming upgrades were half (three) of what they were in 2006 (six), while downgrades increased dramatically with nine downgrades in 2006 compared with one in 2005 and zero in 2004. One confidentially rated trust accounted for six downgrades, with two classes downgraded twice and two classes each downgraded once. Only three of the nonperforming classes have public ratings. Credit-Based Asset Servicing and Securitization LLC (C-BASS)'s class M-2 notes from series 2000-CB2 and 2000-CB3 had their ratings raised to 'AAA' from 'A'. Terwin Mortgage Trust 2004-EQR1's class B-1 had its rating lowered to 'BBB' from 'A'. Outside-the-guidelines refers to mortgage loans outside of an issuer's normal underwriting guidelines. The number of outside-the-guidelines upgrades stayed the same in 2006 (two), but the number of downgrades almost tripled, jumping to 14 from five in 2005. Two classes from Bayview Financial Asset Trust 2003-A accounted for both upgrades, as classes M-1 and M-2 were each raised one notch to 'AA+' and 'AA', respectively. Three RAMP Series Trusts had 14 downgrades, with four classes defaulting. Reperforming collateral upgrades were the same in 2006 (13); however, the downgrades spiked to 26 in 2006, compared with only three in 2005. The 13 reperforming upgrades were among nine series from six different issuers. C-BASS Trusts led the way with four upgrades, followed by two upgrades each to Bayview Financial Asset Trusts 2002-F, Bear Stearns Asset Backed Securities Trust 2003-SD2, MESA, and a confidentially rated issuer; and one upgrade to Quest Trust 2002-X1. Reperforming downgrades were also led by C-BASS (14), four on confidentially rated classes by one issuer, three each to MESA Trust 2001-5 and RFSC Series 2003-RP1 Trust, and two to GSRPM Mortgage Loan Trust Series 2002-1. None of the downgrades, however, resulted in default.

NIMS saw their first public upgrades

Net interest margin securities (NIMS) experienced their first public upgrades in 2006, as two classes from 2001-CB2 Trust issued by C-BASS had their ratings raised. The three downgrades in 2006 matched the number of downgrades in 2005. Two of the three classes have confidential ratings, and SASCO Net Interest Margin Trust 2003-12XS had its notes' rating lowered to 'CCC' from 'A-'.

ReREMICs hit with their first downgrades in 2006

Re-REMICs experienced five downgrades and no upgrades in 2006, after seeing four upgrades and no downgrades in 2005. All of the classes were confidentially rated. Four of the downgrades resulted in a default ('D'), and the other downgrade went to 'BB' from 'BBB'.

Risk transfers continued to rack up upgrades

Risk transfer collateral received only upgrades in 2006, continuing the trend seen in 2004 and 2005. All of the risk transfers that received upgrades were issued by various RESI Finance Ltd. Partnerships or by RESIX Finance Ltd. There were 37 upgrades on classes from 15 different series. The risk transfer transactions include real estate synthetic investments (RESI), a synthetic securitization of jumbo, A quality, fixed-rate, and first-lien residential mortgage loans (the reference portfolio). Unlike traditional mortgage-backed securitizations, the actual cash flow from the reference portfolio is not paid to the securityholders. Rather, the proceeds from the issuance of the securities are invested in eligible investments. Interest payable to the securityholders is paid from income earned on the eligible investments and payments from Bank of America under a financial guarantee contract.

Rating activity tripled for seasoned loans

Seasoned-loan collateral had its second year of rating changes in 2006, with seven upgrades and three downgrades, compared with one upgrade and two downgrades in 2005. RAMP Series 2003-SL1 Trust accounted for five of the upgrades, with PHH Mortgage Corp. seeing upgrades on two confidentially rated classes. Washington Mutual MSC Mortgage-Pass Through Certificates Series 2004-RA2 Trust had two downgrades, with class C-B-4 downgraded to 'D' from 'CCC' and class C-B-3 downgraded to 'BB' from 'BBB'. Merrill Lynch Mortgage Investors Trust Series 2004-SL1 class B-3 was downgraded to 'B' from 'BB'.

Table 8

Standard & Poor's RMBS All Collateral Rating Transition Matrix, 2006

From/to	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
AAA			2							
AA+	99								1	
AA	51	172		1		8		1	1	
AA-	5	20	16			1	1			1
A+	7	9	23	21				2	1	
A	15	15	38	21	79				17	7
A-	3		5	11	6	21			2	1
BBB+	1	1	3	2	12	15	22		1	3
BBB		2	9	2	3	20	17	61		4
BBB-	1		2	3	1	4	3	4	10	
BB+					1		1	5	10	15
BB					3	2	5	2	15	11
BB-										1

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Table 8

Standard & Poor's RMBS All Collateral Rating Transition Matrix, 2006 (cont.)

B+									3	1
B								1	1	
B-										
CCC										
D										

From/to (cont.)	BB+	BB	BB-	B+	B	B-	CCC and below	Up	Down	Total
AAA									2	2
AA+								99	1	100
AA								223	11	234
AA-								41	3	44
A+								60	3	63
A		1						168	25	193
A-							1	46	4	50
BBB+	2	8						56	14	70
BBB	2	49	1		3		4	114	63	177
BBB-		39	20		5		4	28	68	96
BB+				3	7			32	10	42
BB	34				66	1	9	72	76	148
BB-	2	7			8	1	2	10	11	21
B+	3	7	8				1	22	1	23
B	8	9	11	14			69	44	69	113
B-							5		5	5
CCC							34		34	34
D	1							1		1
Total								**1,016**	**400**	**1,416**

Higher-rated classes received the majority of the 2006 upgrades

The previously established pattern of rating changes among credit classes continued in 2006: the higher the ratings of credit classes, the greater their upgrade potential. This pattern is explained by two main factors:

- Credit support percentages usually increase as mortgage loan pools are paid down due to the shifting-interest structure of most of the RMBS transactions; and
- The structure generally allows for the lowest-rated classes to incur losses before the higher-rated classes.

Investment-grade classes once again led the upgrade column, accounting for 82.2% of all upgrades (see table 8). The 'AA' rating category experienced 223 upgrades (21.9% of the total), the most frequent upgrades among all credit classes. By contrast, speculative-grade credit classes again dominated the downgrade column, accounting for 51.5% of downgrades. The 'BB' rating category experienced 76 downgrades (19% of the total), the most frequent downgrades among all credit classes. Transition matrices for prime jumbo, Alt A, and subprime collateral demonstrated similar patterns as well (see tables 9-11).

Table 9

Standard & Poor's RMBS Prime Jumbo Rating Transition Matrix, 2006

From/to	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
AA+	59									
AA	15	105								
AA-	1	15	10							
A+		6	14	16						
A	2	3	21	16	51					1
A-			3	6	5	14				
BBB+			1	2	10	8	16			
BBB		1	2		2	12	10	50		1
BBB-					1	2	3	3	8	
BB+							1	5	6	12
BB					1	2		1	12	6
BB-										1
B+									3	1
B									1	
B-										
CCC										
CC										

From/to (cont.)	BB+	BB	BB-	B+	B	CCC and below	D	Up	Down	Total
AA+								59		59
AA								120		120
AA-								26		26
A+								36		36
A								93	1	94
A-								28		28
BBB+								37		37
BBB		1						77	2	79
BBB-		2						17	2	19
BB+								24		24
BB	26				6	2	1	48	9	57
BB-	2	7						10		10
B+	3	5	8					20		20
B	5	6	8	13		16	1	33	17	50
B-						1	2		3	3
CCC							6		6	6
CC										
Total								**628**	**40**	**668**

Table 10

Standard & Poor's RMBS Alt-A Rating Transition Matrix, 2006

From/to	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-
AAA										

Table 10

Standard & Poor's RMBS Alt-A Rating Transition Matrix, 2006 (cont.)

AA+	23									
AA	9	25		1					1	
AA-	1	2	3							
A+		2	7	3						
A		2	5	4	15				2	
A-			2			2				
BBB+						3	3			
BBB				2		5	4	6		
BBB-						1			1	
BB+									2	1
BB							1	1	3	3
BB-										
B+										
B										
CCC										
Total										

From/to (cont.)	**BB+**	**BB**	**BB-**	**B+**	**B**	**CCC and below**	**D**	**Up**	**Down**	**Total**
AAA										
AA+								23		23
AA								34	2	36
AA-								6		6
A+								12		12
A								26	2	28
A-								4		4
BBB+	1							6	1	7
BBB	1	1			1			17	3	20
BBB-						1		2	1	3
BB+								3		3
BB	6				6			14	6	20
BB-										
B+										
B		2	1	1		1		4	12	16
CCC							9		9	9
Total								**151**	**36**	**187**

Table 11

Standard & Poor's RMBS Subprime Rating Transition Matrix, 2006

From/to	**AAA**	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**
AAA			2							
AA+	13								1	
AA	9	29				5				
AA-	2	1				1	1			1

Table 11

Standard & Poor's RMBS Subprime Rating Transition Matrix, 2006 (cont.)

A+	2	1		1				1	1	
A	3	4	7		5				10	3
A-	1			5	1	1			2	1
BBB+		1			2	3	2		1	3
BBB			3				1	4		1
BBB-	1			1					1	
BB+					1					
BB										
BB-										
B										
B-										
CCC										

From/to (cont.)	BB+	BB	BB-	B	B-	CCC and below	D	Up	Down	Total
AAA									2	2
AA+								13	1	14
AA								38	5	43
AA-								3	3	6
A+								4	2	6
A		1						19	14	33
A-								8	3	11
BBB+	1	6						8	11	19
BBB	1	37	1	2		1		8	43	51
BBB-		32	20	4				3	56	59
BB+				5				1	5	6
BB				32	1	2	1		36	36
BB-				7	1	1			9	9
B						#	1		26	26
B-						2			2	2
CCC							11		11	11
Total								**105**	**229**	**334**

Performance-Related Defaults Set A Record Number

There were 46 performance-related defaults in 2006, a record number for one calendar year (there was a record 50 defaults in 2003, but 33 of those defaults were the result of a guarantor default on Conseco Finance Corp., not the result of performance). Of the 46 defaults in 2006, 13 came from subprime mortgages, 10 from prime jumbo mortgage-backed transactions, nine from Alt A, four each from outside-the-guidelines and ReREMICs, three from nonperforming, two from closed-end second-liens, and one from seasoned loans. None of the 2006 defaults occurred on a class originally rated higher than 'BBB', except for three classes originally rated 'A'. As in 2004 and 2005, only one default occurred to a class that had an investment-grade rating ('BBB') before default.

While the average seasoning before default was approximately 4.75 years at the beginning of 2006, the average seasoning at the time of default continued to shorten during the year. Each quarter's average seasoning at the time of default was as follows: 4.24 years in the first quarter, 4.94 in the second quarter, 4.17 in the third quarter, and 3.70 in the fourth quarter. At the end of 2006, the average seasoning before default had dropped to 4.66 years.

Unfortunately, this trend of shortened seasoning could be indicative of more defaults happening sooner. The number of RMBS classes rated in a given year has increased dramatically since 2000, when 679 classes were rated. Standard & Poor's rated 1,549 classes in 2001; 3,069 in 2002; 5,014 in 2003; 7,591 in 2004; 10,772 in 2005; and 11,075 in 2006. It remains to be seen whether the rise in the number of less-seasoned defaults is a result of this increase or the worsening collateral performance.

Rating Transition Ratios Revealed Strong RMBS Credit Performance In 2006

The excellent credit performance of RMBS in 2006 is evident by comparing the one-year rating transition ratios in 2006 with the average of the one-year rating transition ratios for 1978-2006 (see table 12) in the major rating categories. The diagonal entry of the 2006 transition matrix for the 'AAA' rating is 99.95%, indicating that 99.95% of 'AAA' rated classes have retained their top credit rating without a single downgrade. This was superior to the 1978-2006 period, when, on average, the ratings on 0.10% of 'AAA' rated credit classes were lowered within a year, even though most years had no 'AAA' rating downgrades. The performance of RMBS classes rated 'AAA' has always been outstanding, but 2006 was once again better than average, with only two 'AAA' rating downgrades. Toward the other end of the spectrum, only 'BBB' ratings fared worse than their 29-year average, with a 98.02% stability ratio in 2006, compared with a stability ratio of 98.34% for years 1978-2006.

(Note: Tables 12-15 differ from tables 8-11, in that tables 8-11 reflect interim rating changes during 2006, while tables 12-15 only compare the rating of a class at the beginning of 2006 with its rating at the end of 2006. For example, if a class began 2006 with an 'AA' rating and was downgraded twice during 2006, first to 'A' and then to 'BB', that class would be treated differently in tables 8-11 versus tables 12-15. Tables 8-11 would show a rating on the 'AA' row going to 'A' and an additional rating on the 'A' row going to 'BB'. By contrast, tables 12-15 would show only the "net" result of all rating changes to that class during 2006, meaning they would show a rating on the 'AA' row going to 'BB'.)

Table 12

One-Year RMBS Rating Transition Ratios (%), 2006 Versus 1978-2006

One-year RMBS rating transition ratios, 2006 (%)

Rating	Beginning no. of ratings	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade	Difference vs. avg.
AAA	4,385	99.95	0.05									99.95	0.05	0.05
AA	5,962	2.60	97.17	0.13	0.10							99.77	0.23	0.77
A	5,692	0.44	2.51	96.52	0.30	0.12	0.09	0.02				99.47	0.53	0.27
BBB	6,315	0.03	0.40	1.54	96.06	1.09	0.38	0.36			0.14	98.02	1.98	(0.32)
BB	2,663			0.45	2.18	95.46	0.94	0.56			0.41	98.08	1.92	0.36
B	1,707				0.35	2.69	94.84	1.52			0.59	97.89	2.11	1.41
CCC	37							56.76			43.24	56.76	43.24	1.60
CC	4								100			100		21.01
Total	26,765													

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Table 12

One-Year RMBS Rating Transition Ratios (%), 2006 Versus 1978-2006 (cont.)

One-year average RMBS rating transition ratios, 1978-2006

Rating	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade	Difference vs. 2006
AAA	99.90	0.09	0.005	0.005							99.90	0.10	(0.05)
AA	6.87	92.13	0.82	0.10	0.04	0.03	0.02				99.00	1.00	(0.77)
A	1.92	5.50	91.77	0.53	0.13	0.05	0.09			0.01	99.20	0.80	(0.27)
BBB	0.31	2.08	3.31	92.63	0.72	0.52	0.27	0.01		0.14	98.34	1.66	0.32
BB	0.09	0.29	2.36	5.36	89.62	0.97	0.66	0.12		0.53	97.72	2.28	(0.36)
B	0.03	0.11	0.15	1.53	4.21	90.45	1.87	0.16		1.48	96.48	3.52	(1.41)
CCC		0.36					54.80	8.90	2.85	33.10	55.16	44.84	(1.60)
CC				1.68				77.31		21.01	78.99	21.01	(21.01)
C										100		100	

Table 13

One-Year RMBS Prime Jumbo Rating Transition Ratios (%), 2006 Versus 1978-2006

One-year RMBS rating transition ratios, 2006 (%)

Rating	Beginning no. of ratings	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade	Difference vs. avg.
AAA	1,541	100										100		0.1
AA	1,588	4.79	95.21									100		1.4
A	1,222	0.16	7.04	92.72	0.08							99.92	0.08	0.9
BBB	1,220		0.49	5.25	93.61	0.33	0.25	0.08				99.34	0.66	0.2
BB	1,068			0.37	4.03	94.57	0.47	0.28			0.28	98.97	1.03	0.7
B	1,020				0.49	3.43	94.22	1.27			0.59	98.14	1.86	0.3
CCC	13							92.31			7.69	92.31	7.69	18.7
CC	3								100			100		25.7
Total	7,675													

One-year average RMBS prime jumbo rating transition ratios, 1978-2006

Rating	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade	Difference vs. 2006
AAA	99.88	0.12	0.004	0.004							99.88	0.12	(0.1)
AA	8.36	90.22	1.21	0.11	0.06		0.03				98.58	1.42	(1.4)
A	3.52	9.85	85.68	0.66	0.16	0.04	0.09				99.05	0.95	(0.9)
BBB	0.72	5.28	7.90	85.28	0.41	0.16	0.20	0.02		0.04	99.17	0.83	(0.2)
BB	0.11	0.34	3.64	8.16	86.06	0.58	0.56	0.16		0.38	98.31	1.69	(0.7)
B	0.02	0.11	0.13	1.95	5.26	90.39	1.00	0.16		0.98	97.87	2.13	(0.3)
CCC		0.57					72.99	9.20	4.60	12.6	73.56	26.44	(18.7)
CC				2.70				71.62		25.7	74.32	25.68	(25.7)
C										100		100	

*Stability ratio is the percentage of the ratings that either stayed the same or were raised. 'AAA' ratings from the same transaction are treated as a single rating in the calculation of this table. When ratings are withdrawn, their last ratings before withdrawals are used in the transition rate calculation. Full rating categories are used when determining rating transitions such as upgrades and downgrades. Each period's outstanding number of unique ratings is used for weighted average statistics. Difference refers to the difference between stablility ratios of this year and weighted average transitions.

Table 14

One-Year RMBS Alt-A Rating Transition Ratios (%), 2006 Versus 1978-2006

One-year RMBS rating transition ratios, 2006 (%)

Rating	Beginning no. of ratings	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade	Difference vs. avg.
AAA	704	100										100		
AA	1,187	2.78	97.14		0.08							99.92	0.08	(0.04)
A	1,003		2.39	97.41	0.20							99.80	0.20	(0.04)
BBB	973		0.31	1.64	97.64	0.21	0.10				0.10	99.59	0.41	0.37
BB	572			0.17	1.57	97.20	0.70	0.17			0.17	98.95	1.05	0.16
B	531					0.56	97.55	1.51			0.38	98.12	1.88	0.43
CCC	8							37.50			62.50	37.50	62.50	4.17
CC														
Total	4,978													

One-year average RMBS Alt-A rating transition ratios, 1978-2006

Rating	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade	Difference vs. 2006
AAA	100										100		
AA	5.07	94.88		0.05							99.95	0.05	0.04
A	0.75	4.21	94.89	0.11	0.05						99.84	0.16	0.04
BBB	0.28	0.94	2.61	95.39	0.56	0.11	0.06			0.06	99.22	0.78	(0.37)
BB		0.46	0.37	2.41	95.55	0.83	0.19			0.19	98.80	1.20	(0.16)
B			0.10	0.10	0.87	96.63	1.44	0.19		0.67	97.69	2.31	(0.43)
CCC							33.33			66.67	33.33	66.67	(4.17)
CC								100			100		
C													

Table 15

One-Year RMBS Subprime Rating Transition Ratios (%), 2006 Versus 1978-2006

One-year RMBS rating transition ratios, 2006 (%)

Rating	Beginning no. of ratings	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade	Difference vs. avg.
AAA	1,401	99.86	0.14									99.86	0.14	(0.12)
AA	2,596	0.92	98.73	0.23	0.12							99.65	0.35	(0.13)
A	2,612	0.23	0.69	98.39	0.38	0.19	0.11					99.31	0.69	(0.19)
BBB	2,842	0.04	0.18	0.28	96.06	2.04	0.67	0.60			0.14	96.55	3.45	(0.87)
BB	516			0.19		97.09	0.97	1.36			0.39	97.29	2.71	2.43
B	21						85.71	14.29				85.71	14.29	21.24
CCC	9							22.22			77.78	22.22	77.78	1.29
CC														
Total	9,997													

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Table 15

One-Year RMBS Subprime Rating Transition Ratios (%), 2006 Versus 1978-2006 (cont.)

One-year average RMBS subprime rating transition ratios, 1978-2006

Rating	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade	Difference vs. 2006
AAA	99.98	0.02									99.98	0.02	0.12
AA	3.75	96.04	0.16	0.05							99.79	0.21	0.13
A	0.39	1.98	97.13	0.29	0.12	0.07	0.02			0.02	99.50	0.50	0.19
BBB	0.06	0.39	0.79	96.19	1.19	0.74	0.37	0.01		0.25	97.43	2.57	0.87
BB			0.12	0.23	94.51	2.22	1.52	0.23		1.17	94.86	5.14	(2.43)
B				0.66		63.82	16.45	0.66		18.42	64.47	35.53	(21.24)
CCC							20.93			79.07	20.93	79.07	(1.29)
CC								33.33		66.67	33.33	66.67	
C													

Original-To-Last And Vintage Analysis

Tables 16-19 document the original-to-last rating transitions, while table 20 summarizes the cumulative transition ratios by year of issuance (vintage) for U.S. RMBS ratings. RMBS transactions rated in 1990, 1997, and 1991 have experienced the highest default rates. Similarly, 1997 and 1991 and earlier transactions showed more downgrades. Securities issued in 2002 have an upgrade percentage of 45.10%, the highest percentages of RMBS lifetime upgrades by year of issuance, with securities issued in 1993 maintaining the second-place position with 40.38% upgrades.

Table 16

Standard & Poor's U.S. RMBS Original-To-Last Rating Transition (%), 1978-2006

Original/last rating	Original no. of ratings	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio+	Downgrade
AAA	8,970	99.65	0.26	0.02	0.01			0.01			0.04	99.65	0.34
AA	11,344	14.1	84.0	1.3	0.1	0.02	0.01	0.05	0.09		0.26	98.15	1.85
A	9,430	5.5	5.8	87.8	0.36	0.1	0.05	0.02			0.37	99.1	0.9
BBB	10,266	1.9	2.7	3.2	89.7	0.8	0.4	0.4			0.86	97.5	2.5
BB	4,253	1.0	2.3	3.7	5.4	85.1	1.0	0.4	0.05		0.99	97.5	2.5
B	2,645	0.6	0.6	1.8	4.3	6.6	81	1.5	0.26		3.1	95.1	4.9
CCC	4							75			25	75	25
Total	**46,912**												

*Stability ratio is the percentage of the ratings that either stayed the same or were raised. 'AAA' ratings from the same transaction are treated as a single rating in the calculation of this table. When ratings are withdrawn, their last ratings before withdrawals are used in the transition rate calculation. Full rating categories are used when determining rating transitions such as upgrades and downgrades.

Table 17

Standard & Poor's U.S. RMBS Prime Jumbo Original-To-Last Rating Transition (%), 1978-2006

Original/last rating	Original no. of ratings	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Upgrade/stable	Downgrade
AAA	3,856	99.3	0.5	0.05				0.03			0.10	99.3	0.7
AA	3,754	33.1	61.9	3.65	0.27	0.05	0.03	0.16	0.1		0.75	95.0	5.0
A	2,004	19.3	17.7	62.3	0.45						0.25	99.3	0.7

Table 17

Standard & Poor's U.S. RMBS Prime Jumbo Original-To-Last Rating Transition (%), 1978-2006 (cont.)

BBB	1,926	8.6	11.3	11.4	67.3	0.3	0.3	0.1		0.67	98.7	1.3
BB	1,677	2.2	5.2	8.5	11.9	69.8	0.9	0.6	0.06	0.83	97.6	2.4
B	1,678	0.6	0.8	2.4	6.5	9.7	75	1.7	0.3	2.8	95.2	4.8
CCC	4							75		25	75	25
Total	**14,899**											

'AAA' ratings from the same transaction are treated as a single rating in the calculation of this table. When ratings are withdrawn, their last ratings before withdrawals are used in the transition rate calculation. Full rating categories are used when determining rating transitions such as upgrades and downgrades.

Table 18

Standard & Poor's U.S. RMBS Alt-A Original-To-Last Rating Transition (%), 1978-2006

Original/last rating	Original no. of ratings	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	*Stability ratio	Downgrade
AAA	1,346	100										100	
AA	2,233	4.4	95.5	0.045	0.045							99.91	0.09
A	1,872	1.4	3.4	95	0.11			0.05				99.84	0.16
BBB	1,787	0.4	1.1	2.1	95.7	0.45	0.17	0.06			0.11	99.22	0.78
BB	837		0.8	0.7	2.0	95	0.72				0.24	99.04	0.96
B	724			0.1	0.3	0.8	95.44198895	1.4	0.3		1.7	96.69	3.31
CCC													
Total	**8,799**												

*Stability ratio is the percentage of the ratings that either stayed the same or were raised. 'AAA' ratings from the same transaction are treated as a single rating in the calculation of this table. When ratings are withdrawn, their last ratings before withdrawals are used in the transition rate calculation. Full rating categories are used when determining rating transitions such as upgrades and downgrades.

Table 19

Standard & Poor's U.S. RMBS Subprime Original-To-Last Rating Transition (%), 1978-2006

Original/last rating	Original no. of ratings	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade
AAA	2,408	100										100	
AA	4,267	4.3	95.5	0.2								99.8	0.2
A	4,021	1.3	2.0	95.9	0.3	0.1	0.1				0.3	99.2	0.8
BBB	4,313	0.1	0.7	1.0	94.3	1.4	0.6	0.6			1.3	96.2	3.8
BB	854			0.1	0.2	97.1	0.6	0.5			1.5	97.4	2.6
B	30						53.3				46.7	53.3	46.7
CCC	1										100		100
Total	**15,894**												

*Stability ratio is the percentage of the ratings that either stayed the same or were raised. 'AAA' ratings from the same transaction are treated as a single rating in the calculation of this table. When ratings are withdrawn, their last ratings before withdrawals are used in the transition rate calculation. Full rating categories are used when determining rating transitions such as upgrades and downgrades.

Table 20

Standard & Poor's Cumulative U.S. RMBS Rating Transitions By Issuance (Vintage) Year

Vintage year	No. of ratings	Stable (%)	Upgrade (%)	Downgrade (%)	Near-default (%)	Default (%)
Pre-1990	1,176	64.03	18.28	17.69	0	1.19
1990	429	63.40	22.38	14.22	0.93	5.36

Table 20

Standard & Poor's Cumulative U.S. RMBS Rating Transitions By Issuance (Vintage) Year (cont.)

1991	485	72.99	20.21	6.80	1.24	4.12
1992	676	71.01	26.92	2.07	0	0.30
1993	624	57.85	40.38	1.76	0	0.64
1994	582	58.59	35.74	5.67	0.34	3.61
1995	486	59.88	36.21	3.91	0.41	2.47
1996	483	58.59	37.89	3.52	0	2.90
1997	649	65.02	27.12	7.86	0.31	4.78
1998	899	63.40	31.59	5.01	0	3.67
1999	674	74.48	22.26	3.26	0	2.82
2000	679	68.63	26.80	4.57	0.15	2.95
2001	1,549	58.68	35.51	5.81	0.06	2.45
2002	3,069	50.31	45.10	4.59	0.03	1.08
2003	5,014	78.68	19.98	1.34	0	0.14
2004	7,591	97.69	1.80	0.50	0	0.11
2005	10,772	99.83	0.09	0.07	0	0.02
2006	11,075	99.97	0.01	0.02	0	0
All years	**46,912**	**86.83**	**11.27**	**1.90**	**0.04**	**0.64**

'AAA' ratings from the same transaction are treated as a single rating in the calculation of this table. When ratings are withdrawn, their last ratings before withdrawals are used in the transition rate calculation. 'Near default includes securities downgraded to 'CC' or 'C' during the year. Downgrade rate includes near-default or defaults. Defaults include near-defaults. Rating modifiers (+ and -) are used when determining rating transitions such as upgrades and downgrades.

Multiyear Rating Transition Matrix

Average one-, two-, three-, four-, and five-year rating transition ratios for the period of 1978-2006 are presented in tables 21-24. "Two-year average rating transition" refers to an average frequency of a security's rating change over multiple two-year periods. The multiyear transition ratios are calculated by determining the rating level of a credit class at the beginning and end of the transition period (multiyear refers to any period longer than one year). This exercise is repeated over multiple periods so that an average transition ratio can be computed. Table 21 includes all RMBS collateral types, with tables 22, 23, and 24 showing the three largest collateral types: prime jumbo, subprime, and Alt A, respectively.

Table 21

Average U.S. RMBS All Collateral Rating Transition Ratios, 1978-2006

One-year average	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade
AAA	99.9	0.1	0.005	0.005							99.9	0.1
AA	6.9	92.1	0.8	0.1	0.0	0.03	0.02				99.0	1.0
A	1.9	5.5	91.8	0.5	0.1	0.05	0.1			0.01	99.2	0.8
BBB	0.3	2.1	3.3	92.6	0.7	0.5	0.3	0.01		0.14	98.3	1.7
BB	0.1	0.3	2.4	5.4	89.6	1.0	0.7	0.12		0.53	97.7	2.3
B	0.03	0.11	0.15	1.5	4.2	90.4	1.9	0.16		1.48	96.5	3.5
CCC		0.36					54.8	8.9	2.8	33.1	55.2	44.8
CC				1.7				77.3		21.0	79.0	21.0

Table 21

Average U.S. RMBS All Collateral Rating Transition Ratios, 1978-2006 (cont.)

C										100		100
Two-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	99.8	0.2	0.01	0.01	0.003						99.8	0.2
AA	15.3	82.4	1.8	0.2	0.1	0.04	0.1			0.03	97.7	2.3
A	6.7	11.7	79.8	1.1	0.1	0.1	0.2	0.1		0.14	98.3	1.7
BBB	1.7	6.0	7.3	81.2	1.3	1.3	0.6	0.1		0.56	96.1	3.9
BB	0.4	2.4	6.8	11.2	74.5	1.8	0.8	0.3	0.04	1.68	95.3	4.7
B	0.1	0.4	1.0	4.6	8.5	77.4	2.8	0.5		4.62	92.1	7.9
CCC		0.4					46.7	9.8	2.5	40.6	47.1	52.9
CC				3.5				67.0		29.6	70.4	29.6
C										100		100
Three-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	99.7	0.2	0.02	0.02	0.01		0.01				99.7	0.3
AA	22.3	74.2	2.7	0.3	0.1	0.1	0.2	0.1	0.02	0.07	96.5	3.5
A	13.5	15.5	68.2	1.6	0.2	0.1	0.3	0.1	0.03	0.42	97.2	2.8
BBB	4.8	10.3	10.5	67.4	2.0	2.0	1.4	0.1	0.03	1.50	92.9	7.1
BB	1.3	5.8	11.0	16.2	58.3	2.4	1.1	0.5		3.29	92.6	7.4
B	0.4	0.7	2.2	7.8	12.0	64.8	2.5	0.9		8.71	87.9	12.1
CCC		0.4					45.5	9.1		45.0	45.9	54.1
CC				5.5				60.0		34.5	65.5	34.5
C										100		100
Four-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	99.6	0.3	0.04	0.02	0.01		0.02				99.6	0.4
AA	27.3	68.5	3.2	0.4	0.1	0.02	0.3	0.1	0.02	0.20	95.7	4.3
A	19.7	16.6	60.0	1.9	0.3	0.3	0.3	0.2	0.1	0.79	96.2	3.8
BBB	9.3	13.3	11.9	55.4	2.2	2.3	1.9	0.1		3.57	89.9	10.1
BB	2.4	9.0	13.2	18.8	46.4	2.8	1.6	0.7		5.13	89.7	10.3
B	0.8	0.7	3.5	10.3	14.0	54.4	2.8	1.3		12.2	83.7	16.3
CCC		0.5					43.3	8.8		47.4	43.7	56.3
CC				8.0				55.0		37.0	63.0	37.0
C										100		100
Five-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	99.6	0.3	0.04	0.03	0.01	0.004	0.02	0.004	0.01		99.6	0.4
AA	30.0	65.4	3.3	0.5	0.03	0.0	0.2	0.2	0.01	0.34	95.4	4.6
A	24.1	15.5	55.9	2.1	0.3	0.4	0.2	0.2	0.1	1.06	95.5	4.5
BBB	14.4	14.4	12.1	47.7	1.6	2.2	1.8	0.1		5.65	88.6	11.4
BB	3.9	11.3	13.2	19.2	40.2	2.9	1.9	0.7		6.64	87.8	12.2
B	1.3	0.7	4.4	11.5	15.0	47.1	2.9	1.8		15.3	80.0	20.0
CCC		0.6					44.4	11.1		43.8	45.1	54.9

Table 21

Average U.S. RMBS All Collateral Rating Transition Ratios, 1978-2006 (cont.)

CC				10.9				48.9		40.2	59.8	40.2
C										100		100

*Stability ratio is the percentage of the ratings that either stayed the same or were raised. 'AAA' ratings from the same transaction are treated as a single rating in the calculation of this table. When ratings are withdrawn, their last ratings before withdrawals are used in the transition rate calculation. Full rating categories are used when determining rating transitions such as upgrades and downgrades. Each period's outstanding number of unique ratings is used for weighted average statistics.

Table 22

Average U.S. RMBS Prime Jumbo Rating Transition Ratios, 1978-2006

One-year average	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade
AAA	99.9	0.1	0.004	0.004							99.9	0.1
AA	8.4	90.2	1.2	0.1	0.1		0.03				98.6	1.4
A	3.5	9.8	85.7	0.7	0.2	0.04	0.1				99.0	1.0
BBB	0.7	5.3	7.9	85.3	0.4	0.2	0.2	0.02		0.04	99.2	0.8
BB	0.1	0.3	3.6	8.2	86.1	0.6	0.6	0.2		0.38	98.3	1.7
B	0.02	0.1	0.1	2.0	5.3	90.4	1.0	0.2		0.98	97.9	2.1
CCC		0.6					73.0	9.2	4.6	12.6	73.6	26.4
CC				2.7				71.6		25.7	74.3	25.7
C										100		100
Two-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	99.8	0.2	0.01	0.01	0.004						99.8	0.2
AA	16.3	80.9	2.4	0.2	0.1		0.1			0.04	97.2	2.8
A	10.5	16.7	71.1	1.1	0.1	0.05	0.3	0.1		0.06	98.3	1.7
BBB	3.6	12.6	13.5	68.6	0.8	0.3	0.3	0.1		0.18	98.3	1.7
BB	0.5	2.9	9.2	14.6	69.6	1.1	0.7	0.4	0.1	1.07	96.8	3.2
B	0.1	0.4	1.1	5.6	10.1	78.1	1.8	0.4		2.41	95.4	4.6
CCC		0.6					62.7	8.1	3.7	24.8	63.4	36.6
CC				5.6				56.3		38.0	62.0	38.0
C										100		100
Three-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	99.7	0.3	0.02	0.02	0.01		0.01				99.7	0.3
AA	22.6	73.4	3.2	0.3	0.1	0.01	0.2	0.04	0.02	0.09	96.0	4.0
A	18.3	19.1	60.1	1.4	0.2	0.04	0.4	0.2	0.1	0.25	97.6	2.4
BBB	9.0	18.4	16.3	53.7	1.0	0.4	0.3	0.2	0.1	0.56	97.4	2.6
BB	1.4	7.0	13.7	19.3	53.7	1.4	1.0	0.5		2.06	95.0	5.0
B	0.2	0.7	2.4	9.2	14.0	66.2	2.4	0.6		4.26	92.7	7.3
CCC		0.6					61.0	6.5		31.8	61.7	38.3
CC				8.8				47.1		44.1	55.9	44.1
C										100		100
Four-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	99.6	0.3	0.04	0.02	0.01		0.02				99.6	0.4

Table 22

Average U.S. RMBS Prime Jumbo Rating Transition Ratios, 1978-2006 (cont.)

AA	27.3	68.5	3.2	0.4	0.1	0.02	0.3	0.1	0.02	0.20	95.7	4.3
A	19.7	16.6	60.0	1.9	0.3	0.3	0.3	0.2	0.1	0.79	96.2	3.8
BBB	9.3	13.3	11.9	55.4	2.2	2.3	1.9	0.1		3.57	89.9	10.1
BB	2.4	9.0	13.2	18.8	46.4	2.8	1.6	0.7		5.13	89.7	10.3
B	0.8	0.7	3.5	10.3	14.0	54.4	2.8	1.3		12.2	83.7	16.3
CCC		0.5					43.3	8.8		47.4	43.7	56.3
CC				8.0				55.0		37.0	63.0	37.0
C										100		100
Five-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	99.5	0.4	0.04	0.04	0.01	0.01	0.03	0.01	0.01		99.5	0.5
AA	30.4	64.7	3.7	0.5	0.04	0.01	0.2	0.1	0.01	0.36	95.1	4.9
A	28.2	17.8	50.5	1.8	0.3	0.1	0.3	0.3	0.1	0.62	96.5	3.5
BBB	21.7	20.9	15.9	37.2	1.0	0.8	0.5	0.2		1.76	95.6	4.4
BB	4.6	13.1	15.2	22.4	36.6	1.5	2.0	0.5		4.01	91.9	8.1
B	1.3	0.8	5.1	13.0	17.2	50.8	3.0	1.5		7.25	88.2	11.8
CCC		0.8					51.9	5.3		42.1	52.6	47.4
CC				18.2				23.6		58.2	41.8	58.2
C										100		100

*Stability ratio is the percentage of the ratings that either stayed the same or were raised. 'AAA' ratings from the same transaction are treated as a single rating in the calculation of this table. When ratings are withdrawn, their last ratings before withdrawals are used in the transition rate calculation. Full rating categories are used when determining rating transitions such as upgrades and downgrades. Each period's outstanding number of unique ratings is used for weighted average statistics.

Table 23

Average U.S. RMBS Subprime Rating Transition Ratios, 1978-2006

One-year average	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade
AAA	99.98	0.02									99.98	0.02
AA	3.8	96.0	0.2	0.1							99.8	0.2
A	0.4	2.0	97.1	0.3	0.1	0.1	0.02			0.02	99.5	0.5
BBB	0.1	0.4	0.8	96.2	1.2	0.7	0.4	0.01		0.25	97.4	2.6
BB			0.1	0.2	94.5	2.2	1.5	0.2		1.17	94.9	5.1
B				0.7		63.8	16.4	0.7		18.4	64.5	35.5
CCC							20.9			79.1	20.9	79.1
CC								33.3		66.7	33.3	66.7
C												
Two-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	99.97	0.03									99.97	0.03
AA	12.4	87.2	0.3	0.1							99.6	0.4
A	1.8	5.8	91.2	0.6	0.2	0.1	0.0			0.18	98.8	1.2
BBB	0.2	1.2	2.5	89.9	2.2	1.8	1.0	0.1		1.24	93.7	6.3
BB			0.3	1.5	82.1	5.9	2.9	0.6		6.76	83.8	16.2
B				0.8		33.6	15.3	0.8		49.6	34.4	65.6
CCC							17.6			82.4	17.6	82.4

Table 23

Average U.S. RMBS Subprime Rating Transition Ratios, 1978-2006 (cont.)

CC								16.7		83.3	16.7	83.3
C												

Three-year average	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade
AAA	99.98	0.02									99.98	0.02
AA	24.1	75.5	0.3								99.7	0.3
A	4.5	9.5	83.8	1.1	0.3	0.1	0.1			0.54	97.9	2.1
BBB	0.3	1.7	3.7	81.2	3.9	3.1	2.4	0.1		3.51	86.9	13.1
BB				2.5	61.7	9.9	4.9	1.9		19.1	64.2	35.8
B				0.9		19.7	2.6	0.9		76.1	20.5	79.5
CCC							16.7			83.3	16.7	83.3
CC										100		100
C												

Four-year average	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade
AAA	100										100	
AA	32.8	66.7	0.5								99.5	0.5
A	8.6	10.6	77.2	1.4	0.4	0.4	0.2			1.14	96.4	3.6
BBB	0.4	2.2	3.8	72.3	4.7	3.7	4.0	0.1		8.74	78.7	21.3
BB				1.8	48.6	9.2	6.4	2.8		31.2	50.5	49.5
B				1.0		12.5	1.9			84.6	13.5	86.5
CCC							13.0			87.0	13.0	87.0
CC										100		100
C												

Five-year average	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade
AAA	100										100.0	
AA	39.2	60.0	0.8								99.2	0.8
A	14.0	9.9	71.3	1.8	0.5	0.7	0.1			1.59	95.2	4.8
BBB	0.7	2.7	5.2	67.2	3.1	2.8	3.5			14.8	75.7	24.3
BB				1.4	41.1	6.8	2.7	1.4		46.6	42.5	57.5
B				1.1		8.6	2.2			88.2	9.7	90.3
CCC							20.0			80.0	20.0	80.0
CC										100		100
C												

*Stability ratio is the percentage of the ratings that either stayed the same or were raised. 'AAA' ratings from the same transaction are treated as a single rating in the calculation of this table. When ratings are withdrawn, their last ratings before withdrawals are used in the transition rate calculation. Full rating categories are used when determining rating transitions such as upgrades and downgrades. Each period's outstanding number of unique ratings is used for weighted average statistics.

Table 24

Average U.S. RMBS Alt-A Rating Transition Ratios, 1978-2006

One-year average	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Stability ratio*	Downgrade
AAA	100										100	
AA	5.1	94.9		0.05							99.95	0.05
A	0.7	4.2	94.9	0.1	0.1						99.8	0.2

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Table 24

Average U.S. RMBS Alt-A Rating Transition Ratios, 1978-2006 (cont.)

BBB	0.3	0.9	2.6	95.4	0.6	0.1	0.1			0.06	99.2	0.8
BB		0.5	0.4	2.4	95.6	0.8	0.2			0.19	98.8	1.2
B			0.1	0.1	0.9	96.6	1.4	0.2		0.67	97.7	2.3
CCC							33.3			66.7	33.3	66.7
CC								100			100	
C												
Two-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	100										100	
AA	18.4	81.5		0.1							99.9	0.1
A	3.8	14.1	81.7	0.2	0.1		0.1				99.5	0.5
BBB	1.2	4.0	8.7	83.3	1.9	0.5	0.2			0.12	97.2	2.8
BB		2.2	1.6	7.7	85.6	2.0	0.4			0.59	97.0	3.0
B			0.4	0.6	2.4	89.4	3.1	0.8		3.35	92.7	7.3
CCC										100	100.0	100
CC								100			100	
C												
Three-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	100										100	
AA	39.0	60.7		0.2							99.8	0.2
A	10.3	26.0	62.7	0.5	0.3		0.3				99.0	1.0
BBB	3.0	8.9	16.2	66.8	3.5	0.8	0.5			0.27	94.9	5.1
BB		5.2	3.0	14.7	72.3	3.0	0.4			1.30	95.2	4.8
B			0.4	1.7	3.9	80.3	5.2	2.1		6.44	86.3	13.7
CCC												
CC												
C												
Four-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	100										100	
AA	64.9	34.5		0.7							99.3	0.7
A	22.5	34.1	42.0	0.7			0.7				98.6	1.4
BBB	6.8	15.0	19.0	54.4	2.7	0.7	0.7			0.68	95.2	4.8
BB		10.0	6.3	20.0	56.3	5.0				2.50	92.5	7.5
B				3.7	7.4	67.9	8.6	3.7		8.64	79.0	21.0
CCC												
CC												
C												
Five-year average	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC**	**CC**	**C**	**D**	**Stability ratio***	**Downgrade**
AAA	100										100	
AA	69.2	28.2		2.6							97.4	2.6
A	30.3	27.3	42.4								100	
BBB	16.3	11.6	7.0	62.8	2.3						97.7	2.3

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Table 24

Average U.S. RMBS Alt-A Rating Transition Ratios, 1978-2006 (cont.)

BB	15.4		76.9	7.7				92.3	7.7
B		7.1	7.1	57.1	7.1	7.1	14.3	71.4	28.6
CCC									
CC									
C									

*Stability ratio is the percentage of the ratings that either stayed the same or were raised. 'AAA' ratings from the same transaction are treated as a single rating in the calculation of this table. When ratings are withdrawn, their last ratings before withdrawals are used in the transition rate calculation. Full rating categories are used when determining rating transitions such as upgrades and downgrades. Each period's outstanding number of unique ratings is used for weighted average statistics.

Table 25 shows the one-year transition ratios for U.S. corporate ratings during 2006, and the average one-year U.S. corporate transition ratios for the 1981-2006 period. The easiest way to compare the transition ratios of the corporate ratings with the RMBS ratings is to compare the stability ratios. For 2006, the stability ratios for RMBS are higher than for the corporate ratings across the top six rating categories. For example, the stability ratio for the 'AAA' rating category was 1.7% higher for RMBS than for corporate ratings, since 98.25% of corporate ratings remained at 'AAA', while 99.95% of the RMBS ratings for that same category remained at 'AAA'.

Table 25

Rating Transition Ratios - U.S. Corporate Versus U.S. RMBS, 2006, 1981-2006

One-year U.S. Corporate rating transition ratios (%), 2006

Rating	AAA	AA	A	BBB	BB	B	CCC/C	D	Corp. Stability ratio*	RMBS Stability ratio*	Difference Stability ratio*
AAA	98.25	1.75							98.25	99.95	1.7
AA	0.6	97.4	1.9						98.1	99.8	1.7
A		3.8	91.8	3.8	0.5				95.6	99.5	3.9
BBB		0.1	4.9	91.4	3.1	0.4			96.4	98.0	1.6
BB		0.2		4.0	87.6	7.8	0.2	0.2	91.8	98.1	6.3
B			0.1	0.1	8.2	87.0	3.9	0.6	95.5	97.9	2.4
CCC/C						14.8	68.9	16.4	83.6	61.0	(22.6)

One-year average Corporate rating transition ratios (%), 1981-2006

Rating	AAA	AA	A	BBB	BB	B	CCC/C	D	Corp. Stability ratio*	RMBS Stability ratio*	Difference Stability ratio*
AAA	92.0	7.3	0.5	0.05	0.1				92.0	99.9	7.9
AA	0.7	90.7	7.6	0.7	0.1	0.1	0.03	0.01	91.4	99.0	7.6
A	0.1	2.0	91.2	5.9	0.5	0.2	0.04	0.1	93.3	99.2	5.9
BBB	0.02	0.2	4.1	89.7	4.8	0.8	0.1	0.3	94.0	98.3	4.3
BB	0.0	0.1	0.3	5.9	83.0	8.7	0.8	1.1	89.3	97.7	6.2
B		0.1	0.2	0.3	6.0	83.1	4.8	5.5	89.7	96.5	6.8
CCC/C			0.4	0.6	1.4	11.1	56.0	30.5	69.5	61.0	(8.5)

*Stability ratio is the percentage of the ratings that either stayed the same or were raised. Corporate transition rates are adjusted by removing withdrawn ratings in the rate calculation. Full rating categories are used when determining rating transitions such as upgrades and downgrades. Each period's outstanding number of issuer ratings is used for weighted average statistics. Difference refers to the difference between this period's upgrade/stable ratio and weighted average transition rates. Data Source: Standard & Poor's CreditPro 7.02.

Outlook For 2007

U.S. RMBS' performance in 2007 will depend on the state of the global economy, the unemployment picture, and the U.S. housing market's performance. One of the more critical areas to watch this year will be U.S. subprime mortgages.

Transactions backed by subprime collateral have seen an increase in the number of negative rating actions during recent periods. The downgrades represented 1.53% of outstanding subprime ratings in 2006 versus 0.54% in 2005. Standard & Poor's expects this pattern to continue in 2007. Much of the rating activity will remain connected with transactions issued from 2001-2004, many of which have reached their step-down targets and are subsequently realizing losses that exceed the spread and overcollateralization amounts.

An additional concern is the early delinquency and loss performance for the 2006 vintage, particularly the purchase-money loans to stated income borrowers who were accessing high CLTV piggyback loans. Given the backdrop of slowing home price appreciation and minor home price declines, these loans have become the poster children for poor lending decisions. In addition, they have caused an acceleration of early payment defaults and delinquencies in the 2006 vintage.

For deals issued in 2006, total delinquencies were higher than all recent vintages and severe delinquents were higher than all vintages except 2000. For transactions issued in 2006, total delinquencies averaged 12.61% and loans seriously delinquent were approximately 5.97%. A similar comparison of cumulative losses for the same period revealed that the 2006 vintage experienced approximately 0.08% in realized losses, which exceeded those issued in 2000-2005 for the same time period. We believe it is likely that this vintage will experience some adverse rating performance earlier than preceding vintages.

A significant amount of short reset 2/1 and 3/1 adjustable-rate mortgages (ARMS) originated over the past few years will begin to enter their adjustable-rate phase in 2007. This may cause a flood of refinancing as borrowers look to avoid the increased payments associated with rising rates. In addition to their potential influence on volume, these loans, particularly in the subprime sector, also carry significant credit risk if home prices don't begin to rise again. The lack of increase in home prices or appreciation could stifle certain borrowers' ability to re-qualify and leave overleveraged borrowers stranded with increased mortgage obligations.

In recent months, widening credit spreads in 'BBB'- and 'BBB-'-rated U.S. subprime mortgage deals again highlighted the market's concern about the housing market's credit fundamentals. We expect this concern to dominate the performance discussion of mortgage securities and new and recent-vintage collateralized debt obligation (CDO) transactions backed by subprime mortgage securities in 2007. Credit spreads tend to be sensitive to expectations of credit risk, providing clues about the near-future performance of structured securities. During the past few years, 'AAA'-rated U.S. structured credit spreads have tightened across all sectors, including the subprime mortgage sector. This appears to show the market's confidence about the near-future credit performance of 'AAA'-rated structured securities. On the other hand, 'BBB'- and 'BBB-'-rated subprime mortgage deals show recent spread widening due primarily to the growing concern about the U.S. housing market.

Standard & Poor's CreditWatch placement offers another way to gauge structured securities' rating behavior over the next few months. At the end of 2006, subprime RMBS (170 ratings were on CreditWatch negative), prime jumbo (40), and Alt A (38) accounted for a large percentage of transactions with ratings on CreditWatch negative.

These securities will likely, but not necessarily, experience downgrades following their extensive performance review during the next few months. They are also more likely to experience rating changes in the near future. Standard & Poor's expects losses and, therefore, negative rating actions to continue increasing during the next few months relative to previous years.

Appendix I: Rating Transition Methodology

This section discusses the rating transition methodology in detail. It also explains the terminology used throughout this study. We provide definitions of transition windows; rating modifiers versus full rating categories; near-defaults; and the treatment of rating withdrawals, identical ratings, and region and sector combinations.

Rating transition

The rating transition of a single static pool is based on the rating on each security at the beginning and at the end of the observed transition window. For example, the 2006 transition rates are calculated by determining the ratings on each security at the beginning of 2006 as well as at the end of 2006. These ratings are then tabulated in a two-dimensional table to calculate the percentage of ratings that stayed the same and the percentage of ratings that were raised or lowered. During this process, every security is counted only once, even if a security experienced more than one rating change during 2006. In other words, a security's ratings on Jan. 1, 2006, and Dec. 31, 2006, are used to calculate the transition rates, and any interim rating changes are disregarded.

Weighted average transition

For weighted average transition rates, the individual transition rates of static pools are calculated as described above. A single averaged matrix is then created and weighted by the number of ratings in each static pool.

Transition window

A transition window refers to a period in which a security's rating behavior is observed. For the 2006 performance, the transition window starts at the beginning of 2006 and ends at the end of 2006. For historical data, transition windows follow annual windows, running from January to December of the same year.

Rating modifiers

Rating modifiers ("+" and "-") are used to calculate the transition rates and the upgrade and downgrade percentages throughout this study. However, some transition tables may use full rating categories for practical reasons. In other words, a transition from, for example, 'AA' to 'AA-' or from 'BBB+' to 'BBB-' is not considered to be a rating transition because the rating remained within the full rating category.

Rating withdrawal

When ratings are withdrawn due to redemptions, the last rating before withdrawal is used in the transition rate calculation. While a withdrawal is ignored during a transition window, a security with a withdrawn rating at the beginning of a transition window is not included in the calculation of transition rates.

Identical 'AAA' ratings

In assessing rating performance, this study collapses the rating history of identical ratings in a given transaction. Where originally 'AAA' ratings from the same transaction are treated as a single rating, only the rating with the longest expected maturity is included in the calculation of rating transitions.

Near-defaults

In this study, near-defaults include securities downgraded to 'CC' or 'C' during 2006 or in any annual transition window. If a security's rating is already 'CC' or 'C' at the beginning of a transition window, that security is not included in the near-default category, since that event did not take place during the transition window analyzed. In charts and tables, the default and near-default rates are combined and presented as the default rate. This is done because securities rated 'CC' or 'C' are highly vulnerable to nonpayment risk.

Structured finance region

Canadian transactions are not included in the U.S. region. Europe includes transactions rated mainly in the countries of the European Union. Asia (non-Japan) includes all the transactions rated in Hong Kong and Taiwan as well as in other countries in the region. Japan includes transactions rated only in Japan. The Latin America and emerging markets segment includes emerging market countries such as Brazil, Mexico, Turkey, and South Africa. A transaction's issuer country is used as the primary variable to determine its region. However, when a transaction's issuer country is a tax-haven country such as the Cayman Islands, then its domicile of assets is used as the secondary variable for region definition. In some cases, the domicile of assets may fail to provide additional insight into the region, especially when a transaction's domicile of assets includes more than one country. In those cases, Standard & Poor's surveillance office and/or the transaction's primary currency are used to complete the region classification for all structured finance securities Standard & Poor's rates.

Structured finance sector

The U.S. and European regions are further segmented by structured finance sector. The sector is not used to segment the data in other, smaller regions. This breakdown is done because using a high-level segmentation is the only way to calculate meaningful transition rates. ABS includes typical collateral types such as credit cards, auto loans, etc. It also includes manufactured housing, franchise loans, and 12b-1 transactions. Home equity loan transactions are included in the RMBS sector. Single-issue synthetics, also known as repacks in Europe, are all included in the U.S. and European single-issue synthetic categories. However, the CDO sector includes all synthetic CDO ratings, in addition to cash and market value CDOs, as well as leveraged funds.

Appendix 2: Standard & Poor's U.S. RMBS Public Upgrades, 2006

Appendix 2

Standard & Poor's U.S. RMBS Public Upgrades, 2006

Date	Transaction name	Class	To	From	Collateral	CUSIP
Jan. 6	HarborView Mortgage Loan Trust 2003-1	B-1	AA+	AA	Prime jumbo	41161PBP7
Jan. 6	HarborView Mortgage Loan Trust 2003-1	B-2	A+	A	Prime jumbo	41161PBQ5
Jan. 6	HarborView Mortgage Loan Trust 2003-1	B-3	BBB+	BBB	Prime jumbo	41161PBR3
Jan. 6	HarborView Mortgage Loan Trust 2003-1	B-4	BB+	BB	Prime jumbo	41161PBS1
Jan. 9	Centex Home Equity Loan Trust 2002-D	M-1	AA+	AA	Subprime	152314GD6
Jan. 9	Centex Home Equity Loan Trust 2003-A	M-1	AA+	AA	Subprime	152314GR5
Jan. 9	Centex Home Equity Loan Trust 2003-B	M-1	AA+	AA	Subprime	152314HD5
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-4	C-B-2	AAA	AA	Prime jumbo	22540WEV8
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-4	C-B-3	AA+	A	Prime jumbo	22540WEW6
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-5	B-1	AAA	AA	Prime jumbo	22540VBN1
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-5	B-2	AA+	A	Prime jumbo	22540VBP6

Appendix 2

Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)

Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-5	B-3	AA	BBB	Prime jumbo	22540VBQ4
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-5	B-4	A	BB	Prime jumbo	22540VCB6
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-5	B-5	BB	B	Prime jumbo	22540VCC4
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-S6	B-2	AA	A	Closed 2nd lien	22540AH84
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-S6	XB-1	AAA	AA	Closed 2nd lien	22540AH76
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-S6	XB-2	AA	A	Closed 2nd lien	22540AH92
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-5	IV-B-2	AAA	AA+	Alt-A	22540VA28
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-5	IV-B-3	AA	A+	Alt-A	22540VA36
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-26	II-B-1	AAA	AA+	Alt-A	22541NLW7
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-26	II-B-2	AAA	AA-	Alt-A	22541NLX5
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-26	II-B-3	AA	A-	Alt-A	22541NLY3
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-26	IV-B-1	AAA	AA+	Alt-A	22541NMA4
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-26	IV-B-2	AA+	AA-	Alt-A	22541NMB2
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-26	IV-B-3	A	BBB	Alt-A	22541NMC0
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-30	D-B-1	AAA	AA+	Prime jumbo	22541NUA5
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-30	D-B-2	AA-	A-	Prime jumbo	22541NUB3
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR2	II-M-1	AAA	AA	Alt-A	22540VTU6
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR2	II-M-2	A+	A	Alt-A	22540VTV4
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR17	C-B-3	AA	AA-	Alt-A	22540VT77
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR21	IV-M-1	AA+	AA	Alt-A	22540V5A6
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR21	IV-M-2	A+	A	Alt-A	22540V5B4
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR25	III-M-1	AA+	AA	Alt-A	22541NEL9
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR27	IV-M-1	AAA	AA	Alt-A	22541NHZ5
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR28	C-B-1	AAA	AA	Alt-A	22541NPA1
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR28	C-B-2	AA+	A+	Alt-A	22541NPB9
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR28	C-B-3	A-	BBB	Alt-A	22541NPC7
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR28	III-M-1	AAA	AA+	Alt-A	22541NNY1
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR31	C-B-1	AA+	AA	Alt-A	22541NTG4
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR31	C-B-1-X	AA+	AA	Alt-A	
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR31	C-B-2	AA-	A	Alt-A	22541NTH2
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR31	C-B-3	BBB+	BBB	Alt-A	22541NTJ8
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR33	C-B-1	AAA	AA+	Alt-A	22541NYF0
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR33	C-B-2	AA+	AA	Alt-A	22541NYG8
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR33	C-B-3	A	A-	Alt-A	22541NYH6
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR33	C-B-4	BBB	BB	Alt-A	22541NYJ2
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2003-AR15	C-B-2	AA	A+	Alt-A	22541QDB5
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2003-AR15	C-B-3	A	BBB+	Alt-A	22541QDC3
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2003-AR15	C-B-4	BB+	BB	Alt-A	22541QCN0
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2003-AR18	C-B-2	AA-	A+	Alt-A	22541QFK3
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2003-AR18	C-B-3	A-	BBB+	Alt-A	22541QFL1
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2003-AR18	C-B-4	BBB-	BB+	Alt-A	22541QFN7
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2004-4	C-B-1	AA+	AA	Prime jumbo	22541SVL9

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)

Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2004-4	C-B-2	AA	A	Prime jumbo	22541SVM7
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2004-4	C-B-3	A	BBB	Prime jumbo	22541SVN5
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2004-4	C-B-4	BBB	BB	Prime jumbo	22541SVX3
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2004-4	C-B-5	B+	B	Prime jumbo	22541SVY1
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2004-4	D-B-1	AA+	AA	Prime jumbo	22541SVP0
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2004-4	D-B-2	AA	A	Prime jumbo	22541SVQ8
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2004-4	D-B-3	AA-	A-	Prime jumbo	22541SVR6
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2004-4	D-B-4	A	BBB-	Prime jumbo	22541SWA2
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2004-4	D-B-5	BBB+	BB+	Prime jumbo	22541SWB0
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2004-4	D-B-6	BB+	BB-	Prime jumbo	22541SWC8
Jan. 24	Morgan Stanley ABS Capital I Inc. Trust 2002-HE3	M-1	AA+	AA	Subprime	61746RAB7
Jan. 24	Morgan Stanley ABS Capital I Inc. Trust 2003-NC5	M-1	AA+	AA	Subprime	61746RBC4
Jan. 24	Morgan Stanley ABS Capital I Inc. Trust 2003-NC6	M-1	AA+	AA	Subprime	61746RBL4
Jan. 24	Morgan Stanley ABS Capital I Inc. Trust 2003-NC7	M-1	AA+	AA	Subprime	61746RCR0
Jan. 24	Morgan Stanley ABS Capital I Inc. Trust 2003-NC8	M-1	AA+	AA	Subprime	61746RDM0
Jan. 24	Morgan Stanley ABS Capital I Inc. Trust 2003-NC10	M-1	AA+	AA	Subprime	61746RDX6
Jan. 25	Delta Funding Home Equity Loan Trust 1998-2	M-2F	AAA	AA	Subprime	24763LDW7
Jan. 25	Delta Funding Home Equity Loan Trust 1998-2	B-1F	BBB+	BBB	Subprime	24763LDX5
Jan. 25	Delta Funding Home Equity Loan Trust 1998-4	B	BBB	BBB-	Subprime	24763LET3
Jan. 25	Delta Funding Home Equity Loan Trust 2000-1	M-1	AAA	AA+	Subprime	24763LGK0
Jan. 25	Delta Funding Home Equity Loan Trust 2000-2	M-1	AAA	AA+	Subprime	24763LGW4
Jan. 25	Delta Funding Home Equity Loan Trust 2000-3	M-1	AAA	AA+	Subprime	24763LHH6
Jan. 25	DFC HEL Trust 2001-2	M-1	AAA	AA+	Subprime	233205AK9
Feb. 8	ABN AMRO Mortgage Corp. 2003-5	B-1	A+	A	Prime jumbo	000780EZ5
Feb. 8	ABN AMRO Mortgage Corp. 2003-5	B-2	BBB	BBB-	Prime jumbo	000780FA9
Feb. 8	ABN AMRO Mortgage Corp. 2003-5	B-3	BB	BB-	Prime jumbo	000780FC5
Feb. 8	ABN AMRO Mortgage Corp. 2003-5	M	AA+	AA	Prime jumbo	000780EY8
Feb. 13	RALI Series 2002-QS12 Trust	M-1	AAA	AA+	Alt-A	76110GS69
Feb. 13	RALI Series 2002-QS12 Trust	M-2	AA	A+	Alt-A	76110GS77
Feb. 13	RALI Series 2002-QS12 Trust	M-3	BBB+	BBB	Alt-A	76110GS85
Feb. 13	RALI Series 2002-QS10 Trust	M-2	AAA	AA	Alt-A	76110GM81
Feb. 13	RALI Series 2002-QS10 Trust	M-3	AA	A-	Alt-A	76110GM99
Feb. 13	RALI Series 2002-QS11 Trust	M-1	AAA	AA+	Alt-A	76110GJ85
Feb. 13	RALI Series 2002-QS11 Trust	M-2	AA	A+	Alt-A	76110GJ93
Feb. 13	RALI Series 2002-QS11 Trust	M-3	BBB+	BBB	Alt-A	76110GK26
Feb. 13	RALI Series 2002-QS14 Trust	M-1	AAA	AA+	Alt-A	76110GV40
Feb. 13	RALI Series 2002-QS14 Trust	M-2	AA+	A+	Alt-A	76110GV57
Feb. 13	RALI Series 2002-QS14 Trust	M-3	A	BBB	Alt-A	76110GV65
Feb. 13	RALI Series 2002-QS17 Trust	M-1	AA+	AA	Alt-A	76110GZ87
Feb. 13	RALI Series 2002-QS17 Trust	M-2	A+	A	Alt-A	76110GZ95
Feb. 13	RALI Series 2002-QS19 Trust	M-1	AA+	AA	Alt-A	76110G3F6
Feb. 13	RALI Series 2002-QS19 Trust	M-2	A+	A	Alt-A	76110G3G4

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Feb. 13	RALI Series 2002-QS3 Trust	M-2	AAA	AA+	Alt-A	76110GXF3
Feb. 13	RALI Series 2002-QS3 Trust	M-3	AA-	A+	Alt-A	76110GXG1
Feb. 13	RALI Series 2002-QS7 Trust	B-1	A	BBB-	Alt-A	76110GE56
Feb. 13	RALI Series 2002-QS7 Trust	M-2	AAA	AA+	Alt-A	76110GE31
Feb. 13	RALI Series 2002-QS7 Trust	M-3	AA+	A	Alt-A	76110GE49
Feb. 13	RALI Series 2002-QS9 Trust	B-1	A-	BB	Alt-A	76110GG96
Feb. 13	RALI Series 2002-QS9 Trust	M-1	AAA	AA+	Alt-A	76110GG62
Feb. 13	RALI Series 2002-QS9 Trust	M-2	AAA	AA	Alt-A	76110GG70
Feb. 13	RALI Series 2002-QS9 Trust	M-3	AA-	BBB	Alt-A	76110GG88
Feb. 15	RALI Series 2002-QS15 Trust	M-1	AAA	AA+	Alt-A	76110GY62
Feb. 15	RALI Series 2002-QS15 Trust	M-2	AA	A+	Alt-A	76110GY70
Feb. 15	RALI Series 2002-QS15 Trust	M-3	A-	BBB	Alt-A	76110GY88
Feb. 27	Bayview Financial Asset Trust 2002-F	M-1	AA+	AA	Reperforming	07324QCK0
Feb. 27	Bayview Financial Asset Trust 2002-F	M-2	AA	AA-	Reperforming	07324QCL8
Feb. 27	Bayview Financial Asset Trust 2003-A	M-1	AA+	AA	Out/Guide	07324QCU8
Feb. 27	Bayview Financial Asset Trust 2003-A	M-2	AA	AA-	Out/Guide	07324QCV6
March 1	Terwin Mortgage Trust 2003-7SL	B-1	BBB+	BBB	Closed 2nd lien	881561CT9
March 1	Terwin Mortgage Trust 2003-7SL	M-2	AA+	A	Closed 2nd lien	881561CS1
March 1	Terwin Mortgage Trust 2003-3SL	B-1	A+	BBB	Closed 2nd lien	881561BC7
March 1	Terwin Mortgage Trust 2003-3SL	M-2	AAA	A	Closed 2nd lien	881561BB9
March 2	Bear Stearns ARM Trust 2003-3	B-1	AAA	AA+	Prime jumbo	07384MUW0
March 2	Bear Stearns ARM Trust 2003-3	B-2	AA-	A+	Prime jumbo	07384MUX8
March 2	Bear Stearns ARM Trust 2003-3	B-3	A-	BBB+	Prime jumbo	07384MUY6
March 2	Bear Stearns ARM Trust 2003-3	B-4	BB+	BB	Prime jumbo	07384MVF6
March 2	MASTR Alternative Loan Trust 2003-3	B-1	AAA	AA	Alt-A	576434EC4
March 2	MASTR Alternative Loan Trust 2003-3	B-2	AA	A	Alt-A	576434ED2
March 2	MASTR Alternative Loan Trust 2003-3	B-3	A	BBB	Alt-A	576434EE0
March 2	MASTR Alternative Loan Trust 2003-3	B-4	BB+	BB	Alt-A	576434EF7
March 2	Mortgage Pass-Through Trust 2004-HYB1	M	AA+	AA	Prime jumbo	12669FNR0
March 2	Mortgage Pass-Through Trust 2004-HYB1	B-1	A+	A	Prime jumbo	12669FNS8
March 2	Mortgage Pass-Through Trust 2004-HYB1	B-2	BBB+	BBB	Prime jumbo	12669FNT6
March 2	Mortgage Pass-Through Trust 2004-HYB1	B-3	BB+	BB	Prime jumbo	12669FNU3
March 2	RFSC Series 2003-RM1 Trust	B-1	BBB-	BB	Prime jumbo	760985TR2
March 2	RFSC Series 2003-RM1 Trust	M-1	AA+	AA	Prime jumbo	760985TN1
March 2	RFSC Series 2003-RM1 Trust	M-2	AA	A	Prime jumbo	760985TP6
March 2	RFSC Series 2003-RM1 Trust	M-3	A	BBB	Prime jumbo	760985TQ4
March 3	2000-CB2 Trust (C-BASS)	M-2	AAA	A	Nonperform	12489WCF9
March 3	Credit-Based Asset Servicing and Sec 2000-CB3	M-2	AAA	A	Nonperform	12489WCM4
March 3	2001-CB2 Trust (C-BASS)	M-1	AAA	AA	NIMS	12489WDK7
March 3	2001-CB2 Trust (C-BASS)	M-2	A+	A	NIMS	12489WDL5
March 3	C-Bass Trust 2001-CB3	M-1	AAA	AA	Reperforming	12489WDT8
March 3	C-Bass Trust 2001-CB3	M-2	A+	A	Reperforming	12489WDU5

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
March 3	2002-CB1 Trust (C-BASS)	M-1	AAA	AA	Reperforming	12489WEJ9
March 3	2002-CB1 Trust (C-BASS)	M-2	A+	A	Reperforming	12489WEK6
March 7	Bond Securitization Trust 2003-1	M-1	AA+	AA	Closed 2nd lien	09788RAC3
March 7	Bond Securitization Trust 2003-1	M-2	A+	A	Closed 2nd lien	09788RAD1
March 13	CSFB Mortgage-Backed Trust Series 2002-34	D-B-1	AAA	AA	Prime jumbo	2254W0EY7
March 13	CSFB Mortgage-Backed Trust Series 2002-34	D-B-2	AA	A-	Prime jumbo	2254W0EZ4
March 16	ABFC 2004-AHL1 Trust	M-1	AAA	AA	Subprime	04542BGG1
March 16	ABFC 2004-AHL1 Trust	M-2	AA	A	Subprime	04542BGH9
March 16	ABFC 2004-AHL1 Trust	M-3	A+	A-	Subprime	04542BGJ5
March 16	ABN AMRO Mortgage Corp. 2003-11	B-1	A+	A-	Prime jumbo	000780ND4
March 16	ABN AMRO Mortgage Corp. 2003-11	B-2	BBB+	BBB	Prime jumbo	000780NE2
March 16	Alternative Loan Trust 2003-J2	B-1	AA+	AA-	Alt-A	12669E4F0
March 16	Alternative Loan Trust 2003-J2	B-2	A	BBB+	Alt-A	12669E4G8
March 16	Alternative Loan Trust 2003-J2	M	AAA	AA+	Alt-A	12669E4E3
March 16	Argent Securities Inc. 2003-W4	M-2	AA+	AA	Subprime	040104CL3
March 16	Argent Securities Inc. 2003-W9	M-1	AAA	AA	Subprime	040104EA5
March 16	Argent Securities Inc. 2003-W9	M-2	AA	A	Subprime	040104EB3
March 16	Argent Securities Inc. 2003-W9	M-3	AA-	A-	Subprime	040104ED9
March 16	Argent Securities Inc. 2003-W9	M-3A	AA-	A-	Subprime	040104EE7
March 16	Argent Securities Inc. 2003-W9	M-3B	AA-	A-	Subprime	040104EF4
March 16	Argent Securities Inc. 2003-W9	M-4A	A	BBB+	Subprime	040104EG2
March 16	Argent Securities Inc. 2003-W9	M-4B	A	BBB+	Subprime	040104EH0
March 16	Finance America Mortgage Loan Trust 2003-1	M-3	AA-	A+	Subprime	317350AE6
March 16	Fremont Home Loan Trust 2003-B	M-1	AAA	AA	Subprime	35729PCA6
March 16	Fremont Home Loan Trust 2003-B	M-2	AA	A	Subprime	35729PCB4
March 16	Fremont Home Loan Trust 2003-B	M-3	A	A-	Subprime	35729PCC2
March 16	Fremont Home Loan Trust 2003-B	M-4	A-	BBB+	Subprime	35729PCD0
March 16	Fremont Home Loan Trust 2004-A	B-1	A-	BBB+	Subprime	35729PCN8
March 16	Fremont Home Loan Trust 2004-A	M-1	AAA	AA	Subprime	35729PCK4
March 16	Fremont Home Loan Trust 2004-A	M-2	AA	A	Subprime	35729PCL2
March 16	Fremont Home Loan Trust 2004-A	M-3	AA-	A-	Subprime	35729PCM0
March 16	Long Beach Mortgage Loan Trust 2004-1	M-1	AAA	AA+	Subprime	542514EU4
March 16	Long Beach Mortgage Loan Trust 2004-1	M-2	AAA	AA	Subprime	542514EV2
March 16	Long Beach Mortgage Loan Trust 2004-1	M-3	AAA	AA-	Subprime	542514EW0
March 16	Long Beach Mortgage Loan Trust 2004-1	M-4	AAA	A+	Subprime	542514EX8
March 16	Long Beach Mortgage Loan Trust 2004-1	B	A+	BB+	Subprime	542514FF6
March 16	Long Beach Mortgage Loan Trust 2004-1	M-5	AAA	A	Subprime	542514EY6
March 16	Long Beach Mortgage Loan Trust 2004-1	M-6	AAA	A-	Subprime	542514EZ3
March 16	Long Beach Mortgage Loan Trust 2004-1	M-7	AA+	BBB+	Subprime	542514FA7
March 16	Long Beach Mortgage Loan Trust 2004-1	M-8	AA	BBB	Subprime	542514FB5
March 16	Long Beach Mortgage Loan Trust 2004-1	M-9	AA-	BBB-	Subprime	542514FC3
March 16	New Century Home Equity Loan Trust, Series 2003-A	M-2	AA+	AA	Subprime	64352VDT5

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)

March 16	New Century Home Equity Loan Trust, Series 2003-A	M-3	A+	A	Subprime	64352VDU2
March 16	New Century Home Equity Loan Trust, Series 2003-A	M-4	A+	BBB+	Subprime	64352VDV0
March 16	RAMP Series 2003-SL1 Trust	B-1	A-	BB	Seasoned	760985F97
March 16	RAMP Series 2003-SL1 Trust	B-2	BB	B	Seasoned	760985G21
March 16	RAMP Series 2003-SL1 Trust	M-1	AA+	AA	Seasoned	760985F63
March 16	RAMP Series 2003-SL1 Trust	M-2	AA+	A	Seasoned	760985F71
March 16	RAMP Series 2003-SL1 Trust	M-3	AA	BBB	Seasoned	760985F89
March 16	RALI Series 2003-QS11 Trust	M-2	A+	A	Alt-A	76110HFC8
March 16	Soundview Home Loan Trust 2003-1	M-2	AA+	A+	Subprime	83611MAE8
March 16	Soundview Home Loan Trust 2003-1	M-3	AA-	A-	Subprime	83611MAK4
March 16	Soundview Home Loan Trust 2003-1	M-4	A	BBB+	Subprime	83611MAH1
March 21	Quest Trust 2002-X1	M-1	AAA	A	Reperforming	748351AC7
March 21	Quest Trust 2003-X1	M-1	AAA	AA	Doc Deficient	03072SEP6
March 21	Quest Trust 2003-X1	M-2	AA	A+	Doc Deficient	03072SEQ4
March 21	Quest Trust 2003-X2	M-1	AAA	AA	Doc Deficient	03072SHN8
March 21	Quest Trust 2003-X2	M-2	AA	A+	Doc Deficient	03072SHP3
March 21	Quest Trust 2003-X3	M-1	AA+	AA	Doc Deficient	03072SKD6
March 23	Citigroup Mortgage Loan Trust Inc. 2004-HE1	M-2	AAA	AA+	Subprime	17307GGR3
March 23	Citigroup Mortgage Loan Trust Inc. 2004-HE1	M-3	AAA	AA+	Subprime	17307GGS1
March 23	Citigroup Mortgage Loan Trust Inc. 2004-HE1	M-4	AA+	AA	Subprime	17307GGT9
March 23	Citigroup Mortgage Loan Trust Inc. 2004-HE1	M-5	AA+	AA-	Subprime	17307GGU6
March 23	CitiGroup Mortgage Loan Trust, Series 2003-UP2	B-1	AA+	AA	Alt-A	79549AXZ7
March 23	CitiGroup Mortgage Loan Trust, Series 2003-UP2	B-2	A+	A	Alt-A	79549AYA1
March 29	Soundview Home Loan Trust 2004-1	M-1	AAA	AA+	Subprime	83611MBB3
March 29	Soundview Home Loan Trust 2004-1	M-2	AA+	AA	Subprime	83611MBC1
April 19	ABFC 2002-NC1 Trust	M-1	AA+	AA	Subprime	04542BAZ5
April 19	ABFC 2002-OPT1 Trust	M-1	AA+	AA	Subprime	04542BBL5
April 19	ABFC 2003-WMC1 Trust	M-1	AA+	AA	Subprime	04542BEA6
April 20	Chase Mortgage Finance Trust, Series 2002-S4	B-2	AAA	AA+	Prime jumbo	16162TU38
April 20	Chase Mortgage Finance Trust, Series 2002-S8	B-1	AAA	AA+	Prime jumbo	16162RCR9
April 20	Chase Mortgage Finance Trust, Series 2002-S8	B-2	AA	A+	Prime jumbo	16162RCS7
April 20	Chase Mortgage Finance Trust, Series 2003-S1	B-1	AA	A+	Prime jumbo	16162T2P0
April 20	Chase Mortgage Finance Trust, Series 2003-S1	B-2	BBB+	BBB	Prime jumbo	16162T2Q8
April 20	Chase Mortgage Finance Trust, Series 2003-S1	M	AAA	AA+	Prime jumbo	16162T2N5
April 24	Adjustable Rate Mortgage Trust 2004-3	C-B-1	AA	AA-	Prime jumbo	007036CX2
April 24	Adjustable Rate Mortgage Trust 2004-3	C-B-2	A	A-	Prime jumbo	007036CY0
April 24	Adjustable Rate Mortgage Trust 2004-3	C-B-3	BBB	BBB-	Prime jumbo	007036CZ7
April 24	Adjustable Rate Mortgage Trust 2004-3	C-M	AA+	AA	Prime jumbo	007036CW4
May 1	Bear Stearns ALT-A Trust 2003-3	B-1	AA+	AA	Alt-A	07386HCM1
May 1	Bear Stearns ALT-A Trust 2003-3	B-2	A+	A	Alt-A	07386HCN9
May 1	Bear Stearns ALT-A Trust 2003-5	B-1	AAA	AA+	Alt-A	07386HDT5
May 1	Bear Stearns ALT-A Trust 2003-5	M	AAA	AA+	Alt-A	07386HDS7

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May 1	Bear Stearns ALT-A Trust 2003-6	B-1	AAA	AA+	Alt-A	07386HEM9
May 1	Bear Stearns ALT-A Trust 2003-6	B-2	AA+	AA	Alt-A	07386HEN7
May 1	Bear Stearns ALT-A Trust 2003-6	M	AAA	AA+	Alt-A	07386HEL1
May 1	Bear Stearns ALT-A Trust 2004-1	B-1	AA+	AA	Alt-A	07386HFN6
May 1	Bear Stearns ALT-A Trust 2004-1	B-2	AA	A	Alt-A	07386HFP1
May 1	Bear Stearns ALT-A Trust 2004-1	B-3	BBB+	BBB	Alt-A	07386HFQ9
May 1	Bear Stearns ALT-A Trust 2004-1	M	AAA	AA+	Alt-A	07386HFM8
May 1	Bear Stearns ALT-A Trust 2004-2	B-1	AA+	AA	Alt-A	07386HGX3
May 1	Bear Stearns ALT-A Trust 2004-2	B-2	A+	A	Alt-A	07386HGY1
May 1	Bear Stearns ALT-A Trust 2004-2	M	AAA	AA+	Alt-A	07386HGW5
May 8	Fifth Third Mortgage Loan Trust 2002-FTB1	C-B-1	AA+	AA	Prime jumbo	2254W0BS3
May 8	Fifth Third Mortgage Loan Trust 2002-FTB1	C-B-2	AA	A-	Prime jumbo	2254W0BT1
May 8	Home Equity Loan Trust 2001-HS3	M-I-1	AAA	AA	Closed 2nd lien	76110VGY8
May 8	Home Equity Loan Trust 2001-HS3	M-I-2	AA	A	Closed 2nd lien	76110VGZ5
May 8	RFMSII Series 2002-HS2 Trust	M-1	AA+	AA	Closed 2nd lien	76110VKG2
May 9	MESA Trust 2001-1	B	AAA	A+	Reperforming	590661AC8
May 9	MESA 2001-4 Global Issuance Company	M-2	AAA	A+	Reperforming	59066TAD5
May 9	MESA 2002-1 Global Issuance Company	M-2	AAA	AA	2 lien HiCLTV	59066RAD9
May 9	MESA 2002-2 Global Issuance Company	B-1	AAA	A-	2 lien HiCLTV	59066VAD0
May 9	MESA 2002-3 Global Issuance Company	M-1	AAA	AA+	Subprime	55274LAC0
May 9	MESA 2002-3 Global Issuance Company	M-2	AA	A	Subprime	55274LAD8
May 11	Deutsche Alt-A Securities, Inc. Alt lien Tr, Ser 2003-1	M	AA+	AA	Alt-A	251510AF0
May 11	Deutsche Alt-A Securities, Inc. Alt lien Tr, Ser 2003-1	B-1	A+	A	Alt-A	251510AG8
May 12	Deutsche Mortgage Securities, Inc. Mtg lien Tr, 2003-1	B-1	AA+	AA	Prime jumbo	251563BT8
May 12	Deutsche Mortgage Securities, Inc. Mtg lien Tr, 2003-1	B-2	AA-	A	Prime jumbo	251563BU5
May 12	Deutsche Mortgage Securities, Inc. Mtg lien Tr, 2003-1	B-3	A	BBB+	Prime jumbo	251563CX8
May 12	Deutsche Mortgage Securities, Inc. Mtg lien Tr, 2003-1	B-4	BB	BB-	Prime jumbo	251563CY6
May 15	Bear Stearns ARM Trust 2000-2	B-2	AAA	AA+	Prime jumbo	07384MAE2
May 15	Bear Stearns ARM Trust 2000-2	B-3	AA+	A+	Prime jumbo	07384MAF9
May 15	Bear Stearns ARM Trust 2002-2	B-1	AA+	AA	Prime jumbo	07384MJG8
May 15	Bear Stearns ARM Trust 2002-2	B-2	AA-	A	Prime jumbo	07384MJH6
May 15	Bear Stearns ARM Trust 2002-2	B-3	A	BBB	Prime jumbo	07384MJJ2
May 15	Bear Stearns ARM Trust 2002-5	B-2	AAA	AA+	Prime jumbo	07384MLP5
May 15	Bear Stearns ARM Trust 2002-5	B-3	AA	AA-	Prime jumbo	07384MLQ3
May 15	Bear Stearns ARM Trust 2002-11	I-B-1	AAA	AA+	Prime jumbo	07384MSN3
May 15	Bear Stearns ARM Trust 2002-11	I-B-2	AA+	A+	Prime jumbo	07384MSP8
May 15	Bear Stearns ARM Trust 2002-11	I-B-3	BBB+	BBB	Prime jumbo	07384MSQ6
May 15	Bear Stearns ARM Trust 2002-12	II-B-1	AAA	AA+	Prime jumbo	07384MRQ7
May 15	Bear Stearns ARM Trust 2002-12	I-B-2	AA	AA-	Prime jumbo	07384MRN4
May 15	Bear Stearns ARM Trust 2002-12	I-B-3	A+	A-	Prime jumbo	07384MRP9
May 15	Bear Stearns ARM Trust 2002-12	II-B-2	AA	A+	Prime jumbo	07384MRR5
May 15	Bear Stearns ARM Trust 2002-12	II-B-3	A-	BBB+	Prime jumbo	07384MRS3

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)

May 15	Bear Stearns ARM Trust 2003-1	B-1	AAA	AA+	Prime jumbo	07384MTX0
May 15	Bear Stearns ARM Trust 2003-1	B-2	AA+	AA	Prime jumbo	07384MTY8
May 15	Bear Stearns ARM Trust 2003-1	B-3	A-	BBB+	Prime jumbo	07384MTZ5
May 15	Bear Stearns ARM Trust 2003-3	B-2	AA	AA-	Prime jumbo	07384MUX8
May 15	Bear Stearns ARM Trust 2003-3	B-3	A	A-	Prime jumbo	07384MUY6
May 15	Bear Stearns ARM Trust 2003-3	B-4	BBB-	BB+	Prime jumbo	07384MVF6
May 15	Bear Stearns ARM Trust 2003-3	B-5	B+	B	Prime jumbo	07384MVG4
May 15	Bear Stearns ARM Trust 2003-4	B-1	AA+	AA	Prime jumbo	07384MVW9
May 15	Bear Stearns ARM Trust 2003-4	B-2	A+	A	Prime jumbo	07384MVX7
May 15	Bear Stearns ARM Trust 2003-4	B-3	BBB+	BBB	Prime jumbo	07384MVY5
May 15	Bear Stearns ARM Trust 2003-5	I-B-1	AA+	AA	Prime jumbo	07384MWK4
May 15	Bear Stearns ARM Trust 2003-5	I-B-2	AA-	A	Prime jumbo	07384MWL2
May 15	Bear Stearns ARM Trust 2003-5	I-B-3	BBB+	BBB	Prime jumbo	07384MWM0
May 15	Bear Stearns ARM Trust 2003-5	II-B-1	AA+	AA	Prime jumbo	07384MWP3
May 15	Bear Stearns ARM Trust 2003-5	II-B-2	A+	A	Prime jumbo	07384MWQ1
May 15	Bear Stearns ARM Trust 2003-5	II-B-3	BBB+	BBB	Prime jumbo	07384MWR9
May 15	Bear Stearns ARM Trust 2003-5	II-B-4	BB+	BB	Prime jumbo	07384MXR8
May 15	Bear Stearns ARM Trust 2003-6	I-B-1	AA+	AA	Prime jumbo	07384MXF4
May 15	Bear Stearns ARM Trust 2003-6	I-B-2	A+	A	Prime jumbo	07384MXG2
May 15	Bear Stearns ARM Trust 2003-6	II-B-1	AA+	AA	Prime jumbo	07384MXJ6
May 15	Bear Stearns ARM Trust 2003-6	II-B-2	A+	A	Prime jumbo	07384MXK3
May 15	Bear Stearns ARM Trust 2003-6	II-B-3	BBB+	BBB	Prime jumbo	07384MXL1
May 15	Bear Stearns ARM Trust 2003-6	II-B-4	BB+	BB	Prime jumbo	07384MYD8
May 16	FNT Trust Series 2000-1	II-B-1	AAA	AA	Alt-A	23321P7J1
May 16	FNT Trust Series 2000-1	II-B-2	AA	A	Alt-A	23321P7K8
May 16	FNT Series 2000-2	I-B-1	AAA	AA	Alt-A	23323CAE5
May 18	MASTR Adjustable Rate Mortgages Trust 2003-5	B-1	AA+	AA	Prime jumbo	576433FP6
May 18	MASTR Adjustable Rate Mortgages Trust 2003-5	B-2	A+	A	Prime jumbo	576433FQ4
May 18	MASTR Adjustable Rate Mortgages Trust 2003-5	B-3	BBB+	BBB	Prime jumbo	576433FR2
May 18	MASTR Adjustable Rate Mortgages Trust 2003-5	B-4	BB+	BB	Prime jumbo	576433FV3
May 18	MASTR Adjustable Rate Mortgages Trust 2003-6	B-1	AA+	AA	Prime jumbo	576433GW0
May 18	MASTR Adjustable Rate Mortgages Trust 2003-6	B-2	A+	A	Prime jumbo	576433GX8
May 18	MASTR Adjustable Rate Mortgages Trust 2003-7	B-1	AAA	AA+	Alt-A	576433HV1
May 18	MASTR Adjustable Rate Mortgages Trust 2003-7	B-2	AA-	A+	Alt-A	576433HW9
May 18	MASTR Adjustable Rate Mortgages Trust 2003-7	B-3	A-	BBB+	Alt-A	576433HX7
May 18	MASTR Adjustable Rate Mortgages Trust 2003-7	5-M-1	AAA	AA+	Alt-A	576433HS8
May 18	MASTR Adjustable Rate Mortgages Trust 2004-1	B-1	AA+	AA	Prime jumbo	576433JT4
May 18	MASTR Adjustable Rate Mortgages Trust 2004-1	B-1-X	AA+	AA	Prime jumbo	576433JZ0
May 18	MASTR Adjustable Rate Mortgages Trust 2004-1	B-2	AA-	A+	Prime jumbo	576433JU1
May 19	Equity One Mortgage Pass-Through Trust 2002-5	M-1	AA+	AA	Subprime	294751BP6
May 26	Merrill Lynch Mortgage Investors Inc. 2002-AFC1	MV-1	AAA	AA+	Subprime	589929YD4
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A2	I-B-1	BBB	BB	Prime jumbo	589929P28

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A2	I-B-2	BB-	B	Prime jumbo	589929P36
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A2	I-M-1	AA+	AA	Prime jumbo	589929N79
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A2	I-M-2	AA	A	Prime jumbo	589929N87
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A2	I-M-3	A-	BBB	Prime jumbo	589929N95
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A2	II-B-1	BBB-	BB	Prime jumbo	589929P85
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A2	II-B-2	B+	B	Prime jumbo	589929P93
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A2	II-M-1	AA+	AA	Prime jumbo	589929P51
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A2	II-M-2	AA-	A	Prime jumbo	589929P69
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A2	II-M-3	BBB+	BBB	Prime jumbo	589929P77
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A4	M-1	AAA	AA	Prime jumbo	589929X29
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A4	M-2	AA	A	Prime jumbo	589929X37
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A4	M-3	A	BBB	Prime jumbo	589929X45
May 26	Merrill Lynch Mortgage Investors Inc. 2003-A4	B-1	BBB-	BB	Prime jumbo	589929X86
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-B	B-2	AA-	A+	Prime jumbo	589929K72
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-B	B-3	A-	BBB+	Prime jumbo	589929L30
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-B	B-4	BBB	BBB-	Prime jumbo	589929L48
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-B	B-5	BB	BB-	Prime jumbo	589929L55
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-E	B-2	AA-	A+	Prime jumbo	589929Z27
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-E	B-3	A-	BBB+	Prime jumbo	589929Z35
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-F	B-2	AA-	A+	Prime jumbo	5899292U1
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-G	B-2	AA-	A+	Prime jumbo	5899296D5
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-G	B-3	A-	BBB+	Prime jumbo	5899296E3
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-G	B-4	BBB-	BB+	Prime jumbo	5899296F0
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-H	B-2	AA-	A+	Prime jumbo	5899296T0
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-H	B-3	A-	BBB+	Prime jumbo	5899296U7
May 26	Merrill Lynch Mortgage Investors Trust Ser MLCC 2003-H	B-4	BBB-	BB+	Prime jumbo	5899296Y9
June 6	New Century Home Equity Loan Trust, Series 2003-1	M-1	AA+	AA	Subprime	64352VCJ8
June 6	Residential Asset Securitization Trust 2002-A12	B-1	AAA	AA	Alt-A	45660NJA4
June 6	Residential Asset Securitization Trust 2002-A12	B-2	AA+	A	Alt-A	45660NJB2
June 6	Residential Asset Securitization Trust 2002-A12	B-3	AA-	BBB	Alt-A	45660NJC0
June 9	Bank of America Mortgage 2002-10 Trust	1-B-2	AAA	AA+	Prime jumbo	06050HB23
June 9	Bank of America Mortgage 2002-10 Trust	1-B-3	AA+	AA-	Prime jumbo	06050HB31
June 9	Bank of America Mortgage 2002-10 Trust	2-B-3	AA+	AA	Prime jumbo	06050HB64
June 9	Bank of America Mortgage 2002-J Trust	B-2	AA+	AA	Prime jumbo	06050HVR6
June 9	Bank of America Mortgage 2002-J Trust	B-3	A	A-	Prime jumbo	06050HVS4
June 9	Bank of America Mortgage 2002-K Trust	B-2	AAA	AA+	Prime jumbo	06050HYD4
June 9	Bank of America Mortgage 2002-K Trust	B-3	AA	A+	Prime jumbo	06050HYE2
June 14	Saxon Asset Securities Trust 2000-2	MF-1	AA+	AA	Subprime	805564FZ9
June 14	Saxon Asset Securities Trust 2000-3	BV-1	AA	BBB	Subprime	805564HA2
June 14	Saxon Asset Securities Trust 2000-3	MF-1	AA+	AA	Subprime	805564GS4
June 15	Option One Mortgage Loan Trust 2002-4	M-1	AAA	AA	Subprime	68389FCN2
June 16	Salomon Home Equity Loan Trust, Series 2001-1	MV-1	AA+	AA	Subprime	79550DAH2

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
June 21	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS7 Tr	B-1	AAA	AA+	Prime jumbo	939336TY9
June 21	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS7 Tr	B-2	AA	AA-	Prime jumbo	939336TZ6
June 21	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS7 Tr	B-3	A	BBB+	Prime jumbo	939336UA9
June 21	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS7 Tr	B-4	BBB	BBB-	Prime jumbo	939336UX9
June 21	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS7 Tr	B-5	BB-	B+	Prime jumbo	939336UY7
June 23	First Franklin Mortgage Loan Trust 2003-FFA	I-B-1	AAA	AA	Closed 2nd lien	22541ND48
June 23	First Franklin Mortgage Loan Trust 2003-FFA	I-B-2	AAA	A	Closed 2nd lien	22541NF46
June 23	First Franklin Mortgage Loan Trust 2003-FFA	I-B-3	AA	BBB-	Closed 2nd lien	22541ND55
June 23	First Franklin Mortgage Loan Trust 2003-FFA	I-B-4	A+	BB	Closed 2nd lien	22541ND63
June 23	First Franklin Mortgage Loan Trust 2003-FFA	I-B-5	BBB+	B	Closed 2nd lien	22541ND71
June 23	First Franklin Mortgage Loan Trust 2003-FFA	II-B	AA	BBB-	Closed 2nd lien	22541NE70
June 23	First Franklin Mortgage Loan Trust 2003-FFA	II-M-2	AAA	A	Closed 2nd lien	22541NE62
June 23	First Franklin Mortgage Loan Trust 2004-FFA	M1-A	AAA	AA	Closed 2nd lien	32027NFQ9
June 23	First Franklin Mortgage Loan Trust 2004-FFA	M1-F	AAA	AA	Closed 2nd lien	32027NFR7
June 23	First Franklin Mortgage Loan Trust 2004-FFA	M2-A	AA+	A	Closed 2nd lien	32027NFS5
June 23	First Franklin Mortgage Loan Trust 2004-FFA	M2-F	AA+	A	Closed 2nd lien	32027NFT3
June 23	First Franklin Mortgage Loan Trust 2004-FFA	M3-A	A	A-	Closed 2nd lien	32027NFU0
June 23	First Franklin Mortgage Loan Trust 2004-FFA	M3-F	A	A-	Closed 2nd lien	32027NFV8
June 23	First Franklin Mortgage Loan Trust 2004-FFB	M-1	AAA	AA+	Closed 2nd lien	22541SQZ4
June 23	First Franklin Mortgage Loan Trust 2004-FFB	M-2	AAA	AA	Closed 2nd lien	22541SRA8
June 23	First Franklin Mortgage Loan Trust 2004-FFB	M-3	AA+	AA-	Closed 2nd lien	22541SRB6
June 23	First Franklin Mortgage Loan Trust 2004-FFC	M-1	AAA	AA	Closed 2nd lien	32027NPT2
June 23	First Franklin Mortgage Loan Trust 2004-FFC	M-2	AA+	AA-	Closed 2nd lien	32027NPU9
June 26	Home Improvement Loan Trust 1995-A	B	BB+	D	Home imp	393505FR8
June 26	Salomon Brothers Mortgage Securities VII Inc. 1994-4A	4A-A	AAA	AA+	Prime jumbo	79548KKP2
June 26	Salomon Brothers Mortgage Securities VII Inc. 1997-LB6	B-2	AAA	AA	Subprime	79548KYB8
June 26	Salomon Brothers Mortgage Securities VII Inc. 1999-NC1	M-1	AAA	AA+	Subprime	79548KL97
June 26	Salomon Brothers Mortgage Securities VII Inc. 1999-NC1	M-2	A+	A	Subprime	79548KM21
June 26	Salomon Brothers Mortgage Securities VII Inc. 1999-NC2	M-2	A+	A	Subprime	79548KM62
June 26	Salomon Brothers Mortgage Securities VII Inc. 1999-NC2	M-3	BBB+	BBB	Subprime	79548KM70
June 26	Salomon Brothers Mortgage Securities VII Inc. 2000-1	B-3	AAA	AA+	Prime jumbo	79548K3E6
June 27	RAFC Asset-Backed Trust 2001-1	M-2	AA+	AA	Subprime	749213AE4
June 27	Structured Asset Investment Loan Trust 2003-BC4	M1	AA+	AA	Subprime	86358EBL9
June 27	Structured Asset Investment Loan Trust 2003-BC5	M1	AA+	AA	Subprime	86358EBW5
July 5	GSR Mortgage Loan Trust 2003-3F	B-3	AAA	AA+	Prime jumbo	36228FPZ3
July 5	GSR Mortgage Loan Trust 2003-3F	B-4	AA	A+	Prime jumbo	36228FQB5
July 5	GSR Mortgage Loan Trust 2003-3F	B-5	BBB+	BBB	Prime jumbo	36228FQC3
July 5	GSR Mortgage Loan Trust 2003-4F	B-2	AAA	AA+	Prime jumbo	36228FRK4
July 5	GSR Mortgage Loan Trust 2003-4F	B-3	AA+	AA	Prime jumbo	36228FRL2
July 5	GSR Mortgage Loan Trust 2003-4F	B-4	A+	A	Prime jumbo	36228FRM0
July 5	GSR Mortgage Loan Trust 2003-4F	B-5	BBB	BB+	Prime jumbo	36228FRN8
July 5	GSR Mortgage Loan Trust 2003-7F	B1	AAA	AA+	Prime jumbo	36228FVA1

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
July 5	GSR Mortgage Loan Trust 2003-7F	B2	AA+	AA-	Prime jumbo	36228FVB9
July 5	GSR Mortgage Loan Trust 2003-7F	B3	A+	BBB+	Prime jumbo	36228FVC7
July 5	GSR Mortgage Loan Trust 2003-7F	B4	BBB+	BB+	Prime jumbo	36228FVE3
July 5	GSR Mortgage Loan Trust 2003-7F	B5	BB-	B	Prime jumbo	36228FVF0
July 5	GSR Mortgage Loan Trust 2003-9	B1	AA+	AA	Prime jumbo	36228FWU6
July 5	GSR Mortgage Loan Trust 2003-9	B2	A+	A	Prime jumbo	36228FWV4
July 5	GSR Mortgage Loan Trust 2004-2F	I-B1	AA+	AA	Prime jumbo	36229RLX5
July 5	GSR Mortgage Loan Trust 2004-2F	I-B2	A+	A	Prime jumbo	36229RLY3
July 5	GSR Mortgage Loan Trust 2004-2F	I-B3	BBB+	BBB	Prime jumbo	36229RLZ0
July 5	GSR Mortgage Loan Trust 2004-4	B1	AA+	AA	Prime jumbo	36228FE44
July 5	GSR Mortgage Loan Trust 2004-4	B2	A+	A	Prime jumbo	36228FE51
July 5	GSR Mortgage Loan Trust 2004-14	1B1	AA+	AA	Prime jumbo	36242DPQ0
July 5	GSR Mortgage Loan Trust 2004-14	1B2	A+	A	Prime jumbo	36242DPR8
July 5	GSR Mortgage Loan Trust 2004-14	1B3	BBB+	BBB	Prime jumbo	36242DPS6
July 5	GSR Mortgage Loan Trust 2004-14	1BX	BBB+	BBB	Prime jumbo	36242DPX5
July 5	GSR Mortgage Loan Trust 2005-AR3	1B1	AA	AA-	Prime jumbo	36242D5C3
July 5	GSR Mortgage Loan Trust 2005-AR3	1B2	A	A-	Prime jumbo	36242D5D1
July 7	Sequoia Mortgage Trust 2003-1	B-1	AA+	AA	Prime jumbo	81743PAH9
July 7	Sequoia Mortgage Trust 2003-1	B-2	A+	A	Prime jumbo	81743PAJ5
July 7	Sequoia Mortgage Trust 2003-3	B-1	AA+	AA	Prime jumbo	81743PBB1
July 7	Sequoia Mortgage Trust 2003-3	B-2	A+	A	Prime jumbo	81743PBC9
July 7	Sequoia Mortgage Trust 2003-3	B-3	BBB+	BBB	Prime jumbo	81743PBD7
July 7	Sequoia Mortgage Trust 2003-4	1-B-1	AA+	AA	Prime jumbo	81743PBK1
July 7	Sequoia Mortgage Trust 2003-4	1-B-2	A+	A	Prime jumbo	81743PBR6
July 7	Sequoia Mortgage Trust 2003-4	1-B-3	BBB+	BBB	Prime jumbo	81743PBS4
July 7	Sequoia Mortgage Trust 2003-5	B-1	AA+	AA	Prime jumbo	81743PCR5
July 7	Sequoia Mortgage Trust 2003-5	B-2	A+	A	Prime jumbo	81743PCS3
July 7	Sequoia Mortgage Trust 2003-6	B-1	AA+	AA	Prime jumbo	81743PDD5
July 7	Sequoia Mortgage Trust 2003-6	B-2	A+	A	Prime jumbo	81743PDE3
July 7	Sequoia Mortgage Trust 2003-7	B-1	AA+	AA	Subprime	81743PDR4
July 7	Sequoia Mortgage Trust 2003-7	B-2	A+	A	Subprime	81743PDS2
July 7	Sequoia Mortgage Trust 2003-7	B-3	BBB+	BBB	Subprime	81743PDT0
July 7	Sequoia Mortgage Trust 2003-8	B-1	AA+	AA	Prime jumbo	81743PED4
July 7	Sequoia Mortgage Trust 2003-8	B-2	A+	A	Prime jumbo	81743PEE2
July 7	Sequoia Mortgage Trust 2003-8	B-3	BBB+	BBB	Prime jumbo	81743PEF9
July 7	Sequoia Mortgage Trust 2004-1	B-1	AA+	AA	Prime jumbo	81744FAG2
July 7	Sequoia Mortgage Trust 2004-1	B-2	A+	A	Prime jumbo	81744FAH0
July 7	Sequoia Mortgage Trust 2004-1	B-3	BBB+	BBB	Prime jumbo	81744FAJ6
July 7	Sequoia Mortgage Trust 2004-4	B-1	AA+	AA	Prime jumbo	81744FBK2
July 7	Sequoia Mortgage Trust 2004-4	B-2	A+	A	Prime jumbo	81744FBL0
July 7	Sequoia Mortgage Trust 2004-4	B-3	BBB+	BBB	Prime jumbo	81744FBM8
July 7	Sequoia Mortgage Trust 2004-5	B-1	AA+	AA	Prime jumbo	81744FBZ9

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
July 7	Sequoia Mortgage Trust 2004-5	B-2	A+	A	Prime jumbo	81744FCA3
July 7	Sequoia Mortgage Trust 2004-6	B-1	AA+	AA	Prime jumbo	81744FCN5
July 7	Sequoia Mortgage Trust 2004-6	B-2	A+	A	Prime jumbo	81744FCP0
July 7	Sequoia Mortgage Trust 2004-7	B-1	AA+	AA	Prime jumbo	81744FDB0
July 7	Sequoia Mortgage Trust 2004-7	B-2	A+	A	Prime jumbo	81744FDC8
July 7	Structured Asset Mortgage Investments II Tr 2004-AR7	B-1	AA+	AA	Prime jumbo	86359LFU8
July 7	Structured Asset Mortgage Investments II Tr 2004-AR7	B-2	A+	A	Prime jumbo	86359LFV6
July 7	Structured Asset Mortgage Investments Trust 2003-CL1	I-B1	AA+	AA	Prime jumbo	86358HTA7
July 7	Structured Asset Mortgage Investments Trust 2002-AR1	B-2	AA	A+	Prime jumbo	86358HMQ9
July 7	Structured Asset Mortgage Investments Trust 2002-AR1	B-3	A-	BBB	Prime jumbo	86358HMR7
July 11	CDC Mortgage Capital Trust 2001-HE1	M-1	AAA	AA+	Subprime	12506YAB5
July 19	ABN AMRO Mortgage Corp. 2002-9	B-1	AA+	AA-	Prime jumbo	00077B5D1
July 19	ABN AMRO Mortgage Corp. 2002-9	B-2	A+	A-	Prime jumbo	00077B5E9
July 19	ABN AMRO Mortgage Corp. 2002-9	M	AAA	AA+	Prime jumbo	00077B5C3
July 19	ABN AMRO Mortgage Corp. 2002-10	B-1	AA+	A	Prime jumbo	00077B6D0
July 19	ABN AMRO Mortgage Corp. 2002-10	B-2	A-	BBB-	Prime jumbo	00077B6E8
July 19	ABN AMRO Mortgage Corp. 2002-10	M	AAA	AA+	Prime jumbo	00077B6C2
July 19	ABN AMRO Mortgage Corp. 2003-1	B-1	AA	A-	Prime jumbo	00077B7L1
July 19	ABN AMRO Mortgage Corp. 2003-1	B-2	BBB+	BBB	Prime jumbo	00077B7M9
July 19	ABN AMRO Mortgage Corp. 2003-1	M	AAA	AA	Prime jumbo	00077B7K3
July 19	ABN AMRO Mortgage Corp. 2003-2	B-1	AA	A	Prime jumbo	000780BQ8
July 19	ABN AMRO Mortgage Corp. 2003-2	B-2	A-	BBB	Prime jumbo	000780BR6
July 19	ABN AMRO Mortgage Corp. 2003-2	B-3	BBB+	BB	Prime jumbo	000780BT2
July 19	ABN AMRO Mortgage Corp. 2003-2	B-4	BB-	B	Prime jumbo	000780BU9
July 19	ABN AMRO Mortgage Corp. 2003-2	M	AA+	AA	Prime jumbo	000780BP0
July 25	MASTR Asset Securitization Trust 2002-8	B-2	AAA	AA+	Prime jumbo	55265KPH6
July 25	MASTR Asset Securitization Trust 2002-8	B-3	AA+	AA-	Prime jumbo	55265KPJ2
July 25	MASTR Asset Securitization Trust 2003-1	15-B-1	AAA	AA+	Prime jumbo	55265KRE1
July 25	MASTR Asset Securitization Trust 2003-1	15-B-2	AA+	AA-	Prime jumbo	55265KRF8
July 25	MASTR Asset Securitization Trust 2003-1	15-B-3	A+	BBB	Prime jumbo	55265KRG6
July 25	MASTR Asset Securitization Trust 2003-1	15-B-4	BBB	BB	Prime jumbo	55265KPN3
July 25	MASTR Asset Securitization Trust 2003-1	15-B-5	BB	B	Prime jumbo	55265KPP8
July 25	MASTR Asset Securitization Trust 2003-1	30-B-1	AAA	AA+	Prime jumbo	55265KRH4
July 25	MASTR Asset Securitization Trust 2003-1	30-B-2	AA+	AA-	Prime jumbo	55265KRJ0
July 25	MASTR Asset Securitization Trust 2003-1	30-B-3	A+	BBB+	Prime jumbo	55265KRK7
July 25	MASTR Asset Securitization Trust 2003-1	30-B-4	BBB+	BB+	Prime jumbo	55265KPR4
July 25	MASTR Asset Securitization Trust 2003-1	30-B-5	B+	B	Prime jumbo	55265KPS2
July 25	MASTR Asset Securitization Trust 2003-2	15-B-1	AAA	AA+	Prime jumbo	55265KSU4
July 25	MASTR Asset Securitization Trust 2003-2	15-B-2	AA-	A+	Prime jumbo	55265KSV2
July 25	MASTR Asset Securitization Trust 2003-2	15-B-3	BBB+	BBB	Prime jumbo	55265KSW0
July 25	MASTR Asset Securitization Trust 2003-2	15-B-4	BB+	BB	Prime jumbo	55265KTA7
July 25	MASTR Asset Securitization Trust 2003-2	30-B-2	AA+	AA	Prime jumbo	55265KSY6

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
July 25	MASTR Asset Securitization Trust 2003-2	30-B-3	AA-	A	Prime jumbo	55265KSZ3
July 25	MASTR Asset Securitization Trust 2003-2	30-B-4	A-	BBB	Prime jumbo	55265KTD1
July 25	MASTR Asset Securitization Trust 2003-2	30-B-5	BB	B+	Prime jumbo	55265KTE9
July 25	MASTR Asset Securitization Trust 2003-3	B-1	AAA	AA+	Prime jumbo	55265KUP2
July 25	MASTR Asset Securitization Trust 2003-3	B-2	AA+	A+	Prime jumbo	55265KUQ0
July 25	MASTR Asset Securitization Trust 2003-3	B-3	A	BBB	Prime jumbo	55265KUR8
July 25	MASTR Asset Securitization Trust 2003-3	B-4	BBB	BB	Prime jumbo	55265KUS6
July 25	MASTR Asset Securitization Trust 2003-3	B-5	BB	B	Prime jumbo	55265KUT4
July 25	MASTR Asset Securitization Trust 2003-4	B-1	AA+	AA	Prime jumbo	55265KWR6
July 25	MASTR Asset Securitization Trust 2003-4	B-2	AA	A	Prime jumbo	55265KWS4
July 25	MASTR Asset Securitization Trust 2003-4	B-3	A	BBB	Prime jumbo	55265KWT2
July 25	MASTR Asset Securitization Trust 2003-4	B-4	BBB	BB	Prime jumbo	55265KWX3
July 25	MASTR Asset Securitization Trust 2003-4	B-5	B+	B	Prime jumbo	55265KWY1
July 25	MASTR Asset Securitization Trust 2003-4	6-B-1	AA+	AA	Prime jumbo	55265KWU9
July 25	MASTR Asset Securitization Trust 2003-4	6-B-2	AA-	A	Prime jumbo	55265KWV7
July 25	MASTR Asset Securitization Trust 2003-4	6-B-3	BBB+	BBB	Prime jumbo	55265KWW5
July 25	MASTR Asset Securitization Trust 2003-4	6-B-4	BB+	BB	Prime jumbo	55265KXA2
July 25	MASTR Asset Securitization Trust 2003-5	B-1	AA+	AA	Prime jumbo	55265KYB9
July 25	MASTR Asset Securitization Trust 2003-5	B-2	A+	A	Prime jumbo	55265KYC7
July 25	MASTR Asset Securitization Trust 2003-5	B-3	BBB+	BBB	Prime jumbo	55265KYD5
July 25	MASTR Asset Securitization Trust 2003-6	15-B-1	AA+	AA	Prime jumbo	55265KZN2
July 25	MASTR Asset Securitization Trust 2003-6	15-B-2	A+	A	Prime jumbo	55265KZP7
July 25	WaMu Mortgage Pass-Through Cert Ser 2002-AR17 Tr	II-B-1	AAA	AA	Prime jumbo	929227XG6
July 25	WaMu Mortgage Pass-Through Cert Ser 2002-AR17 Tr	II-B-2	AA-	A	Prime jumbo	929227XH4
July 25	WaMu Mortgage Pass-Through Cert Ser 2002-AR17 Tr	II-B-3	BBB+	BBB	Prime jumbo	929227XJ0
July 25	WaMu Mortgage Pass-Through Cert Ser 2002-S6 Tr	B-3	AAA	AA+	Prime jumbo	929227WG7
July 25	WaMu Mortgage Pass-Through Cert Ser 2003-S1 Tr	B-2	AA-	A+	Prime jumbo	929227K21
July 25	WaMu Mortgage Pass-Through Cert Ser 2003-S1 Tr	B-3	A-	BBB+	Prime jumbo	929227K39
July 25	WaMu Mortgage Pass-Through Cert Ser 2003-S1 Tr	B-4	BBB-	BB+	Prime jumbo	929227K54
July 25	WaMu Mortgage Pass-Through Cert Ser 2003-S4 Tr	C-B-1	AA+	AA	Prime jumbo	9292275Q5
July 25	WaMu Mortgage Pass-Through Cert Ser 2003-S4 Tr	C-B-2	A+	A	Prime jumbo	9292275R3
July 25	WaMu Mortgage Pass-Through Cert Ser 2003-S4 Tr	C-B-3	BBB+	BBB	Prime jumbo	9292275S1
July 25	WaMu Mortgage Pass-Through Cert Ser 2003-S4 Tr	C-B-4	BB+	BB	Prime jumbo	9292275U6
July 25	WaMu Mortgage Pass-Through Cert Ser 2004-AR2 Tr	B-1	AA+	AA	Prime jumbo	92922FNX2
July 25	WaMu Mortgage Pass-Through Cert Ser 2004-AR2 Tr	B-2	A+	A	Prime jumbo	92922FNY0
July 25	WaMu Mortgage Pass-Through Cert Ser 2004-AR2 Tr	B-3	BBB+	BBB	Prime jumbo	92922FNZ7
July 28	RESI Finance Limited Partnership 2002-A	B10	AAA	AA+	Risk transfer	74951PAH1
July 28	RESI Finance Limited Partnership 2002-A	B11	AAA	A+	Risk transfer	74951PAJ7
July 28	RESI Finance Limited Partnership 2003-B	B3	AAA	A+	Risk transfer	74951PAY4
July 28	RESI Finance Limited Partnership 2003-B	B4	AA	A	Risk transfer	74951PAZ1
July 28	RESI Finance Limited Partnership 2003-B	B5	A	BBB+	Risk transfer	74951PBA5
July 28	RESI Finance Limited Partnership 2003-B	B6	A-	BBB	Risk transfer	74951PBB3

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
July 28	RESI Finance Limited Partnership 2003-B	B7	BBB	BB+	Risk transfer	74951PBC1
July 28	RESI Finance Limited Partnership 2003-B	B8	BBB-	BB	Risk transfer	74951PBD9
July 28	RESI Finance Limited Partnership 2003-B	B9	BB	B+	Risk transfer	74951PBE7
July 28	RESI Finance Limited Partnership 2003-B	B10	BB-	B	Risk transfer	74951PBF4
July 28	RESI Finance Limited Partnership 2003-A	B3	AAA	AA+	Risk transfer	74951PAN8
July 28	RESI Finance Limited Partnership 2003-A	B4	AAA	AA	Risk transfer	74951PAP3
July 28	RESI Finance Limited Partnership 2003-A	B5	AAA	AA-	Risk transfer	74951PAQ1
July 28	RESI Finance Limited Partnership 2003-A	B6	AAA	A+	Risk transfer	74951PAR9
July 28	RESI Finance Limited Partnership 2003-A	B7	AAA	A-	Risk transfer	74951PAS7
July 28	RESI Finance Limited Partnership 2003-A	B8	AA	BBB+	Risk transfer	74951PAT5
July 28	RESI Finance Limited Partnership 2003-A	B9	AA-	BBB-	Risk transfer	74951PAU2
July 28	RESI Finance Limited Partnership 2003-A	B10	A-	BB	Risk transfer	74951PAV0
July 28	RESI Finance Limited Partnership 2003-A	B11	BB+	B	Risk transfer	74951PAW8
Aug. 2	Empire Funding Home Loan Owner Trust 1997-1	M-1	AA+	AA	2 lien HiCLTV	291701AF7
Aug. 2	Empire Funding Home Loan Owner Trust 1997-2	M-2	A	BBB	2 lien HiCLTV	291701AR1
Aug. 2	Empire Funding Home Loan REMIC Trust 1997-A	M-2	BBB+	BBB-	2 lien HiCLTV	291705AE1
Aug. 2	Empire Funding Home Loan REMIC Trust 1997-A	B	BB+	B	2 lien HiCLTV	291705AF8
Aug. 2	FirstPlus Home Loan Owner Trust 1997-2	B-1	AA	BBB	2 lien HiCLTV	337925BQ3
Aug. 2	FirstPlus Home Loan Owner Trust 1997-2	M-1	AAA	AA	2 lien HiCLTV	337925BN0
Aug. 2	FirstPlus Home Loan Owner Trust 1997-2	M-2	AA+	A	2 lien HiCLTV	337925BP5
Aug. 2	FirstPlus Home Loan Owner Trust 1997-3	B-1	A-	BBB	2 lien HiCLTV	337925CC3
Aug. 2	FirstPlus Home Loan Owner Trust 1997-3	M-1	AA+	AA	2 lien HiCLTV	337925CA7
Aug. 2	FirstPlus Home Loan Owner Trust 1997-3	M-2	AA-	A	2 lien HiCLTV	337925CB5
Aug. 11	Household Mortgage Loan Trust 2004-HC1	M	AA+	AA	Subprime	441935AL7
Aug. 11	Household Home Equity Loan Trust 2003-2	M	AA+	AA	Subprime	441917AY7
Aug. 16	ACE Securities Corp. Home Equity lien Tr, Ser 2003-HS1	M-1	AA+	AA	Subprime	004421CF8
Aug. 16	ACE Securities Corp. Home Equity lien Tr, Ser 2003-HS1	M-2	A+	A	Subprime	004421CG6
Aug. 16	ACE Securities Corp. Home Equity lien Tr, Ser 2003-TC1	M-1	AA+	AA	Subprime	004421BZ5
Aug. 21	Citicorp Mortgage Securities Inc. 2002-12	B-2	AAA	AA+	Prime jumbo	172973FZ7
Aug. 21	Citicorp Mortgage Securities Inc. 2002-12	B-3	AA+	A+	Prime jumbo	172973GA1
Aug. 21	Citicorp Mortgage Securities Inc. 2003-1	B-1	AAA	AA+	Prime jumbo	172973KB4
Aug. 21	Citicorp Mortgage Securities Inc. 2003-1	B-2	AA+	AA	Prime jumbo	172973KC2
Aug. 21	Citicorp Mortgage Securities Inc. 2003-1	B-3	AA	A	Prime jumbo	172973KD0
Aug. 21	Citicorp Mortgage Securities Inc. 2003-4	B-1	AAA	AA	Prime jumbo	172973NV7
Aug. 21	Citicorp Mortgage Securities Inc. 2003-4	B-2	AA+	AA-	Prime jumbo	172973NW5
Aug. 21	Citicorp Mortgage Securities Inc. 2003-4	B-3	AA-	BBB+	Prime jumbo	172973NX3
Aug. 21	Citicorp Mortgage Securities Inc. 2003-4	B-4	BBB	BB+	Prime jumbo	172973NY1
Aug. 24	Wachovia Asset Securitization 2002-1 Trust	B-3	AAA	AA	Prime jumbo	929757AH5
Aug. 31	BellaVista Mortgage Trust 2004-1	I-B-1	AA	A	Prime jumbo	07820QAK1
Aug. 31	BellaVista Mortgage Trust 2004-1	I-B-2	BBB+	BBB	Prime jumbo	07820QAL9
Aug. 31	BellaVista Mortgage Trust 2004-1	I-M	AAA	AA	Prime jumbo	07820QAJ4
Aug. 31	BellaVista Mortgage Trust 2004-1	II-B-1	AA-	A	Prime jumbo	07820QAR6

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
Aug. 31	BellaVista Mortgage Trust 2004-1	II-M	AA+	AA	Prime jumbo	07820QAQ8
Aug. 31	BellaVista Mortgage Trust 2005-1	B-1	AAA	AA	Prime jumbo	07820QBV6
Aug. 31	BellaVista Mortgage Trust 2005-1	B-2	AA	A	Prime jumbo	07820QBW4
Aug. 31	BellaVista Mortgage Trust 2005-1	B-3	A-	BBB	Prime jumbo	07820QBX2
Aug. 31	BellaVista Mortgage Trust 2005-1	B-4	BB+	BB	Prime jumbo	07820QBY0
Sept. 15	Home Equity Loan Trust 1997-B	B-1	AA+	A	Subprime	393505UL4
Sept. 15	Home Equity Loan Trust 1998-C	B-1	AA	BBB	Subprime	393505H54
Sept. 15	Home Equity Loan Trust 1999-D	M-2	AAA	AA-	Subprime	3935053G5
Sept. 15	Home Improvement & Home Equity Loan Trust 1996-C	HE:B-1	AA	A	Subprime	393505NU2
Sept. 15	Home Improvement & Home Equity Loan Trust 1996-F	HE:B-1	AA+	A	Subprime	393505SB9
Sept. 15	Home Improvement & Home Equity Loan Trust 1996-F	HI:B-1	AAA	A	Home imp	393505RS3
Sept. 15	Home Improvement & Home Equity Loan Trust 1997-C	HE B-1	AA	A	Subprime	393505VP4
Sept. 15	Home Improvement & Home Equity Loan Trust 1997-D	HI: B-1	AAA	BBB+	Home imp	393505WV0
Sept. 15	Home Improvement & Home Equity Loan Trust 1997-D	HE: B-1	A+	BBB+	Subprime	393505WL2
Sept. 15	Home Improvement & Home Equity Loan Trust 1997-E	HI:B-1	AAA	AA	Home imp	393505YJ5
Sept. 15	Home Improvement & Home Equity Loan Trust 1997-E	HE:B-1	A-	BBB	Subprime	393505YX4
Sept. 15	Home Improvement & Home Equity Loan Trust 1998-B	HI:B1	AA+	BBB	Home imp	393505B76
Sept. 15	Home Improvement & Home Equity Loan Trust 1998-B	HE:B1	AA+	A	Subprime	393505D25
Sept. 15	Conseco Finance Home Equity Loan Trust 2002-C	BF-1	BBB+	BBB	Subprime	20846QKJ6
Sept. 15	Conseco Finance Home Equity Loan Trust 2002-C	MF-1	AAA	AA+	Subprime	20846QKG2
Sept. 15	Conseco Finance Home Equity Loan Trust 2002-C	MF-2	AA+	A	Subprime	20846QKH0
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2002-AR12 Tr	B-3	AA-	A+	Prime jumbo	939336CU5
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2002-S8 Tr	I-B-1	AAA	AA+	Prime jumbo	929227C87
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2002-S8 Tr	I-B-2	AA+	AA	Prime jumbo	929227C95
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2002-S8 Tr	I-B-3	A	A-	Prime jumbo	929227D29
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2002-S8 Tr	II-B-1	AAA	AA+	Prime jumbo	929227D37
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2002-S8 Tr	II-B-2	AA+	AA	Prime jumbo	929227D45
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2002-S8 Tr	II-B-3	A+	A	Prime jumbo	929227D52
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2003-AR3 Tr	B-5	B+	B	Prime jumbo	929227K96
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2003-AR4 Tr	B-1	AA+	AA	Prime jumbo	929227M45
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2003-AR4 Tr	B-2	A+	A	Prime jumbo	929227M52
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2003-AR4 Tr	B-3	BBB+	BBB	Prime jumbo	929227M60
Sept. 18	WaMu Mortgage Pass-Through Cert Ser 2003-AR4 Tr	B-4	BB+	BB	Prime jumbo	929227M86
Sept. 18	Washington Mutual MSC Mtg P-T Cert Ser 2002-MS8 Tr	C-B-1	AAA	AA+	Prime jumbo	939336JV6
Sept. 18	Washington Mutual MSC Mtg P-T Cert Ser 2002-MS8 Tr	C-B-2	AA+	AA-	Prime jumbo	939336JW4
Sept. 18	Washington Mutual MSC Mtg P-T Cert Ser 2002-MS8 Tr	C-B-3	AA	BBB+	Prime jumbo	939336JX2
Sept. 18	Washington Mutual MSC Mtg P-T Cert Ser 2002-MS11	C-B-2	AA+	AA	Prime jumbo	939336MY6
Sept. 18	Washington Mutual MSC Mtg P-T Cert Ser 2002-MS11	C-B-3	AA	A	Prime jumbo	939336MZ3
Sept. 19	CHL Mortgage Pass-Through Trust 2002-19	B-1	AAA	AA+	Prime jumbo	12669DBW7
Sept. 19	CHL Mortgage Pass-Through Trust 2002-19	B-2	AA+	A+	Prime jumbo	12669DBX5
Sept. 19	CHL Mortgage Pass-Through Trust 2002-21	B-1	AA+	AA	Prime jumbo	12669C7C8
Sept. 19	CHL Mortgage Pass-Through Trust 2002-21	B-2	A+	A-	Prime jumbo	12669C7E4

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
Sept. 19	CHL Mortgage Pass-Through Trust 2002-21	M	AAA	AA+	Prime jumbo	12669C7D6
Sept. 19	CHL Mortgage Pass-Through Trust 2002-25	B-1	AAA	AA+	Prime jumbo	12669DJB5
Sept. 19	CHL Mortgage Pass-Through Trust 2002-25	B-2	AA	A	Prime jumbo	12669DJC3
Sept. 19	CHL Mortgage Pass-Through Trust 2002-26	B-1	AA+	AA	Prime jumbo	12669DGD4
Sept. 19	CHL Mortgage Pass-Through Trust 2002-26	B-2	A	A-	Prime jumbo	12669DGE2
Sept. 19	CHL Mortgage Pass-Through Trust 2002-26	M	AAA	AA+	Prime jumbo	12669DGC6
Sept. 19	CHL Mortgage Pass-Through Trust 2002-27	B-1	AA+	AA	Prime jumbo	12669DGT9
Sept. 19	CHL Mortgage Pass-Through Trust 2002-27	B-2	AA-	A	Prime jumbo	12669DGU6
Sept. 19	CHL Mortgage Pass-Through Trust 2002-30	B-1	AA+	AA-	Prime jumbo	12669DEZ7
Sept. 19	CHL Mortgage Pass-Through Trust 2002-30	B-2	A	BBB+	Prime jumbo	12669DFA1
Sept. 19	CHL Mortgage Pass-Through Trust 2002-31	B-1	AA+	AA	Prime jumbo	12669DMJ4
Sept. 19	CHL Mortgage Pass-Through Trust 2002-31	B-2	AA-	A-	Prime jumbo	12669DMK1
Sept. 19	CHL Mortgage Pass-Through Trust 2002-31	M	AAA	AA+	Prime jumbo	12669DMH8
Sept. 19	CHL Mortgage Pass-Through Trust 2002-32	B-1	AA+	AA	Prime jumbo	12669DLP1
Sept. 19	CHL Mortgage Pass-Through Trust 2002-32	B-2	A+	A	Prime jumbo	12669DLQ9
Sept. 19	CHL Mortgage Pass-Through Trust 2002-J4	B-2	AAA	AA+	Prime jumbo	12669DEL8
Sept. 19	CHL Mortgage Pass-Through Trust 2003-21	B-1	AA-	A	Prime jumbo	12669ECZ7
Sept. 19	CHL Mortgage Pass-Through Trust 2003-21	B-2	BBB+	BBB	Prime jumbo	12669EDA1
Sept. 19	CHL Mortgage Pass-Through Trust 2003-21	B-3	BB+	BB	Prime jumbo	12669EDJ2
Sept. 19	CHL Mortgage Pass-Through Trust 2003-21	M	AA+	AA	Prime jumbo	12669ECY0
Sept. 19	CHL Mortgage Pass-Through Trust 2003-27	M	AA+	AA	Prime jumbo	12669EHP4
Sept. 19	CHL Mortgage Pass-Through Trust 2003-37	M	AA+	AA	Prime jumbo	12669EYV2
Sept. 19	CHL Mortgage Pass-Through Trust 2003-52	M	AA+	AA	Prime jumbo	12669E6A9
Sept. 19	CHL Mortgage Pass-Through Trust 2003-53	M	AA+	AA	Prime jumbo	12669E5S1
Sept. 19	CHL Mortgage Pass-Through Trust 2003-60	B-1	A+	A	Prime jumbo	12669FJJ3
Sept. 19	CHL Mortgage Pass-Through Trust 2003-60	M	AA+	AA	Prime jumbo	12669FJH7
Sept. 19	CHL Mortgage Pass-Through Trust 2003-HYB1	B-1	AA+	AA-	Prime jumbo	12669DD62
Sept. 19	CHL Mortgage Pass-Through Trust 2003-HYB1	B-2	A	BBB+	Prime jumbo	12669DD70
Sept. 19	CHL Mortgage Pass-Through Trust 2003-HYB1	M	AAA	AA+	Prime jumbo	12669DD54
Sept. 19	CHL Mortgage Pass-Through Trust 2003-HYB2	B-1	A+	A	Prime jumbo	12669D3D8
Sept. 19	CHL Mortgage Pass-Through Trust 2003-HYB2	M	AA+	AA	Prime jumbo	12669D3C0
Sept. 19	CHL Mortgage Pass-Through Trust 2003-HYB3	B-1	A+	A	Prime jumbo	12669EQM1
Sept. 19	CHL Mortgage Pass-Through Trust 2003-HYB3	M	AA+	AA	Prime jumbo	12669ETL0
Sept. 19	CHL Mortgage Pass-Through Trust 2004-2	B-1	A+	A	Prime jumbo	12669FKW2
Sept. 19	CHL Mortgage Pass-Through Trust 2004-2	B-2	BBB+	BBB	Prime jumbo	12669FKX0
Sept. 19	CHL Mortgage Pass-Through Trust 2004-2	B-3	BB+	BB	Prime jumbo	12669FKY8
Sept. 19	CHL Mortgage Pass-Through Trust 2004-2	M	AA+	AA	Prime jumbo	12669FKV4
Sept. 19	CHL Mortgage Pass-Through Trust 2004-16	M	AA+	AA	Prime jumbo	12669FX24
Sept. 19	CHL Mortgage Pass-Through Trust 2004-23	B-1	A+	A	Prime jumbo	12669GAE1
Sept. 19	CHL Mortgage Pass-Through Trust 2004-23	M	AA+	AA	Prime jumbo	12669GAD3
Sept. 25	CitiFinancial Mortgage Securities Inc. 2003-3	MV-2	AAA	A	Subprime	17306UBR8
Sept. 25	CitiFinancial Mortgage Securities Inc. 2003-4	MV-3	AAA	A+	Subprime	

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
Sept. 25	CitiFinancial Mortgage Securities Inc. 2003-4	MV-4	AAA	A	Subprime	
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2002-AR1	C-B-1	AAA	AA+	Prime jumbo	939335P74
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2002-AR1	C-B-2	AA+	AA-	Prime jumbo	939335P82
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2002-AR1	C-B-3	A+	BBB+	Prime jumbo	939335P90
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2002-MS2	C-B-3	AAA	AA+	Prime jumbo	939335M77
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2002-MS4	C-B-2	AAA	AA+	Prime jumbo	9393352R5
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2002-MS4	C-B-3	AA+	AA	Prime jumbo	9393352S3
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2002-MS7	C-B-3	AAA	AA	Prime jumbo	939336GM9
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS2	C-B-2	AA	AA-	Prime jumbo	939336RP0
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS2	C-B-3	A-	BBB+	Prime jumbo	939336RQ8
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS2	C-B-4	BBB-	BB+	Prime jumbo	939336RS4
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS2	C-B-5	B+	B	Prime jumbo	939336RT2
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS3	C-B-2	AA+	AA	Prime jumbo	939336SZ7
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS3	C-B-3	A	A-	Prime jumbo	939336TA1
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS3	C-B-4	BBB+	BBB	Prime jumbo	939336TC7
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS3	C-B-5	BB-	B+	Prime jumbo	939336TD5
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS4	C-B-2	AA+	AA	Prime jumbo	939336YS6
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS4	C-B-3	A+	A	Prime jumbo	939336YT4
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS4	C-B-4	BBB+	BBB	Prime jumbo	939336UB7
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS4	C-B-5	BB-	B+	Prime jumbo	939336UC5
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS5	C-B-1	AA+	AA	Prime jumbo	939336UQ4
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS5	C-B-2	A+	A	Prime jumbo	939336UR2
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS5	C-B-3	BBB+	BBB	Prime jumbo	939336US0
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS5	C-B-4	BB+	BB	Prime jumbo	939336UU5
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS5	C-B-5	B+	B	Prime jumbo	939336UV3
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS6	C-B-1	AAA	AA+	Prime jumbo	939336ZS5
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS6	C-B-2	AA+	AA	Prime jumbo	939336ZT3
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS6	C-B-3	A	A-	Prime jumbo	939336ZU0
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS6	C-B-4	BBB-	BB+	Prime jumbo	939336YW7
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS6	III-B-1	AAA	AA+	Prime jumbo	939336ZV8
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS6	III-B-2	AA+	AA	Prime jumbo	939336ZW6
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS6	III-B-3	A+	A	Prime jumbo	939336ZX4
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS8	C-B-1	AA+	AA	Prime jumbo	939336C92
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2003-MS8	C-B-2	A+	A	Prime jumbo	939336D26
Sept. 26	Provident Funding Mortgage Loan Trust 2003-1	B-1	AAA	AA+	Prime jumbo	743873AB7
Sept. 26	Provident Funding Mortgage Loan Trust 2003-1	B-2	AA	A+	Prime jumbo	743873AC5
Sept. 26	Provident Funding Mortgage Loan Trust 2003-1	B-3	A-	BBB+	Prime jumbo	743873AD3
Sept. 26	Provident Funding Mortgage Loan Trust 2003-1	B-4	BBB	BB+	Prime jumbo	743873AE1
Sept. 26	Provident Funding Mortgage Loan Trust 2003-1	B-5	BB	B+	Prime jumbo	743873AF8
Sept. 28	Banc of America Alternative Loan Trust 2003-1	B-1	AA+	AA	Alt-A	05948KAL3
Sept. 28	Banc of America Alternative Loan Trust 2003-1	B-2	A+	A	Alt-A	05948KAM1
Sept. 28	Banc of America Alternative Loan Trust 2003-1	B-3	BBB+	BBB	Alt-A	05948KAN9

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
Sept. 28	Banc of America Alternative Loan Trust 2003-2	B-1	AA+	AA	Alt-A	05948KBK4
Sept. 28	Banc of America Alternative Loan Trust 2003-2	B-2	A+	A	Alt-A	05948KBL2
Sept. 28	CWABS, Inc. 2002-S4	B	A	BBB	Closed 2nd lien	126671UH7
Sept. 28	CWABS, Inc. 2002-SC1	B-1	A	BBB	Closed 2nd lien	126671SF4
Sept. 28	Structured Asset Securities Corp. 2002-25A	B2-I	AA+	AA	Prime jumbo	86359AED1
Sept. 28	Structured Asset Securities Corp. 2002-25A	B2-I-X	AA+	AA	Prime jumbo	86359AEE9
Sept. 28	Structured Asset Securities Corp. 2002-25A	B2-II	AA+	AA	Prime jumbo	86359AEG4
Sept. 28	Structured Asset Securities Corp. 2002-25A	B3	A+	BBB+	Prime jumbo	86359AEH2
Sept. 28	Structured Asset Securities Corp. 2003-2A	B1-I	AAA	AA+	Prime jumbo	86359AKS1
Sept. 28	Structured Asset Securities Corp. 2003-2A	B1-I-X	AAA	AA+	Prime jumbo	86359AKT9
Sept. 28	Structured Asset Securities Corp. 2003-2A	B1-II	AAA	AA+	Prime jumbo	86359AKW2
Sept. 28	Structured Asset Securities Corp. 2003-2A	B2-I	AA	A+	Prime jumbo	86359AKU6
Sept. 28	Structured Asset Securities Corp. 2003-2A	B2-I-X	AA	A+	Prime jumbo	86359AKV4
Sept. 28	Structured Asset Securities Corp. 2003-2A	B2-II	AA	A+	Prime jumbo	86359AKX0
Sept. 28	Structured Asset Securities Corp. 2003-2A	B3	A	BBB+	Prime jumbo	86359AKY8
Sept. 28	Structured Asset Securities Corp. 2003-4	B1	AA+	AA	Prime jumbo	86359APH0
Sept. 28	Structured Asset Securities Corp. 2003-4	B2	AA	A	Prime jumbo	86359APJ6
Sept. 28	Structured Asset Securities Corp. 2003-4	B3	BBB+	BBB	Prime jumbo	86359APK3
Sept. 28	Structured Asset Securities Corp. 2003-15A	B1	AA+	AA	Prime jumbo	86359AVY6
Sept. 28	Structured Asset Securities Corp. 2003-15A	B2	A+	A	Prime jumbo	86359AVZ3
Sept. 28	Structured Asset Securities Corp. 2003-15A	B3	BBB+	BBB	Prime jumbo	86359AWA7
Oct. 2	MASTR Seasoned Securitization Trust 2003-1	B-1	AAA	AA	Prime jumbo	55265WAS2
Oct. 2	MASTR Seasoned Securitization Trust 2003-1	B-2	AAA	A	Prime jumbo	55265WAT0
Oct. 2	MASTR Seasoned Securitization Trust 2003-1	B-3	AA	BBB	Prime jumbo	55265WAU7
Oct. 2	MASTR Seasoned Securitization Trust 2003-1	B-4	A+	BB	Prime jumbo	55265WAA1
Oct. 2	MASTR Seasoned Securitization Trust 2003-1	B-5	BBB	B	Prime jumbo	55265WAB9
Oct. 11	Thornburg Mortgage Securities Trust 2002-3	B-2	AA-	A+	Prime jumbo	885220BV4
Oct. 11	Thornburg Mortgage Securities Trust 2002-3	B-3	A-	BBB+	Prime jumbo	885220BW2
Oct. 18	RFSC Series 2003-RM2 Trust	B-III-1	BBB	BB	Prime jumbo	760985WC1
Oct. 18	RFSC Series 2003-RM2 Trust	B-III-2	BB	B	Prime jumbo	760985WD9
Oct. 18	RFSC Series 2003-RM2 Trust	M-III-1	AA+	AA	Prime jumbo	760985VW8
Oct. 18	RFSC Series 2003-RM2 Trust	M-III-2	A+	A	Prime jumbo	760985VX6
Oct. 18	RFSC Series 2003-RM2 Trust	M-III-3	BBB+	BBB	Prime jumbo	760985VY4
Oct. 19	RAMP Series 2002-RZ2 Trust	M-1	AAA	AA+	1 lien HiLTV	760985KW0
Oct. 19	RAMP Series 2002-RZ3 Trust	M-1	AA+	AA	1 lien HiLTV	760985NC1
Oct. 24	Aegis Asset Backed Securities Trust 2005-5	B5	AAA	BBB-	Subprime	00764MHQ3
Oct. 31	Bear Stearns Asset Backed Securities Trust 2002-AC1	B-3	AA+	AA	Alt-A	07384YCF1
Oct. 31	Bear Stearns Asset Backed Securities Trust 2003-AC4	M-1	AA+	AA	Alt-A	07384YKH8
Oct. 31	Bear Stearns Asset Backed Securities Trust 2003-AC4	M-2	AA-	A	Alt-A	07384YKJ4
Oct. 31	Bear Stearns Asset Backed Securities Trust 2003-AC5	M-1	AA+	AA	Alt-A	07384YME3
Oct. 31	Bear Stearns Asset Backed Securities Trust 2003-AC5	M-2	A+	A	Alt-A	07384YMF0
Oct. 31	Bear Stearns Asset Backed Securities Trust 2003-SD2	B-1	AA+	AA	Reperforming	07384YLL8

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
Oct. 31	Bear Stearns Asset Backed Securities Trust 2003-SD2	B-2	A+	A	Reperforming	07384YLM6
Oct. 31	Bear Stearns Asset Backed Securities Trust 2004-AC1	M-1	AA+	AA	Alt-A	07384YQM1
Oct. 31	Bear Stearns Asset Backed Securities Trust 2004-AC1	M-2	A+	A	Alt-A	07384YQN9
Nov. 9	RALI Series 2002-QS10 Trust	M-3	AA+	AA	Alt-A	76110GM99
Nov. 9	RALI Series 2002-QS11 Trust	M-2	AA+	AA	Alt-A	76110GJ93
Nov. 9	RALI Series 2002-QS11 Trust	M-3	A-	BBB+	Alt-A	76110GK26
Nov. 9	RALI Series 2002-QS12 Trust	M-2	AA+	AA	Alt-A	76110GS77
Nov. 9	RALI Series 2002-QS12 Trust	M-3	A	BBB+	Alt-A	76110GS85
Nov. 9	RALI Series 2002-QS14 Trust	M-3	A+	A	Alt-A	76110GV65
Nov. 9	RALI Series 2002-QS15 Trust	M-2	AA+	AA	Alt-A	76110GY70
Nov. 9	RALI Series 2002-QS15 Trust	M-3	A	A-	Alt-A	76110GY88
Nov. 9	RALI Series 2002-QS17 Trust	M-1	AAA	AA+	Alt-A	76110GZ87
Nov. 9	RALI Series 2002-QS17 Trust	B-1	BB+	BB	Alt-A	76110G2B6
Nov. 9	RALI Series 2002-QS17 Trust	M-2	AA	A+	Alt-A	76110GZ95
Nov. 9	RALI Series 2002-QS17 Trust	M-3	A-	BBB	Alt-A	76110G2A8
Nov. 9	RALI Series 2002-QS19 Trust	M-1	AAA	AA+	Alt-A	76110G3F6
Nov. 9	RALI Series 2002-QS19 Trust	M-2	AA	A+	Alt-A	76110G3G4
Nov. 9	RALI Series 2002-QS19 Trust	M-3	A-	BBB	Alt-A	76110G3H2
Nov. 9	RALI Series 2002-QS3 Trust	M-3	AA	AA-	Alt-A	76110GXG1
Nov. 9	RALI Series 2002-QS7 Trust	B-1	A+	A	Alt-A	76110GE56
Nov. 9	RALI Series 2002-QS7 Trust	B-2	B+	B	Alt-A	76110GE64
Nov. 9	RALI Series 2002-QS9 Trust	M-3	AA	AA-	Alt-A	76110GG88
Nov. 9	RALI Series 2003-QS1 Trust	M-1	AA+	AA	Alt-A	76110G5B3
Nov. 9	RALI Series 2003-QS1 Trust	M-2	AA-	A	Alt-A	76110G5C1
Nov. 9	RALI Series 2003-QS1 Trust	M-3	BBB+	BBB	Alt-A	76110G5D9
Nov. 14	RFMSI Series 2002-S11 Trust	M-3	AAA	AA+	Prime jumbo	76111JVZ4
Nov. 14	RFMSI Series 2002-S14 Trust	M-3	AAA	AA+	Prime jumbo	76111JWS9
Nov. 14	RFMSI Series 2002-S15 Trust	M-3	AAA	AA+	Prime jumbo	76111JXR0
Nov. 14	RFMSI Series 2002-S16 Trust	M-3	AAA	AA+	Prime jumbo	76111JA53
Nov. 14	RFMSI Series 2002-S17 Trust	M-3	AA-	A+	Prime jumbo	76111JC69
Nov. 14	RFMSI Series 2002-S18 Trust	M-2	AA+	AA	Prime jumbo	76111JD76
Nov. 14	RFMSI Series 2002-S18 Trust	M-3	AA	A	Prime jumbo	76111JD84
Nov. 14	RFMSI Series 2002-S19 Trust	M-1	AAA	AA+	Prime jumbo	76111JG73
Nov. 14	RFMSI Series 2002-S19 Trust	B-1	BBB+	BBB-	Prime jumbo	76111JH23
Nov. 14	RFMSI Series 2002-S19 Trust	B-2	BB+	B+	Prime jumbo	76111JH31
Nov. 14	RFMSI Series 2002-S19 Trust	M-2	AA+	AA	Prime jumbo	76111JG81
Nov. 14	RFMSI Series 2002-S19 Trust	M-3	AA-	A	Prime jumbo	76111JG99
Nov. 14	RFMSI Series 2002-S20 Trust	B-1	A-	BB+	Prime jumbo	76111JK60
Nov. 14	RFMSI Series 2002-S20 Trust	B-2	BBB-	B+	Prime jumbo	76111JK78
Nov. 14	RFMSI Series 2002-S20 Trust	M-1	AAA	AA+	Prime jumbo	76111JK37
Nov. 14	RFMSI Series 2002-S20 Trust	M-2	AA+	AA-	Prime jumbo	76111JK45
Nov. 14	RFMSI Series 2002-S20 Trust	M-3	AA-	A-	Prime jumbo	76111JK52

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
Nov. 14	RFMSI Series 2003-S1 Trust	B-1	BBB	BB+	Prime jumbo	76111JL93
Nov. 14	RFMSI Series 2003-S1 Trust	B-2	BB+	B+	Prime jumbo	76111JM27
Nov. 14	RFMSI Series 2003-S1 Trust	M-1	AAA	AA+	Prime jumbo	76111JL69
Nov. 14	RFMSI Series 2003-S1 Trust	M-2	AA+	AA-	Prime jumbo	76111JL77
Nov. 14	RFMSI Series 2003-S1 Trust	M-3	A+	BBB+	Prime jumbo	76111JL85
Nov. 14	RFMSI Series 2003-S2 Trust	B-1	BBB	BB+	Prime jumbo	76111JR63
Nov. 14	RFMSI Series 2003-S2 Trust	M-2	AA	A+	Prime jumbo	76111JR48
Nov. 14	RFMSI Series 2003-S2 Trust	M-3	A	BBB+	Prime jumbo	76111JR55
Nov. 14	RFMSI Series 2003-S2 Trust	B-2	BB-	B	Prime jumbo	76111JR71
Nov. 14	RFMSI Series 2003-S3 Trust	M-1	AA+	AA	Prime jumbo	76111JN59
Nov. 14	RFMSI Series 2003-S3 Trust	M-2	A+	A	Prime jumbo	76111JN67
Nov. 14	RFMSI Series 2003-S5 Trust	M-1	AA+	AA	Prime jumbo	76111JT38
Nov. 14	RFMSI Series 2003-S5 Trust	M-2	AA	A	Prime jumbo	76111JT46
Nov. 14	RFMSI Series 2003-S5 Trust	M-3	A	BBB	Prime jumbo	76111JT53
Nov. 14	RFMSI Series 2003-S5 Trust	B-1	BBB	BB	Prime jumbo	76111JT61
Nov. 14	RFMSI Series 2003-S5 Trust	B-2	BB	B	Prime jumbo	76111JT79
Nov. 14	RFMSI Series 2003-S6 Trust	B-1	BB+	BB	Prime jumbo	76111JZ49
Nov. 14	RFMSI Series 2003-S6 Trust	M-1	AA+	AA	Prime jumbo	76111JY99
Nov. 14	RFMSI Series 2003-S6 Trust	M-2	A+	A	Prime jumbo	76111JZ23
Nov. 14	RFMSI Series 2003-S6 Trust	M-3	BBB+	BBB	Prime jumbo	76111JZ31
Nov. 14	RFMSI Series 2003-S8 Trust	B-1	BB+	BB	Prime jumbo	76111J2Q6
Nov. 14	RFMSI Series 2003-S8 Trust	B-2	BB-	B	Prime jumbo	76111J2R4
Nov. 14	RFMSI Series 2003-S8 Trust	M-1	AA+	AA	Prime jumbo	76111J2M5
Nov. 14	RFMSI Series 2003-S8 Trust	M-2	AA-	A	Prime jumbo	76111J2N3
Nov. 14	RFMSI Series 2003-S8 Trust	M-3	BBB+	BBB	Prime jumbo	76111J2P8
Nov. 14	RFMSI Series 2003-S9 Trust	B-1	A+	BBB-	Prime jumbo	76111J2E3
Nov. 14	RFMSI Series 2003-S9 Trust	B-2	BBB	B+	Prime jumbo	76111J2F0
Nov. 14	RFMSI Series 2003-S9 Trust	M-2	AAA	AA+	Prime jumbo	76111J2C7
Nov. 14	RFMSI Series 2003-S9 Trust	M-3	AA	A	Prime jumbo	76111J2D5
Nov. 14	RFMSI Series 2003-S11 Trust	B-1	BB+	BB	Prime jumbo	76111J7C2
Nov. 14	RFMSI Series 2003-S11 Trust	M-1	AA+	AA	Prime jumbo	76111J6Z2
Nov. 14	RFMSI Series 2003-S11 Trust	M-2	A+	A	Prime jumbo	76111J7A6
Nov. 14	RFMSI Series 2003-S11 Trust	M-3	BBB+	BBB	Prime jumbo	76111J7B4
Nov. 14	RFMSI Series 2002-S12 Trust	M-3	AAA	AA+	Prime jumbo	76111JYQ1
Nov. 21	RESI Finance Limited Partnership 2003-CB1	B3	AA-	A+	Risk transfer	74951PBH0
Nov. 21	RESI Finance Limited Partnership 2003-CB1	B4	A+	A	Risk transfer	74951PBJ6
Nov. 21	RESI Finance Limited Partnership 2003-CB1	B5	A	A-	Risk transfer	74951PBK3
Nov. 21	RESI Finance Limited Partnership 2003-CB1	B6	A-	BBB+	Risk transfer	74951PBL1
Nov. 21	RESI Finance Limited Partnership 2003-CB1	B7	BBB-	BB+	Risk transfer	74951PBM9
Nov. 21	RESI Finance Limited Partnership 2003-CB1	B8	BB+	BB	Risk transfer	74951PBN7
Nov. 21	RESI Finance Limited Partnership 2004-A	B3	A+	A	Risk transfer	74951PCM8
Nov. 21	RESI Finance Limited Partnership 2004-A	B4	A	A-	Risk transfer	74951PCN6

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Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
Nov. 22	RESIX Finance Limited 2003-A B8	B8	AA	BBB+	Risk transfer	76116LAV6
Nov. 22	RESIX Finance Limited 2003-A B9	B9	AA-	BBB-	Risk transfer	76116LAW4
Nov. 22	RESIX Finance Limited 2003-A B10	B10	A-	BB	Risk transfer	76116LAB0
Nov. 22	RESIX Finance Limited 2003-A B10S	B10-S	A-	BB	Risk transfer	76116LAX2
Nov. 22	RESIX Finance Limited 2003-A B11	B11	BB+	B	Risk transfer	76116LAC8
Nov. 22	RESIX Finance Limited 2003-B B7	B7	BBB	BB+	Risk transfer	76116LAY0
Nov. 22	RESIX Finance Limited 2003-B B9	B9	BB	B+	Risk transfer	76116LAD6
Nov. 22	RESIX Finance Limited 2003-B B10	B10	BB-	B	Risk transfer	76116LAE4
Nov. 22	RESIX Finance Limited 2003-CB1 B7	B7	BBB-	BB+	Risk transfer	76116LAG9
Nov. 22	RESIX Finance Limited 2003-CB1 B8	B8	BB+	BB	Risk transfer	76116LAH7
Dec. 8	Alternative Loan Trust 2002-13	B-1	AA	A	Alt-A	12669C6X3
Dec. 8	Alternative Loan Trust 2002-13	B-2	A	BBB	Alt-A	12669C6Y1
Dec. 8	Alternative Loan Trust 2002-15CB	B-1	AA-	A	Alt-A	12669DDM7
Dec. 8	Alternative Loan Trust 2002-15CB	M	AA+	AA	Alt-A	12669DDL9
Dec. 8	Alternative Loan Trust 2003-17T2	B-3	BB	B	Alt-A	12669EA89
Dec. 12	Banc of America Mortgage 2003-2 Trust	1-B-2	AA-	A+	Prime jumbo	05948XBA8
Dec. 12	Banc of America Mortgage 2003-2 Trust	1-B-3	A-	BBB+	Prime jumbo	05948XBB6
Dec. 12	Banc of America Mortgage 2003-2 Trust	1-B-4	BB+	BB	Prime jumbo	05948XBG5
Dec. 12	Banc of America Mortgage 2003-2 Trust	2-B-2	AA-	A+	Prime jumbo	05948XBD2
Dec. 12	Banc of America Mortgage 2003-2 Trust	2-B-3	A-	BBB+	Prime jumbo	05948XBE0
Dec. 12	Banc of America Mortgage 2003-2 Trust	2-B-4	BB+	BB	Prime jumbo	05948XBK6
Dec. 12	Banc of America Mortgage 2003-3 Trust	1-B-1	AA+	AA	Prime jumbo	05948XDH1
Dec. 12	Banc of America Mortgage 2003-3 Trust	1-B-2	A+	A	Prime jumbo	05948XDJ7
Dec. 12	Banc of America Mortgage 2003-3 Trust	1-B-3	BBB+	BBB	Prime jumbo	05948XDK4
Dec. 12	Banc of America Mortgage 2003-3 Trust	1-B-4	BB+	BB	Prime jumbo	05948XDQ1
Dec. 12	Banc of America Mortgage 2003-5 Trust	3-B-1	AAA	AA	Prime jumbo	05948XNV9
Dec. 12	Banc of America Mortgage 2003-5 Trust	3-B-2	AAA	A	Prime jumbo	05948XNW7
Dec. 12	Banc of America Mortgage 2003-5 Trust	3-B-3	AA+	BBB	Prime jumbo	05948XNX5
Dec. 12	Banc of America Mortgage 2003-B Trust	B-1	AAA	AA+	Prime jumbo	06050HE46
Dec. 12	Banc of America Mortgage 2003-B Trust	B-3	A	A-	Prime jumbo	06050HE61
Dec. 12	Banc of America Mortgage 2003-B Trust	B-4	BBB-	BB+	Prime jumbo	06050HE95
Dec. 12	Banc of America Mortgage 2003-B Trust	B-5	B+	B	Prime jumbo	06050HF29
Dec. 12	Banc of America Mortgage 2003-C Trust	B-2	AA	AA-	Prime jumbo	0605067R7
Dec. 12	Banc of America Mortgage 2003-C Trust	B-3	A-	BBB+	Prime jumbo	0605067S5
Dec. 12	Banc of America Mortgage 2003-C Trust	B-4	BBB-	BB+	Prime jumbo	0605067W6
Dec. 12	Banc of America Mortgage 2003-D Trust	B-2	AA-	A+	Prime jumbo	05948XCB5
Dec. 12	Banc of America Mortgage 2003-D Trust	B-3	A-	BBB+	Prime jumbo	05948XCC3
Dec. 12	Banc of America Mortgage 2003-D Trust	B-4	BBB-	BB+	Prime jumbo	05948XCD1
Dec. 12	Banc of America Mortgage 2003-D Trust	B-5	B+	B	Prime jumbo	05948XCE9
Dec. 12	Banc of America Mortgage 2003-E Trust	B-1	AA+	AA	Prime jumbo	05948XEF4
Dec. 12	Banc of America Mortgage 2003-E Trust	B-2	A+	A	Prime jumbo	05948XEG2
Dec. 12	Banc of America Mortgage 2003-E Trust	B-3	BBB+	BBB	Prime jumbo	05948XEH0

Appendix 2

Standard & Poor's U.S. RMBS Public Upgrades, 2006 (cont.)						
Dec. 12	Banc of America Mortgage 2003-E Trust	B-4	BB+	BB	Prime jumbo	05948XEL1
Dec. 12	Banc of America Mortgage 2003-F Trust	B-1	AA+	AA	Prime jumbo	05948XKZ3
Dec. 12	Banc of America Mortgage 2003-F Trust	B-2	A+	A	Prime jumbo	05948XLA7
Dec. 12	Banc of America Mortgage 2003-F Trust	B-3	BBB+	BBB	Prime jumbo	05948XLB5
Dec. 12	Banc of America Mortgage 2003-F Trust	B-4	BB+	BB	Prime jumbo	05948XLE9
Dec. 12	Banc of America Mortgage Trust 2004-1	5-B-1	AA+	AA	Prime jumbo	05948X2A8
Dec. 12	Banc of America Mortgage Trust 2004-1	5-B-2	AA	A	Prime jumbo	05948X2B6
Dec. 12	Banc of America Mortgage Trust 2004-1	5-B-3	BBB+	BBB	Prime jumbo	05948X2C4
Dec. 12	Banc of America Mortgage Trust 2004-2	5-B-1	AA+	AA	Prime jumbo	05948X5L1
Dec. 12	Banc of America Mortgage Trust 2004-2	5-B-2	AA-	A	Prime jumbo	05948X5M9
Dec. 12	Banc of America Mortgage Trust 2004-2	5-B-3	BBB+	BBB	Prime jumbo	05948X5N7
Dec. 14	Home Equity Mortgage Trust 2004-3	M-1	AA+	AA	Closed 2nd lien	22541SLS5
Dec. 14	Home Equity Mortgage Trust 2004-3	M-2	AA	AA-	Closed 2nd lien	22541SLT3
Dec. 14	Home Equity Mortgage Trust 2004-5	M-1	AA+	AA	Closed 2nd lien	22541SJ90
Dec. 14	Home Equity Mortgage Trust 2004-6	M-1	AA+	AA	Closed 2nd lien	22541S3B2
Dec. 14	Home Equity Mortgage Trust 2004-6	M-2	A+	A	Closed 2nd lien	22541S3C0
Dec. 15	Structured Asset Securities Corp. 2003-S1	M4	A	BBB-	Closed 2nd lien	86359AR96
Dec. 18	SACO I Trust 2004-1	M-2	AAA	A	Closed 2nd lien	785778CM1

Appendix 3: Standard & Poor's U.S. RMBS Public Downgrades, 2006

Appendix 3

Standard & Poor's U.S. RMBS Public Downgrades, 2006

Date	Transaction name	Class	To	From	Collateral	CUSIP
Jan. 10	Long Beach Mortgage Loan Trust 2000-1	M-2	BBB	A	Subprime	542514AF1
Jan. 11	RASC Series 2001-KS3 Trust	M-I-3	B	BBB	Subprime	76110WMH6
Jan. 11	RASC Series 2001-KS2 Trust	M-I-3	B	BB	Subprime	76110WLQ7
Jan. 12	NovaStar Mortgage Funding Trust Series 2001-1	M-3	BB	BBB	Subprime	66987XAN5
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-11	III-M-1	BBB	AA	Alt-A	22540AY44
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2001-26	D-B-5	D	CCC	Alt-A	22540VEC2
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-9	II-B	B	BB	Alt-A	22540VJ60
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-22	I-M-3	B	BB	Prime jumbo	22541NCK3
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-22	II-B-2	CCC	B	Prime jumbo	22541NCM9
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-AR31	VII-M-2	BBB	A	Alt-A	22541NTF6
Jan. 12	Credit Suisse First Boston Mtg. Sec. Corp. 2003-8	D-B-5	CCC	B-	Prime jumbo	22541N2F5
Jan. 25	Delta Funding Home Equity Loan Trust 2000-1	B	D	CCC	Subprime	24763LGM6
Jan. 25	Delta Funding Home Equity Loan Trust 2000-3	B	D	CCC	Subprime	24763LHK9
Jan. 25	Delta Funding Home Equity Loan Trust 2000-4	M-2	BBB-	A-	Subprime	24763LHP8
Jan. 31	Structured Asset Securities Corp. 2001-11	B3	CCC	BB	Prime jumbo	86358RHB6
Feb. 7	SASCO Net Interest Margin Trust 2003-12XS	Notes	CCC	A-	NIMS	803827AG9
Feb. 9	Alternative Loan Trust 2003-16T1	B-4	CCC	B	Alt-A	12669EWP7
Feb. 9	Alternative Loan Trust 2004-20T1	B-4	CCC	B	Alt-A	12667FPQ2

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Standard & Poor's U.S. RMBS Public Downgrades, 2006 (cont.)						
Feb. 22	CDC Mortgage Capital Trust 2001-HE1	B	B	BB	Subprime	12506YAD1
Feb. 22	CDC Mortgage Capital Trust 2002-HE2	B-2	B	BB	Subprime	12506YAP4
Feb. 23	Chase Funding Trust Series 2000-3	IB	BB	BBB	Subprime	161551DP8
Feb. 24	MESA Trust 2001-5	M-2	BB	BBB	Reperforming	68400XAD2
Feb. 27	RAMP Series 2002-RS2 Trust	M-I-2	BBB-	A	Out/guide	760985JQ5
Feb. 27	RAMP Series 2002-RS2 Trust	M-I-3	D	CCC	Out/guide	760985JR3
Feb. 27	RAMP Series 2002-RS1 Trust	M-I-2	BBB-	A	Out/guide	760985GT2
Feb. 27	RAMP Series 2002-RS1 Trust	M-I-3	CCC	BBB	Out/guide	760985GU9
Feb. 27	RAMP Series 2002-RS1 Trust	M-II-3	CCC	BBB-	Out/guide	760985GY1
March 2	RASC Series 2002-KS2 Trust	M-I-3	BB	BBB	Subprime	76110WNM4
March 2	Washington Mutual MSC Mtg P-T Cert Ser 2004-RA1	C-B-5	CCC	B	Alt-A	939336R21
March 3	2002-CB5 Trust (C-BASS)	B-1	A	AA	Reperforming	12489WFU3
March 3	C-BASS 2003-RP1 Trust	B-1	BBB-	BBB	Reperforming	124860DV6
March 3	C-BASS 2003-RP1 Trust	B-2	BB	BBB-	Reperforming	124860DW4
March 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-OP1	B-1	BB+	BBB	Subprime	61746WTA8
March 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-OP1	B-2	BB	BBB-	Subprime	61746WTB6
March 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-AM2	B-1	BB	BBB-	Subprime	61746WNU0
March 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-AM2	B-2	BB	BBB-	Subprime	61746WNV8
March 7	Home Equity Asset Trust 2002-1	B-1	BBB-	BBB+	Subprime	22541NAJ8
March 10	CSFB ABS Trust Series 2001-HE16	B	BBB-	BBB	Subprime	22540A3Q9
March 10	CSFB ABS Trust Series 2001-HE17	M-2	BBB	A	Subprime	22540A7F9
March 10	CSFB ABS Trust Series 2001-HE17	B	D	BB	Subprime	22540A7G7
March 10	CSFB ABS Trust Series 2001-HE20	B	BB-	BBB-	Subprime	22540VCA8
March 10	CSFB ABS Trust Series 2001-HE22	B	BB-	BBB-	Subprime	22540VCV2
March 10	CSFB ABS Trust Series 2001-HE25	B	BB-	BBB-	Subprime	22540VHG0
March 10	CSFB ABS Trust Series 2001-HE30	B	BB	BBB	Subprime	22540VMM1
March 10	CSFB ABS Trust Series 2001-HE30	B-F	BB	BBB	Subprime	22540VMN9
March 10	CSFB ABS Trust Series 2002-HE4	B-F	BB	BBB+	Subprime	22540VXH0
March 10	CSFB ABS Trust Series 2002-HE11	B-1	BBB-	BBB+	Subprime	22540VN65
March 10	CSFB ABS Trust 2002-HI23	B-2	BB	BBB	Subprime	126331AH0
March 10	Credit Suisse First Boston Mtg. Sec. Corp. 2002-22	II-B-2	D	CCC	Prime jumbo	22541NCM9
March 10	Credit Suisse First Boston Mtg. Sec. Corp. 2002-26	III-B	B	BB	Alt-A	22541NLZ0
March 10	Home Equity Mtg lien Asset-Bckd Tr, Ser SPMD 2000-C	MV-2	BBB-	A	Subprime	456606BP6
March 10	Home Equity Mtg lien Asset-Bckd Tr, Ser SPMD 2001-A	MF-1	A-	AA-	Subprime	456606BZ4
March 10	Home Equity Mtg lien Asset-Bckd Tr, Ser SPMD 2001-C	B	BB	BBB	Subprime	456606DE9
March 10	Home Equity Mtg lien Asset-Bckd Tr, Ser SPMD 2002-A	B	BB	BBB	Subprime	43708AAJ1
March 10	Saxon Asset Securities Trust 2001-3	B	BB	BBB	Subprime	805564KG5
March 13	CSFB Mortgage-Backed Trust Series 2002-34	D-B-5	D	B-	Prime jumbo	2254W0FG5
March 15	IndyMac ARM Trust IndyMac ARM Grantor Tr 2001-H1	B-2	BBB-	A	Prime jumbo	45660UAG4
March 15	IndyMac ARM Trust IndyMac ARM Grantor Tr 2001-H1	B-3	D	BB	Prime jumbo	45660UAH2
March 15	IndyMac ARM Trust 2001-H2	B-3	BB	BBB	Prime jumbo	45660UAX7
March 23	CIT Home Equity Loan Trust 2002-1	BF	BB	BBB	Subprime	12558MAL6

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Standard & Poor's U.S. RMBS Public Downgrades, 2006 (cont.)

March 29	Chase Funding Loan Acquisition Trust Series 2001-C2	IB	BB	BBB	Subprime	161542AS4
April 3	CDC Mortgage Capital Trust 2002-HE3	B-2	BB	BBB-	Subprime	12506YAV1
April 11	Long Beach Mortgage Loan Trust 2000-1	M-1	AA	AAA	Subprime	542514AE4
April 11	Long Beach Mortgage Loan Trust 2000-1	M-2	BB	BBB	Subprime	542514AF1
April 11	Long Beach Mortgage Loan Trust 2001-1	M-2	BBB	A	Subprime	542514AN4
April 11	Long Beach Mortgage Loan Trust 2001-1	M-3	D	CCC	Subprime	542514AP9
April 11	Long Beach Mortgage Loan Trust 2002-1	M3	B	BBB-	Subprime	542514CA0
April 11	Long Beach Mortgage Loan Trust 2002-2	M3	BB	BBB-	Subprime	542514CL6
April 11	Long Beach Mortgage Loan Trust 2002-2	M4A	CCC	B	Subprime	542514CM4
April 11	Long Beach Mortgage Loan Trust 2002-2	M4B	CCC	B	Subprime	542514CN2
April 11	Long Beach Mortgage Loan Trust 2002-5	M-3	BB	BBB	Subprime	542514DD3
April 11	Long Beach Mortgage Loan Trust 2002-5	M-4A	B	BBB-	Subprime	542514DE1
April 11	Long Beach Mortgage Loan Trust 2002-5	M-4B	B	BBB-	Subprime	542514DF8
April 18	RFSC Series 2003-RP1 Trust	M-3	BB	BBB+	Reperforming	760985UK5
April 26	ACE Securities Corp. Home Equity lien Tr, Ser 2002-HE1	M-4	B	BB+	Subprime	004427BA7
April 27	Alternative Loan Trust 2004-J1	B-4	CCC	B	Alt-A	12667FAB1
April 27	Alternative Loan Trust 2004-J8	B-4	CCC	B	Alt-A	12667FTJ4
April 27	Credit Suisse First Boston Mtg. Sec. Corp. 2002-9	I-B-3	B	BB	Alt-A	22540VJ52
May 5	Chase Funding Trust Series 2001-1	IB	BB	BBB	Subprime	161546BX3
May 5	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-AM1	B-1	BB	BBB-	Subprime	61746WMN7
May 5	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-AM2	B-1	B	BB	Subprime	61746WNU0
May 5	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-AM2	B-2	B	BB	Subprime	61746WNV8
May 5	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-HE2	B-1	BB	BBB	Subprime	61746WRT9
May 5	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-HE2	B-2	BB-	BBB-	Subprime	61746WRU6
May 9	ACE Securities Corp. Home Equity lien Tr, Ser 2004-HE1	B	CCC	BB	Subprime	004427BU3
May 9	Ameriquest Mortgage Securities Inc. 2001-3	M-3	BB	BBB	Subprime	03072SBK0
May 9	Ameriquest Mortgage Securities Inc. 2002-2	M-4	BB	BBB-	Subprime	03072SCK9
May 9	Ameriquest Mortgage Securities Inc. 2002-3	M-4	BB	BBB-	Subprime	03072SCX1
May 9	Ameriquest Mortgage Securities Inc. 2002-C	M-2	BB	BBB-	Subprime	03072SDG7
May 9	Ameriquest Mortgage Securities Inc. 2003-1	M-4	BB	BBB-	Subprime	03072SFC4
May 9	MESA Trust 2001-5	M-2	B	BB	Reperforming	68400XAD2
May 9	MESA 2002-1 Global Issuance Company	B-2	CCC	B	2 lien HiCLTV	59066RAF4
May 17	GSAMP Trust 2004-SEA2	B-1	BB+	BBB+	Subprime	36228F6E1
May 17	GSAMP Trust 2004-SEA2	B-2	B	BBB-	Subprime	36228F6F8
May 23	Asset Backed Sec Corp Hm Eq lien Tr , Ser 2002-HE2	B	BB	BBB	Subprime	045413CW9
May 26	Merrill Lynch Mortgage Investors Inc. 2002-AFC1	BF-1	BB	BBB-	Subprime	589929YA0
May 30	Cityscape Home Equity Loan Trust 1997-C	M-2F	BBB	A	Subprime	178779CV4
June 6	RASC Series 2001-KS2 Trust	M-I-3	CCC	B	Subprime	76110WLQ7
June 6	RASC Series 2001-KS3 Trust	M-I-2	BBB	A	Subprime	76110WMG8
June 6	RASC Series 2001-KS3 Trust	M-I-3	CCC	B	Subprime	76110WMH6
June 6	RASC Series 2002-KS2 Trust	M-I-3	B	BB	Subprime	76110WNM4
June 6	RASC Series 2002-KS2 Trust	M-II-3	BB	BBB	Subprime	76110WNS1

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Standard & Poor's U.S. RMBS Public Downgrades, 2006 (cont.)						
June 8	Amortizing Residential Collateral Trust 2001-BC1	M1	A	AA	Subprime	8635725Q2
June 8	Amortizing Residential Collateral Trust 2001-BC1	M2	BBB	A	Subprime	8635725R0
June 8	Amortizing Residential Collateral Trust 2002-BC9	B	BB	BBB-	Subprime	86359AFH1
June 14	Saxon Asset Securities Trust 2001-2	B-1	BB	BBB	Subprime	805564JT9
June 14	Saxon Asset Securities Trust 2001-3	B	B	BB	Subprime	805564KG5
June 20	Amresco Residential Securities Corp Mtg Loan Tr 1997-3	B-1F	D	CCC	Subprime	03215PDA4
June 23	First Franklin Mortgage Loan Trust 2002-FF2	M-2	BBB	A	Subprime	32027NAX9
June 23	First Franklin Mortgage Loan Trust 2002-FF2	M-3	BB	BBB+	Subprime	32027NAY7
June 23	First Franklin Mortgage Loan Trust 2002-FFA	M-3	BB	BBB	Closed 2nd lien	32027NBC4
June 23	First Franklin Mortgage Loan Trust 2003-FFH1	B-1	B	BB+	1 lien HiLTV	32027NEK3
June 23	First Franklin Mortgage Loan Trust 2003-FFH1	M-6	BB	BBB-	1 lien HiLTV	32027NEJ6
July 5	Alternative Loan Trust 2003-J1	B-4	CCC	B	Alt-A	12669E2N5
July 5	Argent Securities Inc. 2004-PW1	M-11	B	BB	Subprime	040104KW0
July 7	GSAMP Trust 2004-SEA2	B-1	B	BB+	Subprime	36228F6E1
July 7	GSAMP Trust 2004-SEA2	B-2	D	B	Subprime	36228F6F8
July 7	GSAMP Trust 2004-SEA2	M-5	BBB	A-	Subprime	36228F6D3
July 7	Residential Asset Securitization Trust 2003-A4	B-5	CCC	B	Alt-A	45660NPX7
July 11	CDC Mortgage Capital Trust 2002-HE2	B-1	B	BBB	Subprime	12506YAN9
July 11	CDC Mortgage Capital Trust 2002-HE2	B-2	CCC	B	Subprime	12506YAP4
July 11	CDC Mortgage Capital Trust 2002-HE3	B-1	BB	BBB	Subprime	12506YAU3
July 11	CDC Mortgage Capital Trust 2002-HE3	B-2	B	BB	Subprime	12506YAV1
July 11	CDC Mortgage Capital Trust 2003-HE1	B-2	BB-	BBB-	Subprime	12506YBC2
July 12	Ameriquest Mortgage Securities Inc. 2002-C	M-2	B	BB	Subprime	03072SDG7
July 12	Ameriquest Mortgage Securities Inc. 2002-3	M-4	B	BB	Subprime	03072SCX1
July 12	Credit Suisse First Boston Mtg. Sec. Corp. 2002-22	I-M-3	D	B	Prime jumbo	22541NCK3
July 12	CSFB ABS Trust Series 2001-HE16	B	BB	BBB-	Subprime	22540A3Q9
July 12	CSFB ABS Trust Series 2001-HE20	B	B	BB-	Subprime	22540VCA8
July 12	CSFB ABS Trust Series 2001-HE22	M-2	A	AA-	Subprime	22540VCU4
July 12	CSFB ABS Trust Series 2001-HE22	B	B	BB-	Subprime	22540VCV2
July 12	CSFB ABS Trust Series 2001-HE25	B	CCC	BB-	Subprime	22540VHG0
July 12	CSFB ABS Trust Series 2001-HE25	M-2	A	AA	Subprime	22540VHF2
July 12	CSFB ABS Trust Series 2001-HE30	B-F	B	BB	Subprime	22540VMN9
July 12	CSFB ABS Trust Series 2002-HE4	B-F	CCC	BB	Subprime	22540VXH0
July 12	CSFB ABS Trust Series 2002-HE11	B-1	BB	BBB-	Subprime	22540VN65
July 12	Delta Funding Home Equity Loan Trust 1999-2	B	D	CCC	Subprime	24763LFR6
July 12	Home Equity Asset Trust 2002-1	B-1	BB	BBB-	Subprime	22541NAJ8
July 17	Aames Mortgage Trust 2001-3	B	CCC	BBB	Subprime	00253CHD2
July 17	Aames Mortgage Trust 2001-3	M-2	BB	A	Subprime	00253CHC4
July 19	Asset Backed Sec Corp Hm Eq lien Tr , Ser 2002-HE1	B	BB	BBB	Subprime	04541GCJ9
July 19	Asset Backed Sec Corp Hm Eq lien Tr , Ser 2002-HE2	B	B	BB	Subprime	045413CW9
July 19	Asset Backed Sec Corp Hm Eq lien Tr , Ser 2003-HE1	M4	BB	BBB-	Subprime	04541GDN9
July 20	Structured Adjustable Rate Mortgage Loan Tr Ser 2005-5	M-3	CCC	BBB-	Alt-A	863579QU5

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Standard & Poor's U.S. RMBS Public Downgrades, 2006 (cont.)

July 21	RAMP Series 2002-RS1 Trust	M-I-3	D	CCC	Out/guide	760985GU9
July 21	RAMP Series 2002-RS1 Trust	M-II-3	D	CCC	Out/guide	760985GY1
July 21	Soundview Home Equity Loan Trust 2001-1	M-2	D	CCC	Subprime	83611PAM3
Aug. 1	ACE Securities Corp. Home Equity lien Tr, Ser 2002-HE1	M-3	BB	BBB	Subprime	004427AZ3
Aug. 1	ACE Securities Corp. Home Equity lien Tr, Ser 2002-HE1	M-4	CCC	B	Subprime	004427BA7
Aug. 1	ACE Securities Corp. Home Equity lien Tr, Ser 2004-HE1	B	D	CCC	Subprime	004427BU3
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-AM1	B-1	B	BB	Subprime	61746WMN7
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-AM2	B-1	CCC	B	Subprime	61746WNU0
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-AM2	B-2	CCC	B	Subprime	61746WNV8
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-AM3	B-2	BB-	BBB-	Subprime	61746WWN6
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-HE1	B-1	BB	BBB	Subprime	61746WQA1
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-HE1	B-2	BB-	BBB-	Subprime	61746WQB9
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-HE2	B-1	B	BB	Subprime	61746WRT9
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-HE2	B-2	B-	BB-	Subprime	61746WRU6
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-NC1	B-1	BB-	BBB-	Subprime	61746WMS6
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-NC4	B-2	BB-	BBB-	Subprime	61746WVV9
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-OP1	B-1	B	BB+	Subprime	61746WTA8
Aug. 3	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-OP1	B-2	B-	BB	Subprime	61746WTB6
Aug. 17	RFSC Series 2003-RP1 Trust	M-3	B	BB	Reperforming	760985UK5
Aug. 21	Chase Funding Loan Acquisition Trust Series 2001-C2	IB	B	BB	Subprime	161542AS4
Aug. 22	Merrill Lynch Mortgage Investors Trust, Ser 2003-WMC1	B-2	A	AA	Subprime	589929J74
Aug. 22	Merrill Lynch Mortgage Investors Trust Series 2004-SL1	B-3	B	BB	Seasoned	59020UEQ4
Aug. 23	Alternative Loan Trust 2003-5T2	B-4	D	CCC	Alt-A	12669EBL9
Aug. 23	Long Beach Mortgage Loan Trust 2000-1	M-2	B	BB	Subprime	542514AF1
Aug. 23	Long Beach Mortgage Loan Trust 2001-1	M-2	BB	BBB	Subprime	542514AN4
Aug. 23	Long Beach Mortgage Loan Trust 2002-1	M3	CCC	B	Subprime	542514CA0
Aug. 23	Long Beach Mortgage Loan Trust 2002-5	M-4A	CCC	B	Subprime	542514DE1
Aug. 23	Long Beach Mortgage Loan Trust 2002-5	M-4B	CCC	B	Subprime	542514DF8
Aug. 23	Long Beach Mortgage Loan Trust 2003-1	M-4	BB	BBB-	Subprime	542514DM3
Aug. 23	Long Beach Mortgage Loan Trust 2003-2	M-4	BBB	BBB+	Subprime	542514DX9
Aug. 23	Long Beach Mortgage Loan Trust 2003-2	M-5	BB	BBB	Subprime	542514DY7
Aug. 23	Long Beach Mortgage Loan Trust 2003-3	M-4	BB	BBB-	Subprime	542514ED2
Aug. 24	Washington Mutual MSC Mtg P-T Cert Ser 2004-RA4 Tr	C-B-5	CCC	B	Prime jumbo	939336V67
Aug. 28	CSFB ABS Trust Series 2001-HE22	B	CCC	B	Subprime	22540VCV2
Aug. 28	Credit Suisse First Boston Mtg. Sec. Corp. 2002-9	I-B-3	CCC	B	Alt-A	22540VJ52
Aug. 28	Credit Suisse First Boston Mtg. Sec. Corp. 2002-26	III-B	CCC	B	Alt-A	22541NLZ0
Aug. 28	Credit Suisse First Boston Mtg. Sec. Corp. 2003-8	D-B-5	D	CCC	Prime jumbo	22541N2F5
Aug. 28	Credit Suisse First Boston Mtg. Sec. Corp. 2003-17	D-B-5	D	B-	Prime jumbo	22541QKE1
Aug. 28	Credit Suisse First Boston Mtg. Sec. Corp. 2003-21	D-B-5	D	CCC	Alt-A	22541QRC8
Aug. 29	Asset Backed Sec Corp Hm Eq lien Tr , Ser 2002-HE3	M4	BB	BBB-	Subprime	04541GCU4
Aug. 29	Ameriquest Mortgage Securities Inc. 2002-2	M-4	B	BB	Subprime	03072SCK9
Aug. 31	ABFC 2002-SB1 Trust	M-3	BBB	A-	Subprime	04542BAU6

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Standard & Poor's U.S. RMBS Public Downgrades, 2006 (cont.)						
Sept. 5	Aames Mortgage Trust 2001-3	B	D	CCC	Subprime	00253CHD2
Sept. 5	Aames Mortgage Trust 2001-3	M-2	B	BB	Subprime	00253CHC4
Sept. 5	CIT Home Equity Loan Trust 2002-1	BF	B	BB	Subprime	12558MAL6
Sept. 6	Deutsche Alt-A Securities Inc Mtg lien Tr Ser 2003-4XS	M-3	BB	BBB	Alt-A	251510CL5
Sept. 8	Aegis Asset Backed Securities Trust 2003-1	B1	BB	BBB	Subprime	00764MAE7
Sept. 11	MASTR Second Lien Trust 2005-1	M-10	B	BB	Closed 2nd lien	57644DAL7
Sept. 14	Credit Suisse First Boston Mtg. Sec. Corp. 2002-10	II-B-3	BB	BBB-	Prime jumbo	22540VR46
Sept. 15	Conseco Finance Home Equity Loan Trust 2001-D	B-2	CCC	B-	Subprime	
Sept. 19	Fremont Home Loan Trust 2002-1	M-3	BBB	AA+	Subprime	35729PAE0
Sept. 19	Fremont Home Loan Trust 2002-1	M-4	BBB-	AA-	Subprime	35729PAF7
Sept. 19	Morgan Stanley Dean Witter Capital I Inc. Tr 2001-AM1	B-1	B	BB	Subprime	61746WJF8
Sept. 19	Morgan Stanley Dean Witter Capital I Inc. Tr 2001-NC3	B-1	BB	BBB-	Subprime	61746WLC2
Sept. 19	Morgan Stanley Dean Witter Capital I Inc. Tr 2001-NC4	B-1	BB	BBB-	Subprime	61746Wlien8
Sept. 19	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-AM3	B-2	B	BB-	Subprime	61746WWN6
Sept. 19	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-HE2	B-2	CCC	B-	Subprime	61746WRU6
Sept. 19	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-NC1	B-1	B	BB-	Subprime	61746WMS6
Sept. 19	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-NC3	B-2	BB	BBB-	Subprime	61746WSU5
Sept. 19	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-NC4	B-2	B	BB-	Subprime	61746WVV9
Sept. 19	Morgan Stanley Dean Witter Capital I Inc. Tr 2002-NC5	B-2	BB	BBB-	Subprime	61746WWE6
Sept. 25	CitiFinancial Mortgage Securities Inc. 2003-1	MV-4	BB	BBB-	Subprime	
Sept. 25	CitiFinancial Mortgage Securities Inc. 2003-2	MV-3	BB	BBB	Subprime	17306U9F5
Sept. 25	Washington Mutual MSC Mtg P-T Cert Ser 2004-RA3 Tr	C-B-5	CCC	B	Prime jumbo	939336T86
Sept. 27	ACE Securities Corp. Home Equity lien Tr, Ser 2002-HE1	M-3	B	BB	Subprime	004427AZ3
Sept. 28	Structured Asset Securities Corporation 2004-S4	B3	B	BB-	Closed 2nd lien	86359BN23
Sept. 28	Structured Asset Securities Corp. 2003-1	B5	CCC	B	Prime jumbo	86359ALX9
Sept. 28	Structured Asset Securities Corp. 2003-25XS	M3	B	BBB	Alt-A	86359AKB5
Sept. 28	Structured Asset Securities Corp. 2003-28XS	M2	BBB	A	Alt-A	86359AQ89
Sept. 28	Structured Asset Securities Corp. 2003-BC2	B2	B	BB	Subprime	86359AQD8
Sept. 28	Structured Asset Securities Corp. 2004-S1	B2	B	BB	Closed 2nd lien	86359BLZ2
Sept. 28	Structured Asset Securities Corp. 2004-S3	B	B	BB	Closed 2nd lien	86359BC74
Sept. 28	Structured Asset Securities Corp. 2004-S3	M9	B	BB	Closed 2nd lien	86359BC66
Sept. 28	Structured Asset Securities Corp. 2004-4XS	1-M3	BB+	BBB+	Alt-A	86359BHV6
Sept. 29	CDC Mortgage Capital Trust 2002-HE3	B-1	B	BB	Subprime	12506YAU3
Sept. 29	CDC Mortgage Capital Trust 2002-HE3	B-2	CCC	B	Subprime	12506YAV1
Sept. 29	CDC Mortgage Capital Trust 2003-HE1	B-1	BB	BBB	Subprime	12506YBB4
Sept. 29	CDC Mortgage Capital Trust 2003-HE1	B-2	B	BB-	Subprime	12506YBC2
Sept. 29	MESA Trust 2001-5	M-2	CCC	B	Reperforming	68400XAD2
Sept. 29	RAMP Series 2002-RS2 Trust	M-I-2	BB	BBB-	Out/guide	760985JQ5
Sept. 29	RAMP Series 2002-RS2 Trust	M-II-3	D	CCC	Out/guide	760985JU6
Sept. 29	RAMP Series 2002-RS1 Trust	M-I-1	A	AA	Out/guide	760985GS4
Sept. 29	RAMP Series 2002-RS1 Trust	M-I-2	B	BBB-	Out/guide	760985GT2
Sept. 29	RAMP Series 2002-RS3 Trust	M-I-2	BBB-	A	Out/guide	760985MB4

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Standard & Poor's U.S. RMBS Public Downgrades, 2006 (cont.)

Sept. 29	RAMP Series 2002-RS3 Trust	M-II-2	BBB	A	Out/guide	760985ME8
Sept. 29	RAMP Series 2002-RS3 Trust	M-II-3	BBB-	BBB	Out/guide	760985MF5
Oct. 2	CSFB ABS Trust Series 2001-HE20	B	CCC	B	Subprime	22540VCA8
Oct. 2	CSFB ABS Trust Series 2001-HE20	M-2	A	AA	Subprime	22540VBZ4
Oct. 2	CSFB ABS Trust Series 2001-HE30	B-F	CCC	B	Subprime	22540VMN9
Oct. 3	Structured Asset Securities Corp Assist lien Tr 2003-AL2	B5	CCC	B	Prime jumbo	86359AWY5
Oct. 6	Structured Asset Securities Corp Assist lien Tr 2003-AL1	B5	CCC	B	Prime jumbo	86359AMM2
Oct. 11	First Franklin Mortgage Loan Trust 2003-FFH1	M-5	BB	BBB	1 lien HiLTV	32027NEH0
Oct. 11	First Franklin Mortgage Loan Trust 2003-FFH1	B-1	CCC	B	1 lien HiLTV	32027NEK3
Oct. 11	First Franklin Mortgage Loan Trust 2003-FFH1	M-6	B	BB	1 lien HiLTV	32027NEJ6
Oct. 11	First Franklin Mortgage Loan Trust 2003-FFH2	B	B+	BB+	1 lien HiLTV	32027NFL0
Oct. 11	First Franklin Mortgage Loan Trust 2003-FFH2	M-6	BB	BBB-	1 lien HiLTV	32027NEY3
Oct. 11	GSAMP Trust 2004-SEA2	M-4	BBB	A	Subprime	36228F6C5
Oct. 11	GSAMP Trust 2004-SEA2	B-1	CCC	B	Subprime	36228F6E1
Oct. 11	GSAMP Trust 2004-SEA2	M-5	BB	BBB	Subprime	36228F6D3
Oct. 12	Asset Backed Sec Corp Hm Eq lien Tr , Ser 2001-HE1	B	BB	BBB-	Subprime	04541GBE1
Oct. 12	Asset Backed Sec Corp Hm Eq lien Tr , Ser 2002-HE2	B	CCC	B	Subprime	045413CW9
Oct. 12	Asset Backed Sec Corp Hm Eq lien Tr , Ser 2003-HE1	M3	BB	BBB	Subprime	04541GDM1
Oct. 12	Asset Backed Sec Corp Hm Eq lien Tr , Ser 2003-HE1	M4	B	BB	Subprime	04541GDN9
Oct. 13	ABFS Mortgage Loan Trust 2002-2	B	BB	BBB	Subprime	000759CT5
Oct. 13	Structured Adjustable Rate Mortgage Loan Tr Ser 2005-5	M-3	D	CCC	Alt-A	863579QU5
Oct. 18	Aames Mortgage Trust 2003-1	B	B	BB+	Subprime	00253CJB4
Oct. 18	RFSC Series 2003-RP1 Trust	M-3	CCC	B	Reperforming	760985UK5
Oct. 18	SACO I Trust 2004-1	B-2	B	BB	Closed 2nd lien	785778CP4
Oct. 18	SACO I Trust 2004-2	B-2	B	BB	Closed 2nd lien	785778DA6
Oct. 19	RAMP Series 2002-RZ2 Trust	M-3	BB	BBB	1 lien HiLTV	760985KY6
Oct. 19	RAMP Series 2002-RZ3 Trust	M-3	BB	BBB	1 lien HiLTV	760985NE7
Oct. 24	Structured Asset Securities Corporation 2004-S4	B3	CCC	B	Closed 2nd lien	86359BN23
Oct. 24	Structured Asset Securities Corp Mtg lien Tr 2005-S4	B	BB	BBB-	Closed 2nd lien	86359DLY1
Oct. 24	Structured Asset Securities Corp Mtg lien Tr 2005-S5	B-3	B	BB	Closed 2nd lien	86359DPZ4
Oct. 24	Structured Asset Securities Corp Mtg lien Tr 2005-S5	B-4	CCC	BB-	Closed 2nd lien	86359DQA8
Oct. 30	ACE Securities Corp. Home Equity lien Tr, Ser 2004-HE1	M-6	BB	BBB-	Subprime	004421ER0
Oct. 30	ACE Securities Corp. Home Equity lien Tr, Ser 2004-HS1	M-6	BB	BBB-	Subprime	004421EF6
Oct. 30	CDC Mortgage Capital Trust 2003-HE1	B-2	CCC	B	Subprime	12506YBC2
Nov. 7	GreenPoint Mortgage Securities Inc. 2003-1	B-1	B	BB	Prime jumbo	395387AE3
Nov. 7	GreenPoint Mortgage Securities Inc. 2003-1	B-2	CCC	B	Prime jumbo	395387AF0
Nov. 9	Washington Mutual MSC Mtg P-T Cert Ser 2004-RA2 Tr	C-B-3	BB	BBB	Seasoned	939336S46
Nov. 9	Washington Mutual MSC Mtg P-T Cert Ser 2004-RA2 Tr	C-B-4	D	CCC	Seasoned	939336S61
Nov. 13	Home Equity Asset Trust 2003-2	B-2	BB	BBB	Subprime	22541NP86
Nov. 14	Structured Asset Securities Corporation 2004-S4	B3	D	CCC	Closed 2nd lien	86359BN23
Nov. 14	Structured Asset Securities Corp Mtg lien Tr 2005-S5	B-4	D	CCC	Closed 2nd lien	86359DQA8
Nov. 20	MASTR Second Lien Trust 2005-1	M-9	B	BB	Closed 2nd lien	57644DAK9

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Standard & Poor's U.S. RMBS Public Downgrades, 2006 (cont.)						
Nov. 20	MASTR Second Lien Trust 2005-1	M-10	CCC	B	Closed 2nd lien	57644DAL7
Nov. 21	Ameriquest Mortgage Securities Inc. 2002-3	M-4	CCC	B	Subprime	03072SCX1
Nov. 21	Asset Backed Sec Corp Hm Eq lien Tr , Ser 2002-HE3	M4	B	BB	Subprime	04541GCU4
Nov. 21	GSAMP Trust 2004-SEA2	M-3	A	AA	Subprime	36228F6B7
Nov. 21	GSAMP Trust 2004-SEA2	M-4	BB	BBB	Subprime	36228F6C5
Nov. 21	GSAMP Trust 2004-SEA2	M-5	B	BB	Subprime	36228F6D3
Nov. 21	Salomon Brothers Mortgage Securities VII Inc. 1998-AQ1	B-2	BBB-	A	Subprime	79548KZM3
Nov. 21	Salomon Home Equity Loan Trust, Series 2002-WMC1	M-3	BB	BBB+	Subprime	79549AKH1
Nov. 22	2002-CB1 Trust (C-BASS)	B-2	B	BB	Reperforming	12489WEM2
Nov. 22	2002-CB5 Trust (C-BASS)	B-1	BBB	A	Reperforming	12489WFU3
Nov. 22	2002-CB6 Trust (C-BASS)	B-3	B	BB+	Reperforming	12489WGH1
Nov. 22	Amortizing Residential Collateral Trust 2001-BC5	M2	BBB	A	Subprime	86358RHH3
Nov. 22	Credit Suisse First Boston Mtg. Sec. Corp. 2002-10	II-B-3	B	BB	Prime jumbo	22540VR46
Nov. 22	CSFB ABS Trust Series 2001-HE17	M-2	BB	BBB	Subprime	22540A7F9
Nov. 22	Home Equity Mtg lien Asset-Bckd Tr, Ser SPMD 2000-A	MF-2	BBB	A	Subprime	456606AH5
Nov. 22	Home Equity Mtg lien Asset-Bckd Tr, Ser SPMD 2000-B	MF-2	D	CCC	Subprime	456606AU6
Nov. 22	Home Equity Mtg lien Asset-Bckd Tr, Ser SPMD 2000-C	MV-2	BB	BBB-	Subprime	456606BP6
Nov. 22	Merrill Lynch Mortgage Investors Inc. 2002-NC1	B-1	AA	AAA	Subprime	589929ZC5
Nov. 22	Merrill Lynch Mortgage Investors Inc. 2002-NC1	B-2	BBB+	A+	Subprime	589929ZD3
Nov. 22	Merrill Lynch Mortgage Investors Trust, Series 2003-HE1	B-3	BB	BBB-	Subprime	5899295B0
Nov. 22	Merrill Lynch Mortgage Investors Trust, Ser 2003-WMC1	B-2	BBB-	A	Subprime	589929J74
Nov. 22	Structured Asset Securities Corp. 2003-BC2	B1	BB	BBB-	Subprime	86359AQC0
Nov. 22	Structured Asset Securities Corp. 2003-BC2	B2	CCC	B	Subprime	86359AQD8
Nov. 22	Structured Asset Securities Corp. 2004-S2	B	CCC	B	Closed 2nd lien	86359BSZ5
Nov. 28	Bear Stearns ARM Trust 2004-8	II-B-5	CCC	B	Prime jumbo	07384M2T8
Nov. 29	Ameriquest Mortgage Securities Inc. 2003-6	M-6	BB-	BBB-	Subprime	03072SGU3
Nov. 29	Ameriquest Mortgage Securities Inc. 2003-8	MF-6	BB-	BBB-	Subprime	03072SJN6
Nov. 29	Ameriquest Mortgage Securities Inc. 2003-8	MV-6	BB-	BBB-	Subprime	03072SJM8
Nov. 29	Home Equity Asset Trust 2003-1	B-3	BB-	BBB-	Subprime	22541NZJ1
Dec. 1	RASC Series 2003-KS2 Trust	M-II-2	BBB	A+	Subprime	76110WQZ2
Dec. 2	RASC Series 2002-KS2 Trust	M-I-3	CCC	B	Subprime	76110WNM4
Dec. 3	Citigroup Mortgage Loan Trust, Series 2003-CB5	B-3	BB-	BBB-	Subprime	79549AZD4
Dec. 6	RFMSI Series 2003-S3 Trust	B-2	CCC	B	Prime jumbo	76111JN91
Dec. 6	MASTR Second Lien Trust 2006-1	M-7	B+	BB+	Closed 2nd lien	57644DAY9
Dec. 6	MASTR Second Lien Trust 2006-1	M-8	B	BB	Closed 2nd lien	57644DAZ6
Dec. 7	CDC Mortgage Capital Trust 2001-HE1	B	CCC	B	Subprime	12506YAD1
Dec. 7	CDC Mortgage Capital Trust 2002-HE1	B	BB-	BBB-	Subprime	12506YAH2
Dec. 7	CDC Mortgage Capital Trust 2002-HE3	B-1	CCC	B	Subprime	12506YAU3
Dec. 7	CDC Mortgage Capital Trust 2002-HE3	B-2	D	CCC	Subprime	12506YAV1
Dec. 7	CDC Mortgage Capital Trust 2003-HE2	B-3	BB	BBB-	Subprime	12506YBK4
Dec. 8	Alternative Loan Trust 2004-J1	B-3	B	BB	Alt-A	12667FAA3
Dec. 8	Alternative Loan Trust 2004-J1	B-4	D	CCC	Alt-A	12667FAB1

Appendix 3

Standard & Poor's U.S. RMBS Public Downgrades, 2006 (cont.)						
Dec. 8	Alternative Loan Trust 2004-J8	B-4	D	CCC	Alt-A	12667FTJ4
Dec. 8	Delta Funding Home Equity Loan Trust 2000-4	M-2	BB-	BBB-	Subprime	24763LHP8
Dec. 15	First Franklin Mortgage Loan Trust 2003-FFH1	M-5	B	BB	1 lien HiLTV	32027NEH0
Dec. 15	First Franklin Mortgage Loan Trust 2003-FFH1	M-6	CCC	B	1 lien HiLTV	32027NEJ6
Dec. 15	First Franklin Mortgage Loan Trust 2003-FFH2	B	CCC	B+	1 lien HiLTV	32027NFL0
Dec. 15	First Franklin Mortgage Loan Trust 2003-FFH2	M-6	B	BB	1 lien HiLTV	32027NEY3
Dec. 15	First Franklin Mortgage Loan Trust 2004-FFH1	B	B+	BB+	1 lien HiLTV	32027NGZ8
Dec. 18	SACO I Trust 2004-1	B-2	CCC	B	Closed 2nd lien	785778CP4
Dec. 19	Salomon Home Equity Loan Trust, Series 2002-CIT1	M-4	BB	BBB	Subprime	79549AQM4
Dec. 19	Salomon Home Equity Loan Trust, Series 2002-CIT1	M-5	BB-	BBB-	Subprime	79549AQN2
Dec. 20	CSFB ABS Trust Series 2001-HE25	B	D	CCC	Subprime	22540VHG0
Dec. 20	Credit Suisse First Boston Mtg. Sec. Corp. 2002-9	I-B-3	D	CCC	Alt-A	22540VJ52
Dec. 21	Specialty Underwriting and Resid Fin Tr, Ser 2003-BC2	B-2	BB-	BBB	Subprime	84751PAR0
Dec. 21	Specialty Underwriting and Resid Fin Tr, Ser 2003-BC3	B-3	BB-	BBB-	Subprime	84751PBC2
Dec. 21	Terwin Mortgage Trust 2004-EQR1	B-1	BBB	A	Nonperform	881561EC4
Dec. 22	CWABS, Inc. 2002-6	B	BBB-	BBB+	Subprime	126671UT1
Dec. 28	Aegis Asset Backed Securities Trust 2003-1	B1	B	BB	Subprime	00764MAE7
Dec. 28	Home Equity Asset Trust 2002-2	B-1	BB	BBB+	Subprime	22541NCW7
Dec. 28	Home Equity Asset Trust 2002-3	B-1	BB	BBB+	Subprime	22541NHK8
Dec. 28	Home Equity Asset Trust 2002-5	B-1	BB	BBB+	Subprime	2254W0AK1
Dec. 28	Home Equity Asset Trust 2003-1	B-3	B	BB-	Subprime	22541NZJ1
Dec. 28	Home Equity Asset Trust 2003-2	B-2	B	BB	Subprime	22541NP86
Dec. 28	Home Equity Asset Trust 2003-3	B-2	BB	BBB	Subprime	22541N3V9
Dec. 28	Home Equity Asset Trust 2003-3	B-3	BB-	BBB-	Subprime	22541N3W7
Dec. 28	Home Equity Asset Trust 2003-5	B-3	BB-	BBB-	Subprime	22541QNQ1
Dec. 28	Washington Mutual MSC Mtg P-T Cert Ser 2005-RA1 Tr	L-B-4	B	BB	Prime jumbo	9393364S9
Dec. 28	Washington Mutual MSC Mtg P-T Cert Ser 2005-RA1 Tr	L-B-5	CCC	B	Prime jumbo	9393364T7

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EXHIBIT F

STANDARD & POOR'S

Global Credit Portal
RatingsDirect

February 14, 2007

18 Subprime, Alt-A, Closed-End Second-Lien Ratings From 2006 Vintage Deals Put On Watch Neg

Primary Credit Analysts:
Robert B Pollsen, New York (1) 212-438-2577; robert_pollsen@standardandpoors.com
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com

Secondary Credit Analysts:
Scott Mason, New York (1) 212-438-2539; scott_mason@standardandpoors.com
Michael Stock, New York (1) 212-438-2611; michael_stock@standardandpoors.com

NEW YORK (Standard & Poor's) Feb. 14, 2007--Standard & Poor's Ratings Services today placed its ratings on 18 subordinate classes from 11 different residential mortgage-backed securities (RMBS) transactions issued in 2006 on CreditWatch with negative implications. The affected classes are rated 'BBB-', 'BB+', and 'BB' (see list).

The CreditWatch placements reflect early signs of poor performance of the collateral backing these transactions. Most of the transactions were issued during the first half of 2006. The percentage of loans in these pools that are severely delinquent (90-plus-days, foreclosure, REO) ranges from 2.77% (Terwin Mortgage Trust 2006-8) to 13.46% (New Century Home Equity Loan Trust 2006-S1). Losses range from zero (several of the pools) to 1.30% (GSAMP Trust 2006-S5).

Placing our ratings on CreditWatch when a transaction has not experienced a loss represents a new methodology derived from our normal practice. The combination of early high delinquencies and minimal or no loss experience had not been seen in the performance exhibited by prior vintages. Because there have been no substantial cumulative realized losses, we measured deal performance against the stressed time to disposition of the loans and a reinstatement rate assumption of zero for all severely delinquent loans.

Many of the 2006 transactions may be showing weakness because of origination issues, such as aggressive residential mortgage loan underwriting, first-time home-buyer programs, piggyback second-lien mortgages, speculative borrowing for investor properties, and the concentration of affordability loans.

Most of the transactions with subordinate ratings being placed on CreditWatch were issued during the first half of 2006, before we raised our loss coverage levels for loans with the layered risks mentioned above. Three of the affected transactions were closed-end second-lien deals that were issued during the second half of 2006. Standard & Poor's consecutively raised the 'BBB' loss coverage levels for transactions issued from the first through fourth quarters of 2006. The average quarterly 'BBB' loss coverage levels during the year were as follows: 7.36% in the first quarter, 7.83% in the second quarter, 12.10% in the third quarter, and 12.70% in the fourth quarter. The extent to which the high levels of severely delinquent mortgage loans result in increased levels of actual realized losses will ultimately determine the extent of future rating actions on these transactions and others in the 2006 vintage. Generally, transactions issued during the second half of 2006 are passing the stress levels based on the January 2007 reported data, primarily because they typically have more loss coverage. Increased loss coverage was introduced for the deals issued in July 2006.

Credit support for each series is derived from either subordination or a combination of subordination, excess interest, and overcollateralization (O/C). O/C levels are at or near their targets, and subordination amounts have not yet declined significantly.

Standard & Poor's will continue to closely monitor the performance of these transactions. Over the next three months, we will monitor the losses incurred as a result of the liquidation of REO assets. If these losses are material, and if delinquencies continue at their present pace, we would expect to lower our ratings up to three notches depending on individual performance. Conversely, if the delinquency rates decline and substantial cumulative losses are not realized, we will affirm the ratings and remove them from CreditWatch negative.

Additionally, Standard & Poor's has determined that the CreditWatch placements affecting the ratings on these RMBS tranches will have no impact on outstanding CDO ratings.

These transactions are collateralized by subprime, Alt-A, or closed-end second-lien loans. The transactions were initially backed by pools of fixed- and adjustable-rate mortgage loans secured by first, second, or third liens on one- to four-family residential properties.

Standard & Poor's will hold a teleconference Thursday, Feb. 15, 2007, at 10:00 a.m. to discuss market concerns regarding the performance of many of the transactions issued in 2006 and the impact of the rating performance of these transactions on CDO transactions. This discussion will focus on our rationale and methodology used for the CreditWatch actions detailed in this release. The details for the teleconference are listed below the ratings list.

RATINGS PLACED ON CREDITWATCH NEGATIVE

Asset-Backed Certificates Trust 2006-IM1

		Rating	
Series	Class	To	From

2006-IM1	B	BBB-/Watch Neg	BBB-

GSAMP Trust 2006-S5

		Rating	
Series	Class	To	From
2006-S5	M-7	BBB-/Watch Neg	BBB-
2006-S5	B-1	BB+/Watch Neg	BB+
2006-S5	B-2	BB+/Watch Neg	BB+

New Century Home Equity Loan Trust 2006-S1

		Rating	
Series	Class	To	From
2006-S1	M-7	BB+/Watch Neg	BB+
2006-S1	M-8	BB+/Watch Neg	BB+

Securitized Asset Backed Receivables LLC Trust 2006-NC1

		Rating	
Series	Class	To	From
2006-NC1	B-3	BBB-/Watch Neg	BBB-

Structured Asset Investment Loan Trust

		Rating	
Series	Class	To	From
2006-1	B1	BBB-/Watch Neg	BBB-
2006-1	B2	BB+/Watch Neg	BB+
2006-2	B2	BB/Watch Neg	BB
2006-BNC1	B2	BB+/Watch Neg	BB+
2006-BNC2	B2	BB/Watch Neg	BB

Structured Asset Securities Corp. Mortgage Loan Trust

		Rating	
Series	Class	To	From
2006-BC1	B3	BB/Watch Neg	BB

Terwin Mortgage Trust

		Rating	
Series	Class	To	From
2006-6	I-B-7	BB+/Watch Neg	BB+
2006-6	I-B-8	BB/Watch Neg	BB
2006-6	II-B-5	BB+/Watch Neg	BB+
2006-6	II-B-6	BB+/Watch Neg	BB+
2006-8	I-B-8	BB+/Watch Neg	BB+

TELECONFERENCE INFORMATION

Live-Dial-In-Numbers:
US/All Others: 1-210-234-6448
UK: 44-20-7178-6390
Conference ID#: 3897268
Passcode: SANDP

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Net Enhanced:
URL: http://www.mymeetings.com/nc/join
Conference Name: PG3897268
Passcode: SANDP

Replay Number: 1-203-369-0051
Replay will expire on Thursday, Feb. 22, 2007

Live Audio Streaming:
URL: http://www.mymeetings.com, Under Events, Select Join an event
Conference ID#: 3897268
Passcode: SANDP

Replay Web Streaming:
URL: http://www.mymeetings.com/nc/join
Conference ID#: PG3897268
Passcode: SANDP
Web replay streaming will expire on Thursday, March 15, 2007

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EXHIBIT G

1 of 1 DOCUMENT

Los Angeles Times

February 16, 2007 Friday
Home Edition

SECTION: BUSINESS; Business Desk; Part C; Pg. 4

LENGTH: 694 words

HEADLINE: Markets;
S&P to speed mortgage warnings;
The ratings company, responding to rising delinquencies, will alert bond investors before foreclosures occur.

BYLINE: From Bloomberg News

BODY:

In another sign of growing concern about mortgages made to high-risk borrowers, Standard & Poor's said it would no longer wait for homes to be foreclosed on and sold at a loss before alerting investors in mortgage-backed bonds that it expects to lower ratings on the bonds.

The ratings company now will consider issuing downgrade warnings based on the amount of loans that are delinquent, in foreclosure proceedings or already backed by seized property, Robert Pollsen, an analyst at the New York-based firm, said during a conference call with investors Thursday.

S&P will assume that none of the borrowers more than 90 days late will resume paying their mortgages, he said.

The firm is reacting to rising delinquencies and defaults on the riskiest types of home loans made in 2006. Many of those loans were packaged and sold to investors via mortgage-backed securities that pass interest through to the investors.

S&P said Wednesday that it was considering downgrades on 18 low-rated bonds from 11 securitizations of mortgages last year amid early loan problems.

"It is a watershed event" because it means S&P is now actively considering downgrading bonds within their first year, said Daniel Nigro, a portfolio manager at Dynamic Credit Partners, a manager of about $6 billion in hedge funds and collateralized debt obligations. "We welcome them being more open" about their methods.

The riskiest mortgages made last year are experiencing more delinquencies than ones from previous years at comparable ages, after a period in which some lenders lowered standards to attract business and home-price growth slowed from record levels in many regions.

S&P's warnings Wednesday were on bonds backed by so-called sub-prime and Alt-A loans, and by home-equity loans.

Sub-prime loans are those made to people with imperfect or poor credit histories.

Alt-A loans are defined as ones that fall only slightly short of the credit standards of Fannie Mae and Freddie Mac, the two largest U.S. mortgage firms.

Borrowers are 60 days or more behind on payments on 11-month-old 2006 sub-prime mortgages that represent 8.2% of the loans' total original balances, Steven Abrahams, an analyst at brokerage Bear Stearns Cos., wrote in a report this week.

The levels were "well ahead of the second-place class of 2000," whose problems totaled 5.2% at the same point, Abrahams wrote. "Given the underwriting legacy already in the pipeline and the tendency for serious delinquencies to develop slowly, news about sub-prime is likely to continue for months."

Probably the biggest issue is that many of the sub-prime loans were given out with small or no down payments through the use of "piggyback" home-equity loans, said Ernestine Warner, an S&P analyst.

In mid-2006, S&P began requiring more protection for bond investors when mortgages with piggyback down payments were included in securities, after finding they were 50% more likely to default. Santa Monica-based Fremont General Corp. this week eliminated so-called combo loan programs.

One of the bonds S&P warned about this week was backed by Alt-A mortgages. It was the company's first warning about any of those securities sold in 2006.

Alt-A loans often are made with less proof of borrowers' pay, or are interest-only loans or "option" adjustable-rate mortgages, whose payments can fail to cover the interest owed.

"In terms of performance, I'd say there are equal concerns" about Alt-A loans and sub-prime loans at S&P based on early delinquencies, Warner said.

The Alt-A bond S&P warned about was issued by Calabasas-based Countrywide Financial Corp., the largest U.S. mortgage lender. Newport Beach-based Impac Mortgage Holdings Inc. made the loans.

Before Wednesday, S&P had already told investors it might downgrade several low-rated sub-prime and home-equity mortgage bonds created last year.

Competitors Moody's Investors Service, Fitch Ratings and Dominion Bond Rating Service also have notified investors they're considering downgrades on similar bonds.

The firms' announcements were a departure from past practices of waiting for at least one year from issuance to review their initial assessments about the quality of a mortgage bond.

LOAD-DATE: February 16, 2007

EXHIBIT H

STANDARD & POOR'S

Global Credit Portal
RatingsDirect

July 11, 2007

S&PCORRECT: 612 U.S. Subprime RMBS Classes Put On Watch Neg; Methodology Revisions Announced

Primary Credit Analysts:
Susan E Barnes, New York (1) 212-438-2394; susan_barnes@standardandpoors.com
Robert B Pollsen, New York (1) 212-438-2577; robert_pollsen@standardandpoors.com
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com

Secondary Credit Analysts:
Michael Stock, New York (1) 212-438-2611; michael_stock@standardandpoors.com
Monica Perelmuter, New York (1) 212-438-6309; monica_perelmuter@standardandpoors.com
Martin Kennedy, New York (1) 212-438-2509; martin_kennedy@standardandpoors.com

Global Practice Leader-ABS/RMBS Ratings:
Rosario Buendia, Global Practice Leader-ABS/RMBS Ratings, New York (1) 212-438-2410; rosario_buendia@standardandpoors.com

Chief Quality Officer-SF Ratings:
Thomas G Gillis, Chief Quality Officer-SF Ratings, New York (1) 212-438-2468; tom_gillis@standardandpoors.com

(**Editor's Note:** In a previous version of this release, dated July 10, 2007, the amount and percent of affected collateral, noted in the second paragraph, were misstated. A corrected version follows.)

NEW YORK (Standard & Poor's) July 11, 2007--Standard & Poor's Ratings Services said today it placed its credit ratings on 612 classes of residential mortgage-backed securities (RMBS) backed by U.S. subprime collateral on CreditWatch with negative implications (see list below).

The affected classes total approximately $7.35 billion in rated securities, which represents 1.3% of the $565.3 billion in U.S. subprime RMBS rated by

Standard & Poor's between the fourth quarter of 2005 and the fourth quarter of 2006.

Changes to our rating methodology as well as details of a teleconference to be held today are given below.

The CreditWatch actions are being taken at this time because of poor collateral performance, our expectation of increasing losses on the underlying collateral pools, the consequent reduction of credit support, and changes that will be implemented with respect to the methodology for rating new transactions. Many of the classes issued in late 2005 and much of 2006 now have sufficient seasoning to evidence delinquency, default, and loss trend lines that are indicative of weak future credit performance. The levels of loss continue to exceed historical precedents and our initial expectations at the time we rated the deals.

We are also conducting a review of CDO ratings where the underlying portfolio contains any of the affected securities subject to these rating actions (see separate media release to be published today).

FACTORS DRIVING NEW SURVEILLANCE METHODOLOGY

We have been surveilling these transactions on a regular basis and have been monitoring market trends. At this time, we do not foresee the poor performance abating. Loss rates, which are being fueled by shifting patterns in loss behavior and further evidence of lower underwriting standards and misrepresentations in the mortgage market, remain in excess of historical precedents and our initial assumptions.

LOSS PATTERNS

New data reveals that delinquencies and foreclosures continue to accumulate at an increasing rate for the 2006 vintage. We see poor performance of loans, early payment defaults, and increasing levels of delinquencies and losses.

Total aggregate losses on all subprime transactions issued since the fourth quarter of 2005 is 29 basis points, as compared with 7 basis points for similar transactions issued in 2000. Transactions from the 2000 vintage are used as a comparison because they were, up until now, the worst performing vintage of this decade. When recent transactions with the same seasoning are compared on a quarterly basis with similar transactions issued in 2000, we find that both mean losses and standard deviations are running in excess of the 2000 book for the fourth quarter of 2005 through the fourth quarter of 2006.

Seriously delinquent loans (90-days-plus, foreclosure, and real estate owned (REO)), on average, also exceed the 2000 book of business for each quarterly comparison except for the fourth quarter of 2005.

ECONOMIC FACTORS

On a macroeconomic level, we expect that the U.S. housing market, especially the subprime sector, will continue to decline before it improves, and home prices will continue to come under stress. Weakness in the property markets continues to exacerbate losses, with little prospect for improvement in the near term. Furthermore, we expect losses will continue to increase, as borrowers experience rising loan payments due to the resetting terms of their adjustable-rate loans and principal amortization that occurs after the interest-only period ends for both adjustable-rate and fixed-rate loans.

Although property values have decreased slightly, additional declines are expected. David Wyss, Standard & Poor's chief economist, projects that property values will decline 8% on average between 2006 and 2008, and will bottom out in the first quarter of 2008.

While our LEVELS model assumes property value declines of 22% for the 'BBB' and lower rating category stress environments (with higher property value declines for higher rating category stress environments), the continued decline in prices will apply additional stress to these transactions by increasing losses on the sale of foreclosed properties, as well as removing or reducing the borrowers' ability to refinance or sell their homes to meet debt obligations.

As lenders have tightened underwriting guidelines, fewer refinance options may be available to these borrowers, especially if their loan-to-value (LTV) and combined LTV (CLTV) ratios have risen in the wake of declining home prices.

DATA QUALITY

The Mortgage Asset Research Institute (MARI) reports that alleged misrepresentations on credit reports were up significantly as a percentage of total submissions received in 2006. MARI, which was recently commissioned by the Mortgage Bankers Assoc. (MBA) to conduct a mortgage fraud study, reported that the current findings of fraud were in excess of previous industry highs. Data quality concerning some of the borrower and loan characteristics provided during the rating process has also come under question. Therefore, key risk variables that have historically influenced default patterns, such as FICO, LTV, and ownership status, are proving less predictive.

It is expected that the ongoing weakness in both national and regional property markets will exacerbate losses with little prospect for improvement in the near term. Also, many of these transactions will likely encounter additional credit stress from upcoming interest rate and payment resets.

Data quality is fundamental to our rating analysis. The loan performance associated with the data to date has been anomalous in a way that calls into question the accuracy of some of the initial data provided to us regarding the loan and borrower characteristics. A discriminate analysis was performed to identify the characteristics associated with the group of transactions performing within initial expectations and those performing below initial expectations. The following characteristics associated with each group were analyzed: LTV, CLTV, FICO, debt-to-income (DTI), weighted-average coupon (WAC), margin, payment cap, rate adjustment frequency, periodic rate cap on first adjustment, periodic rate cap subsequent to first adjustment, lifetime max rate, term, and issuer. Our results show no statistically significant differentiation between the two groups of transactions on any of the above characteristics. Reports of alleged underwriting fraud tend to grow over time, as suspected fraud incidents are detected upon investigation following a loan default.

PAYMENT ADJUSTMENTS

Adjustable-rate and interest-only loans subject to contractual increases in their monthly payments will continue to put pressure on borrowers' ability to meet monthly payments in the future. The transactions with classes identified for CreditWatch placement contain, on average, 75%-80% of the types of loans that are subject to some type of payment adjustment over the next 18 months.

When reviewing the transactions initially, we assumed that borrowers would experience additional stresses when subject to payment adjustments. All loans containing some type of payment increase were assumed to default 20% more often than similar borrowers with fixed-rate loans and FICO scores of less than 660 (including subprime borrowers). Our analysis intended to anticipate the burden and resulting payment shock that a borrower would face assuming rising interest rates.

The following table provides the aggregate percentage of 2/1 arms for U.S. subprime transactions by quarter for the period under review. Since there tends to be a lag between origination and securitization, many of the 2/1 hybrid ARM loans will reset approximately seven quarters after the transaction closes.

2/1 ARM Reset Information By Quarter

Sold during	Orig. subprime balance ($) (all loans)	% of 2/1 ARM	Reset quarter
2005-Q4	138,888,212,337	64	2007-Q3
2006-Q1	108,014,850,161	70	2007-Q4
2006-Q2	121,149,551,887	70	2008-Q1
2006-Q3	98,332,355,370	62	2008-Q2
2006-Q4	98,965,073,697	60	2008-Q3

Given all of these current factors, we are refining our surveillance approach for subprime RMBS transactions issued from the fourth quarter of 2005 through the fourth quarter of 2006. Going forward, the ratings methodology for new transactions will also incorporate these factors.

SURVEILLANCE METHODOLOGY CHANGES

As performance continues to deteriorate, we have increased the severity of the surveillance assumptions we use to evaluate the ongoing creditworthiness for this group of transactions. The level of severity was increased to 40% from 33% to reflect the average severity that subprime servicers are currently experiencing, which was determined through data collected in our SEAM (Servicer Evaluation Analytical Methodology) database. We will continue to apply this revised severity assumption to delinquencies as they move through the pipeline.

Specifically, for subprime collateral, we assume that the REO loans are liquidated evenly within six months. During the same six-month period, 25% of foreclosures and 10% of loans that are 90-plus-days delinquent would be evenly liquidated. During months seven through 12, the remaining 75% of foreclosures and 30% of the loans that are 90-plus-days delinquent will be evenly liquidated. In order to account for the movement of the remaining 90-plus-days delinquent and future delinquent loans through the delinquency pipeline, we assume that our projection of the losses used in month 12 continues and amortizes down in months 13 through 36, which allows for loans presently 60- or 30-days delinquent, or current, to enter into the delinquency pipeline in the future.

Beginning in the next few days, we expect that the majority of the ratings on the classes that have been placed on CreditWatch negative will be downgraded. We will lower our rating:

-- To 'CCC' on any class that does not pass our stress test scenario (a class is expected to experience a principal write-down or, with respect to the senior classes, a principal shortfall) within 12 months, regardless of its current rating;

-- To 'B' on any class that does not pass our stress test scenario within 13 to 24 months;

-- To 'BB' on any class that does not pass our stress test scenario within 25 to 30 months; and

-- To 'BBB' on any class that does not pass our stress test scenario within 31 to 36 months.

In addition, we have modified our approach to reviewing the ratings on senior classes in a transaction in which subordinate classes have been downgraded. Historically, our practice has been to maintain a rating on any class that has passed our stress assumptions and has had at least the same level of outstanding credit enhancement as it had at issuance. Going forward, there will be a higher degree of correlation between the rating actions on classes located sequentially in the capital structure. A class will have to demonstrate a higher level of relative protection to maintain its rating when the class immediately subordinate to it is being downgraded.

Transactions issued in 2007 have not had adequate seasoning to establish a payment history that would make the outcomes of the delinquency and loss tests detailed above capable of meaningful measurement under our new methodology. However, the same asset risks that are apparent in the transactions issued in 2006 may also be present in the 2007 transactions, as well as in transactions currently being packaged for sale and securitization. Hence, to ensure a consistent application of surveillance methodology we will continue to monitor the 2007 vintage securitizations and apply the same surveillance methodology as described above to the 2007 transactions as they season and as delinquency and loss data become available. We will also review these transactions under the revised surveillance methodology, as well as the revised methodology employed for issuing new ratings and may take rating actions, as deemed appropriate, throughout the remainder of 2007.

We will also continue our review of second mortgages, including "piggyback seconds," "silent seconds," and closed-end second liens, and expect to publish the results in the near future.

We are considering a number of changes to our initial rating methodology, as further described below, so as to better mitigate these concerns going forward.

REVISED RATING METHODOLOGY FOR NEW ISSUES

For transactions that close on or after July 10, 2007, we will incorporate several changes to our ratings methodology that will result in greater levels of credit protection for rated transactions. Our cash flow methodology assumptions will include a simultaneous combination of faster voluntary and involuntary (default) prepayments that will result in less credit to excess spread.

Furthermore, our default expectation for 2/28 hybrid ARM loans will increase by approximately 21%. We are in the process of updating our LEVELS and SPIRE models. A separate article will be released in the next few days describing the revisions to our ratings methodology, and will provide the estimated timing for release of the updated models.

UNDERWRITING REVIEW

Given the level of loosened underwriting at the time of loan origination, misrepresentation, and speculative borrower behavior reported for the 2006 vintage, we will be increasing our review of the capabilities of lenders to minimize the potential and incidence of misrepresentation in their loan production. A lender's fraud-detection capabilities will be a key area of focus for us.

The review will consist of a detailed examination of: (a) the overall capabilities and experience of the executive and operational management team; (b) the production channels and broker approval process; (c) underwriting guidelines and the credit process; (d) quality control and internal audits; (e) the use of third-party due diligence firms, if applicable; and (f) secondary marketing. A new addition to this review process will be a fraud-management questionnaire focusing on an originator's tools, processes, and systems for control with respect to mitigating the potential for misrepresentation.

TELECONFERENCE

Standard & Poor's will hold a teleconference Tuesday morning, July 10, 2007, at 10:00 a.m. EST. Please join David Wyss, Susan Barnes, and Patrice Jordan, as they discuss market conditions and the revisions to the RMBS surveillance and new ratings methodologies. Teleconference information follows below:

Live-Dial-In-Numbers:
US/Canada: 1-888-324-0379
US/All Others: 1-210-234-6980
Conference ID#: 1197033
Passcode: SANDP

Replay Numbers:
US/Canada: 1-866-397-8265
US/All Others: 1-203-369-0540
Replay will expire on Tuesday, July 17, 2007

Live Audio Streaming:
URL: http://www.mymeetings.com, Under Events, Select Join an event
Conference ID#: 1197033
Passcode: SANDP

Replay Web Streaming:
URL: http://www.mymeetings.com, Under Events, Select Join an event
Conference ID#: 1197033
Passcode: SANDP
Web replay streaming will expire on Tuesday, Aug. 7, 2007

SUBPRIME RATINGS PLACED ON CREDITWATCH NEGATIVE

Aames Mortgage Investment Trust

		Rating	
Series	Class	To	From
2006-1	M10	BBB/Watch Neg	BBB
2006-1	M11	BBB-/Watch Neg	BBB-

ABFC Trust

		Rating	
Series	Class	To	From
2005-WMC1	B1	BB+/Watch Neg	BB+
2005-WMC1	B2	BB/Watch Neg	BB

ACE Securities Corp. Home Equity Loan Trust

		Rating	
Series	Class	To	From
2005-HE6	M9	BBB+/Watch Neg	BBB+
2005-HE6	M10	BBB/Watch Neg	BBB
2005-HE6	M11	BBB-/Watch Neg	BBB-
2005-HE6	B1	BB+/Watch Neg	BB+

2006-ASAP3	M8, M9, M10	BBB/Watch Neg	BBB
2006-ASAP3	M11	BBB/Watch Neg	BBB
2006-ASAP4	M11	BBB/Watch Neg	BBB
2006-FM1	M7	BBB+/Watch Neg	BBB+
2006-FM1	M8	BBB/Watch Neg	BBB
2006-FM1	M9	BBB-/Watch Neg	BBB-
2006-FM1	M10	BB+/Watch Neg	BB+
2006-FM2	M7	BBB+/Watch Neg	BBB+
2006-FM2	M8	BBB/Watch Neg	BBB
2006-FM2	M9	BBB-/Watch Neg	BBB-
2006-FM2	M10	BB+/Watch Neg	BB+
2006-HE1	M8	A-/Watch Neg	A-
2006-HE1	M9	BBB+/Watch Neg	BBB+
2006-HE1	M10	BBB/Watch Neg	BBB
2006-HE2	M9	BBB/Watch Neg	BBB-
2006-HE2	M10	BBB-/Watch Neg	BBB-
2006-HE2	M11	BB+/Watch Neg	BB+
2006-HE3	M7	A+/Watch Neg	A+
2006-HE3	M8	A/Watch Neg	A
2006-HE3	M9	BBB+/Watch Neg	BBB+
2006-HE3	M10	BBB/Watch Neg	BBB
2006-HE3	M11	BBB-/Watch Neg	BBB-
2006-HE4	M8	BBB+/Watch Neg	BBB+
2006-HE4	M9	BBB/Watch Neg	BBB
2006-HE4	M10	BBB-/Watch Neg	BBB-
2006-HE4	M11	BB+/Watch Neg	BB+
2006-NC2	M9	BBB-/Watch Neg	BBB-
2006-NC2	M10	BB+/Watch Neg	BB+
2006-NC2	M11	BB/Watch Neg	BB

Aegis Asset Backed Securities Trust

		Rating	
Series	Class	To	From
2005-5	M6, B1	A+/Watch Neg	A+
2005-5	B2	A/Watch Neg	A
2005-5	B3	BBB+/Watch Neg	BBB+
2005-5	B4	BBB/Watch Neg	BBB
2005-5	B6	BB+/Watch Neg	BB+

American Home Mortgage Investment Trust

		Rating	
Series	Class	To	From
2006-2	IV-M-1	AA/Watch Neg	AA
2006-2	IV-M-2	A/Watch Neg	A
2006-2	IV-M-3	BBB+/Watch Neg	BBB+
2006-2	IV-M-4	BBB/Watch Neg	BBB
2006-2	IV-M-5	BBB/Watch Neg	BBB

Argent Securities Trust

Rating

Series	Class	To	From
2005-W2	M-10	BBB/Watch Neg	BBB
2005-W2	M-11	BBB/Watch Neg	BBB
2005-W2	M-12	BBB-/Watch Neg	BBB-
2005-W2	M-13	BB+/Watch Neg	BB+
2005-W3	M-10	BBB+/Watch Neg	BBB+
2005-W3	M-11	BBB/Watch Neg	BBB
2005-W3	M-12	BBB-/Watch Neg	BBB-
2005-W4	M-8	BBB/Watch Neg	BBB
2006-4	M-5	A+/Watch Neg	A+
2006-4	M-6	A/Watch Neg	A
2006-4	M-7	A-/Watch Neg	A-
2006-4	M-8	BBB+/Watch Neg	BBB+
2006-4	M-9	BBB/Watch Neg	BBB
2006-M1	M-7	A/Watch Neg	A
2006-M1	M-8	A-/Watch Neg	A-
2006-M1	M-9	BBB+/Watch Neg	BBB+
2006-M1	M-10	BBB/Watch Neg	BBB
2006-M2	M-6	A-/Watch Neg	A-
2006-M2	M-7	BBB+/Watch Neg	BBB+
2006-M2	M-8	BBB/Watch Neg	BBB
2006-M2	M-9	BBB-/Watch Neg	BBB-
2006-M2	M-10	BB+/Watch Neg	BB+
2006-W1	M-9	BBB+/Watch Neg	BBB+
2006-W1	M-10	BBB-/Watch Neg	BBB-
2006-W2	M-8	BBB/Watch Neg	BBB
2006-W2	M-9	BBB-/Watch Neg	BBB-
2006-W2	M-10	BB+/Watch Neg	BB+
2006-W3	M-6	A/Watch Neg	A
2006-W3	M-7	A-/Watch Neg	A-
2006-W3	M-8	BBB+/Watch Neg	BBB+
2006-W3	M-9	BBB-/Watch Neg	BBB-
2006-W3	M-10	BBB-/Watch Neg	BBB-
2006-W5	M-5	AA-/Watch Neg	AA-
2006-W5	M-6	A+/Watch Neg	A+
2006-W5	M-7	A/Watch Neg	A
2006-W5	M-8	A-/Watch Neg	A-
2006-W5	M-9	BBB+/Watch Neg	BBB+

Asset Backed Securities Corporation Home Equity Loan Trust

		Rating	
Series	Class	To	From
NC2005-HE8	M10	BB+/Watch Neg	BB+
NC2005-HE8	M11	BB/Watch Neg	BB
2006-HE1	M12	BB+/Watch Neg	BB+
NC2006-HE2	M9	BBB-/Watch Neg	BBB-
NC2006-HE2	M10	BB+/Watch Neg	BB+
NC2006-HE2	M11	BB/Watch Neg	BB
NC2006-HE4	M6	BBB+/Watch Neg	BBB+
NC2006-HE4	M7	BBB/Watch Neg	BBB

NC2006-HE4	M8	BBB-/Watch Neg	BBB-
NC2006-HE4	M9	BB+/Watch Neg	BB+

Bear Sterns Asset Backed Securities I Trust

		Rating	
Series	Class	To	From
2005-CL1	M-6	A-/Watch Neg	A-
2005-CL1	M-7	BBB+/Watch Neg	BBB+
2005-CL1	M-8	BBB/Watch Neg	BBB
2005-CL1	M-9	BBB-/Watch Neg	BBB-
2005-CL1	M-10	BB/Watch Neg	BB
2006-EC2	M-10	BB+/Watch Neg	BB+
2006-HE3	M9	BBB-/Watch Neg	BBB-
2006-HE3	M10	BB+/Watch Neg	BB+
2006-HE4	M8	BBB/Watch Neg	BBB
2006-HE4	M9	BBB-/Watch Neg	BBB-
2006-HE4	M10	BB+/Watch Neg	BB+
2006-HE5	M9	BBB-/Watch Neg	BBB-
2006-HE5	M10	BB+/Watch Neg	BB+
2006-HE5	M11	BB/Watch Neg	BB
2006-HE6	I-M10	BB+/Watch Neg	BB+
2006-HE6	I-M11	BB/Watch Neg	BB
2006-HE6	II-M7	BBB+/Watch Neg	BBB+
2006-HE6	II-M8	BBB/Watch Neg	BBB
2006-HE6	II-M9	BBB-/Watch Neg	BBB-
2006-HE6	II-M10	BB+/Watch Neg	BB+
2006-HE6	II-M11	BB/Watch Neg	BB
2006-HE7	II-M10	BB+/Watch Neg	BB+
2006-HE7	II-M11	BB/Watch Neg	BB

Bravo Mortgage Asset Trust

		Rating	
Series	Class	To	From
2006-1	M9	BBB-/Watch Neg	BBB-
2006-1	M10	BB+/Watch Neg	BB+
2006-1	M11	BB/Watch Neg	BB

Carrington Mortgage Loan Trust

		Rating	
Series	Class	To	From
2005-FRE1	M10	BBB/Watch Neg	BBB
2005-FRE1	M11	BBB-/Watch Neg	BBB-
2005-FRE1	M12	BB+/Watch Neg	BB+
2005-FRE1	M13	BB/Watch Neg	BB
2006-NC2	M9	BBB-/Watch Neg	BBB-
2006-NC2	M10	BB+/Watch Neg	BB+

Citigroup Mortgage Loan Trust

		Rating	
Series	Class	To	From

2005-HE3	M11	BB+/Watch Neg	BB+
2005-HE3	M12	BB/Watch Neg	BB
2005-HE3	M13	BB/Watch Neg	BB
2005-HE4	M8	BBB+/Watch Neg	BBB+
2005-HE4	M9	BBB/Watch Neg	BBB
2005-HE4	M10	BBB-/Watch Neg	BBB-
2005-HE4	M11	BB+/Watch Neg	BB+
2005-HE4	M12	BB/Watch Neg	BB
2005-OPT4	M12	BB+/Watch Neg	BB+
2005-OPT4	M13	BB/Watch Neg	BB
2006-AR6	2-M3	A/Watch Neg	A
2006-AR6	2-M4	BBB/Watch Neg	BBB
2006-CB3	M6	A-/Watch Neg	A-
2006-CB3	B1	BBB+/Watch Neg	BBB+
2006-CB3	B2	BBB/Watch Neg	BBB
2006-CB3	B3	BBB-/Watch Neg	BBB-
2006-HE1	M10	BB+/Watch Neg	BB+
2006-HE1	M11	BB/Watch Neg	BB
2006-HE2	M7	BBB+/Watch Neg	BBB+
2006-HE2	M8	BBB/Watch Neg	BBB
2006-HE2	M9	BBB-/Watch Neg	BBB-
2006-HE2	M10	BB+/Watch Neg	BB+
2006-NC1	M8	BBB/Watch Neg	BBB
2006-NC1	M9	BBB-/Watch Neg	BBB-
2006-NC1	M10	BB+/Watch Neg	BB+
2006-NC1	M11	BB/Watch Neg	BB
2006-NC2	M9	BBB-/Watch Neg	BBB-
2006-NC2	M10	BB+/Watch Neg	BB+
2006-NC2	M11	BB/Watch Neg	BB
2006-WF1	M-3	BBB/Watch Neg	BBB
2006-WF1	M-4	BBB-/Watch Neg	BBB-
2006-WF1	M-5	BB+/Watch Neg	BB+
2006-WF2	M-2	A/Watch Neg	A
2006-WF2	M-3	BBB/Watch Neg	BBB
2006-WF2	M-4	BBB-/Watch Neg	BBB-
2006-WF2	M-5	BB+/Watch Neg	BB+
2006-WMC1	M9	BBB-/Watch Neg	BBB-
2006-WMC1	M10	BB+/Watch Neg	BB+
2006-WMC1	M11	BB/Watch Neg	BB

CWABS Asset-Backed Certificates Trust

		Rating	
Series	Class	To	From
2005-9	M-5	A/Watch Neg	A
2005-9	M-6	A-/Watch Neg	A-
2005-9	M-7	BBB+/Watch Neg	BBB+
2005-IM2	M6	A-/Watch Neg	A-
2005-IM2	M7	BBB+/Watch Neg	BBB+
2006-5	M8	BBB/Watch Neg	BBB
2006-5	B	BBB-/Watch Neg	BBB-

2006-6	M7	BBB/Watch Neg	BBB
2006-6	M8	BBB-/Watch Neg	BBB-
2006-6	B	BB+/Watch Neg	BB+
2006-7	M8	BBB/Watch Neg	BBB
2006-7	M9	BBB-/Watch Neg	BBB-
2006-7	B	BB+/Watch Neg	BB+
2006-8	B	BB+/Watch Neg	BB+
2006-10	MV-9	BBB-/Watch Neg	BBB-
2006-10	BV	BB+/Watch Neg	BB+

Encore Credit Receivables Trust

		Rating	
Series	Class	To	From
2005-4	M-11	BB+/Watch Neg	BB+
2005-4	M-12	BB-/Watch Neg	BB-

FBR Securitization Trust

		Rating	
Series	Class	To	From
2005-3	M-7	BBB+/Watch Neg	BBB+
2005-3	M-8	BBB/Watch Neg	BBB
2005-3	M-9	BBB-/Watch Neg	BBB-
2005-4	M-12	BBB-/Watch Neg	BBB-
2005-5	M-12	BBB-/Watch Neg	BBB-

Fieldstone Mortgage Investment Trust

		Rating	
Series	Class	To	From
2006-1	M8	A-/Watch Neg	A-
2006-1	M9, M10	BBB/Watch Neg	BBB

First Franklin Mortgage Loan Trust

		Rating	
Series	Class	To	From
2006-FF2	M8, M9	BBB-/Watch Neg	BBB-
2006-FF2	B	BB+/Watch Neg	BB+
2006-FF5	M-9, M-10	BBB-/Watch Neg	BBB-
2006-FF5	M-11	BB/Watch Neg	BB
2006-FF7	M-8	BBB/Watch Neg	BBB
2006-FF7	M-9	BBB-/Watch Neg	BBB-
2006-FF7	M-10	BB+/Watch Neg	BB+
2006-FF8	M-9	BBB/Watch Neg	BBB
2006-FF8	M-10	BBB-/Watch Neg	BBB-
2006-FF8	M-11, M-12	BB+/Watch Neg	BB+
2006-FF9	M-10	BBB-/Watch Neg	BBB-
2006-FF10	M-9	BBB-/Watch Neg	BBB-
2006-FF10	B-1	BB+/Watch Neg	BB+
2006-FF10	B-2	BB/Watch Neg	BB

Fremont Home Loan Trust

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		Rating	
Series	Class	To	From
2005-D	B1	BBB+/Watch Neg	BBB+
2005-D	B2	BBB/Watch Neg	BBB
2005-D	B3	BBB-/Watch Neg	BBB-
2005-D	B4	BB+/Watch Neg	BB+
2005-E	B1	BBB/Watch Neg	BBB
2005-E	B2-A, B2-B	BBB-/Watch Neg	BBB-
2005-E	B2-C, B2-D	BBB-/Watch Neg	BBB-
2006-1	M7	BBB+/Watch Neg	BBB+
2006-1	M8	BBB/Watch Neg	BBB
2006-1	M9	BBB-/Watch Neg	BBB-
2006-1	B1, B2	BB+/Watch Neg	BB+
2006-2	B1, B2	BB+/Watch Neg	BB+
2006-A	M7	BBB/Watch Neg	BBB
2006-A	M8, M9	BBB-/Watch Neg	BBB-
2006-A	M10	BB+/Watch Neg	BB+
2006-B	M6	A-/Watch Neg	A-
2006-B	M7	BBB+/Watch Neg	BBB+
2006-B	M8, M9	BBB/Watch Neg	BBB
2006-B	M10	BBB-/Watch Neg	BBB-
2006-C	M9	BBB-/Watch Neg	BBB-
2006-C	M10	BB+/Watch Neg	BB+
2006-C	M11	BB/Watch Neg	BB

GE-WMC Mortgage Securities Trust

		Rating	
Series	Class	To	From
2006-1	M6	A/Watch Neg	A
2006-1	B1	A-/Watch Neg	A-
2006-1	B2	BBB+/Watch Neg	BBB+
2006-1	B3	BBB/Watch Neg	BBB
2006-1	B4	BBB-/Watch Neg	BBB-
2006-1	B5	BBB-/Watch Neg	BBB-

GSAA Home Equity Trust

		Rating	
Series	Class	To	From
2006-5	B-2	BBB-/Watch Neg	BBB-
2006-5	B-3	BB/Watch Neg	BB

GSAMP Trust

		Rating	
Series	Class	To	From
2005-AHL2	B-2	BBB-/Watch Neg	BBB-
2005-AHL2	B-3	BBB-/Watch Neg	BBB-
2005-AHL2	B-4	BB+/Watch Neg	BB+
2006-FM1	M7	A-/Watch Neg	A-
2006-FM1	B1	BBB+/Watch Neg	BBB+
2006-FM1	B2, B3	BBB-/Watch Neg	BBB-

2006-FM2	B2	BB+/Watch Neg	BB+
2006-NC2	M8	BBB/Watch Neg	BBB
2006-NC2	M9,B-1	BBB-/Watch Neg	BBB-
2006-NC2	B-2	BB+/Watch Neg	BB+

Home Equity Asset Trust

		Rating	
Series	Class	To	From
2005-7	B3	BBB-/Watch Neg	BBB-
2005-7	B4, B5	BB+/Watch Neg	BB+
2005-8	B3, B4	BBB-/Watch Neg	BBB-
2005-8	B5	BB+/Watch Neg	BB+
2006-2	B3	BBB-/Watch Neg	BBB-
2006-2	B4	BB+/Watch Neg	BB+
2006-2	B5	BB/Watch Neg	BB
2006-5	B2	BBB/Watch Neg	BBB
2006-5	B3	BBB-/Watch Neg	BBB-
2006-6	B2	BBB/Watch Neg	BBB
2006-6	B3	BBB-/Watch Neg	BBB-
2006-6	B4	BB+/Watch Neg	BB+
2006-7	B3	BB+/Watch Neg	BB+

Home Equity Mortgage Loan Asset-Backed Trust

		Rating	
Series	Class	To	From
2005-C	M10	BBB/Watch Neg	BBB
2005-C	M11	BBB-/Watch Neg	BBB-
2005-D	M9	BBB/Watch Neg	BBB
2006-A	M9	BBB+/Watch Neg	BBB+
2006-A	M10	BBB-/Watch Neg	BBB-
2006-B	M7, M8	BBB+/Watch Neg	BBB+
2006-B	M9	BBB/Watch Neg	BBB
2006-C	M-7	BBB+/Watch Neg	BBB+
2006-C	M-8	BBB/Watch Neg	BBB
2006-C	M-9	BBB-/Watch Neg	BBB-

HSI Asset Securitization Corp. Trust

		Rating	
Series	Class	To	From
2005-I1	M6	A-/Watch Neg	A-
2006-OPT4	M10	BB/Watch Neg	BB
2006-WMC1	M6	A/Watch Neg	A
2006-WMC1	M7	BBB+/Watch Neg	BBB+
2006-WMC1	M8	BBB/Watch Neg	BBB
2006-WMC1	M9	BBB-/Watch Neg	BBB-

IndyMac INDB Mortgage Loan Trust

		Rating	
Series	Class	To	From
2006-1	B1	A/Watch Neg	A

2006-1	B2	A-/Watch Neg	A-
2006-1	B3	BBB+/Watch Neg	BBB+
2006-1	B4	BBB/Watch Neg	BBB

IXIS Real Estate Capital Trust

		Rating	
Series	Class	To	From
2006-HE1	B2	BBB+/Watch Neg	BBB+
2006-HE1	B3	BBB/Watch Neg	BBB
2006-HE1	B4	BBB-/Watch Neg	BBB-
2006-HE2	B1	A-/Watch Neg	A-
2006-HE2	B2	BBB+/Watch Neg	BBB+
2006-HE2	B3	BBB/Watch Neg	BBB
2006-HE2	B4	BBB-/Watch Neg	BBB-
2006-HE3	B3, B4	BBB-/Watch Neg	BBB-
2006-HE3	B5	BB+/Watch Neg	BB+

J.P. Morgan Mortgage Acquisition Trust

		Rating	
Series	Class	To	From
2006-ACC1	M11	BB/Watch Neg	BB
2006-FRE1	M10	BB+/Watch Neg	BB+
2006-FRE1	M11	BB/Watch Neg	BB
2006-FRE2	M10	BB+/Watch Neg	BB+
2006-FRE2	M11	BB/Watch Neg	BB
2006-HE1	M11	BB/Watch Neg	BB
2006-NC1	M10	BB+/Watch Neg	BB+
2006-NC1	M11	BB/Watch Neg	BB
2006-RM1	M9	BBB-/Watch Neg	BBB-
2006-RM1	M10	BB+/Watch Neg	BB+
2006-WM1	M7	BBB/Watch Neg	BBB
2006-WF1	M8	BBB-/Watch Neg	BBB-
2006-WF1	M9	BB+/Watch Neg	BB+

Lehman XS Trust

		Rating	
Series	Class	To	From
2006-7	M6	A-/Watch Neg	A-
2006-7	M7	BBB+/Watch Neg	BBB+
2006-7	M-8	BBB/Watch Neg	BBB
2006-7	M9	BBB-/Watch Neg	BBB-

Long Beach Mortgage Loan Trust

		Rating	
Series	Class	To	From
2005-3	M8	BBB/Watch Neg	BBB
2005-WL3	B2	BB+/Watch Neg	BB+
2006-1	M7	A/Watch Neg	A
2006-1	M8	A-/Watch Neg	A-
2006-1	M9	BBB+/Watch Neg	BBB+

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2006-1	M10	BBB/Watch Neg	BBB
2006-1	M11	BBB-/Watch Neg	BBB-
2006-2	M6	A/Watch Neg	A
2006-2	M7	A-/Watch Neg	A-
2006-2	M8	BBB+/Watch Neg	BBB+
2006-2	M9	BBB/Watch Neg	BBB
2006-2	M10	BBB-/Watch Neg	BBB-
2006-2	B	BB/Watch Neg	BB
2006-3	M6	A+/Watch Neg	A+
2006-3	M7	A/Watch Neg	A
2006-3	M8	A-/Watch Neg	A-
2006-3	M9	BBB+/Watch Neg	BBB+
2006-3	M10	BBB/Watch Neg	BBB
2006-3	B	BBB-/Watch Neg	BBB-
2006-4	M7	A/Watch Neg	A
2006-4	M8	A-/Watch Neg	A-
2006-4	M9	BBB+/Watch Neg	BBB+
2006-4	M10	BBB+/Watch Neg	BBB+
2006-4	M11	BBB-/Watch Neg	BBB-
2006-4	B	BB+/Watch Neg	BB+
2006-5	M8, M9	BBB+/Watch Neg	BBB+
2006-5	M10	BBB/Watch Neg	BBB
2006-5	B-1	BBB-/Watch Neg	BBB-
2006-5	B-2	BB+/Watch Neg	BB+
2006-6	M9	BBB+/Watch Neg	BBB+
2006-6	M10	BBB/Watch Neg	BBB
2006-6	M11	BBB-/Watch Neg	BBB-
2006-7	M9	BBB+/Watch Neg	BBB+
2006-7	M10	BBB/Watch Neg	BBB
2006-7	M11	BBB-/Watch Neg	BBB-
2006-WL2	M9	BBB-/Watch Neg	BBB-
2006-WL2	B1	BB+/Watch Neg	BB+
2006-WL2	B2	BB/Watch Neg	BB
2006-WL2	B3	BB-/Watch Neg	BB-
2006-WL3	M8	BBB/Watch Neg	BBB
2006-WL3	M9	BBB-/Watch Neg	BBB-

Luminent Mortgage Trust

		Rating	
Series	Class	To	From
2005-1	B4	BBB/Watch Neg	BBB
2005-1	B5	BBB-/Watch Neg	BBB-
2005-1	B6	BB/Watch Neg	BB

MASTR Asset Backed Securities Trust

		Rating	
Series	Class	To	From
2005-FRE1	M8	BBB/Watch Neg	BBB
2005-FRE1	M9	BBB-/Watch Neg	BBB-
2005-FRE1	M10	BB+/Watch Neg	BB+

2005-HE2	M10	BBB-/Watch Neg	BBB-
2005-HE2	M11	BB+/Watch Neg	BB+
2005-NC2	M9	A/Watch Neg	A
2005-NC2	M10	A-/Watch Neg	A-
2005-NC2	M11, M12	BBB+/Watch Neg	BBB+
2006-AM1	M12	BBB/Watch Neg	BBB
2006-AM2	M10	BBB+/Watch Neg	BBB+
2006-AM2	M11	BBB/Watch Neg	BBB
2006-FRE1	M6	A-/Watch Neg	A-
2006-FRE2	M6	A-/Watch Neg	A-
2006-FRE2	M7	BBB+/Watch Neg	BBB+
2006-FRE2	M8	BBB/Watch Neg	BBB
2006-HE1	M-9	A/Watch Neg	A
2006-HE1	M-10	A-/Watch Neg	A-
2006-HE1	M-11	BBB/Watch Neg	BBB
2006-HE2	M6	A/Watch Neg	A
2006-HE2	M7	BBB+/Watch Neg	BBB+
2006-HE2	M8	BBB/Watch Neg	BBB
2006-HE2	M9	BBB-/Watch Neg	BBB-
2006-HE2	M10	BB+/Watch Neg	BB+
2006-HE3	M10	BB+/Watch Neg	BB+
2006-HE3	M11	BB/Watch Neg	BB
2006-NC2	M10	BB+/Watch Neg	BB+
2006-NC2	M11	BB/Watch Neg	BB
2006-WMC2	M6	A/Watch Neg	A
2006-WMC2	M7	BBB+/Watch Neg	BBB+
2006-WMC2	M8	BBB/Watch Neg	BBB
2006-WMC3	M10	BB+/Watch Neg	BB+

Merrill Lynch Mortgage Investors Trust

		Rating	
Series	Class	To	From
2005-HE2	M5	A/Watch Neg	A
2005-HE2	M6	A-/Watch Neg	A-
2005-HE2	B1	BBB+/Watch Neg	BBB+
2005-HE2	B2	BBB/Watch Neg	BBB
2006-AHL1	B2	BBB/Watch Neg	BBB
2006-AHL1	B3	BBB-/Watch Neg	BBB-
2006-AR1	B1	BBB+/Watch Neg	BBB+
2006-AR1	B2	BBB+/Watch Neg	BBB+
2006-AR1	B3	BBB/Watch Neg	BBB
2006-FM1	B1	BBB+/Watch Neg	BBB+
2006-FM1	B2	BBB/Watch Neg	BBB
2006-FM1	B3	BBB-/Watch Neg	BBB-
2006-MLN1	B4	BB+/Watch Neg	BB+
2006-RM2	B1	A-/Watch Neg	A-
2006-RM2	B2	BBB+/Watch Neg	BBB+
2006-RM2	B3	BBB/Watch Neg	BBB
2006-RM2	B4	BBB-/Watch Neg	BBB-
2006-RM4	B3	BBB-/Watch Neg	BBB-

2006-RM4	B4	BB+/Watch Neg	BB+

Morgan Stanley Capital I Inc. Trust

		Rating	
Series	Class	To	From
2006-NC2	B3	BBB-/Watch Neg	BBB-
2006-HE2	B3	BBB/Watch Neg	BBB

Morgan Stanley ABS Capital I Inc. Trust

		Rating	
Series	Class	To	From
2006-NC3	B2	BBB/Watch Neg	BBB
2006-NC3	B3	BBB-/Watch Neg	BBB-
2006-NC4	B2	BBB/Watch Neg	BBB
2006-NC4	B3	BBB-/Watch Neg	BBB-
2006-HE3	B2	BBB/Watch Neg	BBB
2006-HE3	B3	BBB-/Watch Neg	BBB-
2006-HE4	B3	BBB-/Watch Neg	BBB-
2006-HE6	B2	BBB/Watch Neg	BBB
2006-HE6	B3	BBB-/Watch Neg	BBB-
2006-WMC2	B3	BBB-/Watch Neg	BBB-

Morgan Stanley Home Equity Loan Trust

		Rating	
Series	Class	To	From
2006-3	B3	BBB-/Watch Neg	BBB-

Morgan Stanley IXIS Real Estate Capital Trust

		Rating	
Series	Class	To	From
2006-1	B2	BBB/Watch Neg	BBB
2006-1	B3	BBB-/Watch Neg	BBB-

New Century Home Equity Loan Trust

		Rating	
Series	Class	To	From
2006-1	M7	BBB+/Watch Neg	BBB+
2006-1	M8	BBB/Watch Neg	BBB
2006-1	M9	BBB-/Watch Neg	BBB-
2006-2	M8	BBB/Watch Neg	BBB
2006-2	M9	BBB-/Watch Neg	BBB-

Nomura Home Equity Loan Inc.

		Rating	
Series	Class	To	From
2005-HE1	B-2	BB/Watch Neg	BB
2006-FM1	M-8	BBB+/Watch Neg	BBB+
2006-FM1	M-9	BBB/Watch Neg	BBB
2006-FM1	B-1	BBB-/Watch Neg	BBB-
2006-FM1	B-2	BB+/Watch Neg	BB+

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2006-FM2	M-9	BBB/Watch Neg	BBB
2006-FM2	B-1	BBB-/Watch Neg	BBB-
2006-FM2	B-2	BB+/Watch Neg	BB+
2006-HE1	B-2	BB/Watch Neg	BB
2006-HE2	M-9	BBB/Watch Neg	BBB
2006-HE2	B-1	BBB-/Watch Neg	BBB-
2006-HE2	B-2	BB+/Watch Neg	BB+

NovaStar Mortgage Funding Trust

		Rating	
Series	Class	To	From
2006-1	M-7	A-/Watch Neg	A-
2006-1	M-8	BBB+/Watch Neg	BBB+
2006-1	M-9	BBB/Watch Neg	BBB
2006-1	M-10	BBB-/Watch Neg	BBB-
2006-1	M-11	BB+/Watch Neg	BB+
2006-2	M-7	A/Watch Neg	A
2006-2	M-8	BBB+/Watch Neg	BBB+
2006-2	M-9	BBB/Watch Neg	BBB
2006-2	M-10	BB+/Watch Neg	BB+
2006-3	M-6	A+/Watch Neg	A+
2006-3	M-7	A/Watch Neg	A
2006-3	M-8	BBB+/Watch Neg	BBB+
2006-3	M-9	BBB/Watch Neg	BBB
2006-3	M-10	BBB-/Watch Neg	BBB-
2006-4	M-7	A/Watch Neg	A
2006-4	M-8	A-/Watch Neg	A-
2006-4	M-9	BBB+/Watch Neg	BBB+
2006-4	M-10	BBB/Watch Neg	BBB
2006-4	M-11	BBB-/Watch Neg	BBB-
2006-5	M-7	A-/Watch Neg	A-
2006-5	M-8	BBB+/Watch Neg	BBB+
2006-5	M-9	BBB/Watch Neg	BBB
2006-5	M-10	BBB-/Watch Neg	BBB-
2006-5	M-11	BB+/Watch Neg	BB+
2006-6	M-12	BB+/Watch Neg	BB+
2006-6	M-13	BB/Watch Neg	BB

Option One Mortgage Loan Trust

		Rating	
Series	Class	To	From
2006-2	M6	A-/Watch Neg	A-
2006-2	M7	BBB+/Watch Neg	BBB+
2006-2	M8	BBB/Watch Neg	BBB
2006-2	M9	BBB-/Watch Neg	BBB-
2006-2	M10	BB/Watch Neg	BB

Ownit Mortgage Loan Trust

		Rating	
Series	Class	To	From

2005-5	M-6	A-/Watch Neg	A-
2005-5	B-1	BBB+/Watch Neg	BBB+
2005-5	B-2	BBB/Watch Neg	BBB

Popular ABS Mortgage Pass-Through Trust

		Rating	
Series	Class	To	From
2005-5	BF-3	BB-/Watch Neg	BB-
2005-5	BV-4	BB/Watch Neg	BB

RAMP Trust

		Rating	
Series	Class	To	From
2006-NC1	M-6	A/Watch Neg	A
2006-NC1	M-7	A-/Watch Neg	A-
2006-NC1	M-8	BBB+/Watch Neg	BBB+
2006-NC1	M-9	BBB-/Watch Neg	BBB-
2006-NC2	M-8	BBB/Watch Neg	BBB
2006-NC2	M-9	BBB-/Watch Neg	BBB-
2006-NC2	B-1	BB+/Watch Neg	BB+
2006-NC3	M-8	BBB+/Watch Neg	BBB+
2006-NC3	M-9	BBB/Watch Neg	BBB
2006-NC3	M-10	BBB-/Watch Neg	BBB-
2006-RS6	B	BB/Watch Neg	BB

RASC Trust

		Rating	
Series	Class	To	From
2005-AHL2	M-9	BBB/Watch Neg	BBB
2005-AHL2	M-10	BBB-/Watch Neg	BBB-
2005-AHL3	M-5	A/Watch Neg	A
2005-AHL3	M-6	A-/Watch Neg	A-
2005-AHL3	M-7	BBB+/Watch Neg	BBB+
2005-AHL3	M-8	BBB/Watch Neg	BBB
2005-AHL3	M-9	BBB-/Watch Neg	BBB-

Securitized Asset Backed Receivables LLC Trust

		Rating	
Series	Class	To	From
2005-FR5	B-3	BBB/Watch Neg	BBB
2005-FR5	B-4	BBB-/Watch Neg	BBB-
2005-OP2	B3	BBB/Watch Neg	BBB
2006 FR2	B2	BBB/Watch Neg	BBB
2006 FR2	B3	BBB-/Watch Neg	BBB-
2006 FR2	B4	BB+/Watch Neg	BB+
2006 FR2	B5	BB/Watch Neg	BB
2006-FR3	B1	BBB+/Watch Neg	BBB+
2006-FR3	B2	BBB/Watch Neg	BBB
2006-FR3	B3	BBB-/Watch Neg	BBB-
2006-FR3	B4	BB+/Watch Neg	BB+

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2006-FR3	B5	BB/Watch Neg	BB
2006-FR4	B3	BBB-/Watch Neg	BBB-
2006-HE1	B1	BBB+/Watch Neg	BBB+
2006-HE1	B2	BBB/Watch Neg	BBB
2006-HE1	B3	BBB-/Watch Neg	BBB-
2006-HE1	B4	BB+/Watch Neg	BB+
2006-HE1	B5	BB/Watch Neg	BB
2006-NC1	M3	A-/Watch Neg	A-
2006-NC1	B1	BBB+/Watch Neg	BBB+
2006-NC1	B2	BBB/Watch Neg	BBB
2006-NC2	B2	BBB/Watch Neg	BBB
2006-NC2	B3	BBB-/Watch Neg	BBB-
2006-NC2	B4	BB+/Watch Neg	BB+
2006-NC2	B5	BB/Watch Neg	BB
2006-WM1	B2	BBB/Watch Neg	BBB
2006-WM1	B3	BBB-/Watch Neg	BBB-

SG Mortgage Securities Trust

		Rating	
Series	Class	To	From
2005-OPT1	M12	BB+/Watch Neg	BB+
2005-OPT1	M13	BB/Watch Neg	BB
2006-FRE1	M7	A-/Watch Neg	A-
2006-FRE1	M8	BBB+/Watch Neg	BBB+
2006-FRE1	M9	BBB-/Watch Neg	BBB-
2006-FRE1	M10	BBB-/Watch Neg	BBB-
2006-FRE2	M6	A/Watch Neg	A
2006-FRE2	M7	BBB+/Watch Neg	BBB+
2006-FRE2	M8	BBB/Watch Neg	BBB
2006-FRE2	M9	BBB-/Watch Neg	BBB-
2006-FRE2	M10	BBB-/Watch Neg	BBB-

Soundview Home Equity Loan Trust

		Rating	
Series	Class	To	From
2005-OPT3	M12	BB/Watch Neg	BB

Soundview Home Loan Trust

		Rating	
Series	Class	To	From
2006-2	B1, B2	BB+/Watch Neg	BB+
2006-2	B3	BB/Watch Neg	BB
2006-3	M9	BBB-/Watch Neg	BBB-
2006-3	M10	BB+/Watch Neg	BB+

Specialty Underwriting and Residential Finance Trust

		Rating	
Series	Class	To	From
2005-AB2	B2	BBB/Watch Neg	BBB
2005-AB2	B3	BBB-/Watch Neg	BBB-

2005-BC3	B3	BBB-/Watch Neg	BBB-
2005-BC3	B4	BB+/Watch Neg	BB+

Structured Asset Investment Loan Trust

		Rating	
Series	Class	To	From
2005-9	M-7	BBB+/Watch Neg	BBB+
2005-8	M-8	BBB/Watch Neg	BBB
2005-8	M-9	BBB-/Watch Neg	BBB-
2005-9	M8	BBB/Watch Neg	BBB
2005-9	M9	BBB-/Watch Neg	BBB-
2005-9	B1	BBB-/Watch Neg	BBB-
2005-11	M6	BBB+/Watch Neg	BBB+
2005-11	M7	BBB/Watch Neg	BBB
2005-11	M8	BBB-/Watch Neg	BBB-
2006-1	M6	A/Watch Neg	A
2006-1	M7	A-/Watch Neg	A-
2006-1	M8	BBB+/Watch Neg	BBB+
2006-1	M9	BBB/Watch Neg	BBB
2006-2	M5	A-/Watch Neg	A-
2006-2	M6	BBB+/Watch Neg	BBB+
2006-3	M8	BBB/Watch Neg	BBB
2006-3	M9	BBB-/Watch Neg	BBB-
2006-3	B1	BB+/Watch Neg	BB+
2006-4	M4	A/Watch Neg	A
2006-4	M5	A-/Watch Neg	A-
2006-4	M6	BBB+/Watch Neg	BBB+
2006-4	M7	BBB/Watch Neg	BBB
2006-4	M8	BBB-/Watch Neg	BBB-
2006-4	B1	BB+/Watch Neg	BB+
2006-BNC1	M5	A-/Watch Neg	A-
2006-BNC2	M4	A/Watch Neg	A
2006-BNC2	M5	A-/Watch Neg	A-
2006-BNC2	M6	BBB+/Watch Neg	BBB+

Structured Asset Securities Corporation Mortgage Loan Trust

		Rating	
Series	Class	To	From
2006-AM1	M8	BBB/Watch Neg	BBB
2006-AM1	M9	BBB/Watch Neg	BBB
2006-AM1	B1	BBB-/Watch Neg	BBB-
2006-AM1	B2	BB+/Watch Neg	BB+
2006-BC1	M8	A-/Watch Neg	A-
2006-BC1	M9	BBB+/Watch Neg	BBB+
2006-BC1	B1	BBB/Watch Neg	BBB
2006-BC1	B2	BB+/Watch Neg	BB+
2006-BC2	B1	BB+/Watch Neg	BB+
2006-BC2	B2	BB/Watch Neg	BB
2006-NC1	M7	BBB+/Watch Neg	BBB+
2006-NC1	M8	BBB/Watch Neg	BBB

2006-NC1	M9	BBB-/Watch Neg	BBB-
2006-NC1	B1	BB+/Watch Neg	BB+
2006-NC1	B2	BB/Watch Neg	BB
2006-OW1	M6	A-/Watch Neg	A-
2006-OW1	M7	BBB+/Watch Neg	BBB+
2006-OW1	M8	BBB/Watch Neg	BBB

Structured Asset Securities Corporation Trust

		Rating	
Series	Class	To	From
2005-AR1	M8	BBB/Watch Neg	BBB

Terwin Mortgage Trust

		Rating	
Series	Class	To	From
2005-14HE	B1	BBB+/Watch Neg	BBB+
2005-14HE	B2	BBB/Watch Neg	BBB
2005-14HE	M6	A-/Watch Neg	A-
2006-17HE	M3	A-/Watch Neg	A-
2006-17HE	M4	BBB+/Watch Neg	BBB+

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EXHIBIT I

STANDARD & POOR'S

Global Credit Portal

RatingsDirect

July 12, 2007

Various U.S. First-Lien Subprime RMBS Classes Downgraded

Primary Credit Analysts:
Susan E Barnes, New York (1) 212-438-2394; susan_barnes@standardandpoors.com
Robert B Pollsen, New York (1) 212-438-2577; robert_pollsen@standardandpoors.com
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com

Secondary Credit Analysts:
Michael Stock, New York (1) 212-438-2611; michael_stock@standardandpoors.com
Monica Perelmuter, New York (1) 212-438-6309; monica_perelmuter@standardandpoors.com
Martin Kennedy, New York (1) 212-438-2509; martin_kennedy@standardandpoors.com

Global Practice Leader-ABS/RMBS Ratings:
Rosario Buendia, Global Practice Leader-ABS/RMBS Ratings, New York (1) 212-438-2410; rosario_buendia@standardandpoors.com

Chief Quality Officer-SF Ratings:
Thomas G Gillis, Chief Quality Officer-SF Ratings, New York (1) 212-438-2468; tom_gillis@standardandpoors.com

Media Contacts:
Adam M Tempkin, New York (1) 212-438-7530; adam_tempkin@standardandpoors.com
Chris Atkins, New York (1) 212-438-1106; chris_atkins@standardandpoors.com

(**Editor's Note:** This press release is being republished to facilitate access to the ratings list and the releases mentioned in this article.)

NEW YORK (Standard & Poor's) July 12, 2007--Standard & Poor's Ratings Services today addressed the July 10, 2007, CreditWatch actions on 612 U.S. residential mortgage-backed securities (RMBS) backed by U.S. first-lien subprime mortgage collateral rated from the fourth quarter of 2005 through the fourth quarter of 2006 (originally stated to represent $12.018 billion in rated securities and later corrected to $7.35 billion). Furthermore, Standard & Poor's also today addressed the CreditWatch actions taken before July 10, 2007, involving 70 classes of RMBS backed by first-lien subprime mortgage collateral rated from the fourth quarter of 2005 through the fourth quarter of 2006.

The complete ratings list can also be found on Standard & Poor's Web site at www.standardandpoors.com. Select Products and Services and then Ratings. Choose Standard & Poor's Views On The Subprime Mortgage Market and scroll down to Structured Finance.

The complete list, along with two related transition matrices, is included in " U.S. First-Lien RMBS Subprime Classes Affected By July 12, 2007, Rating Actions " is also available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis.

Regarding the July 10, 2007, CreditWatch actions affecting 612 classes of RMBS backed by first-lien subprime mortgage collateral, 498 classes were downgraded, 26 classes remain on CreditWatch, and the ratings on 74 classes were affirmed and removed from CreditWatch. Additionally, the ratings on nine other classes were affirmed and removed from CreditWatch because they involve Alternative A mortgage collateral and were not intended to be included in July 10, 2007, action. These nine classes are from the following deals: GSAA Home Equity Loan Trust 2006-5, Lehman XS Trust 2006-7, and Luminent Mortgage Trust 2005-1, and will be addressed when Standard & Poor's reviews transactions backed by Alternative A mortgage collateral.

The ratings on 26 classes remain on CreditWatch because the issuer has appealed the decision based on the presence of mortgage insurance in those transactions. We are currently reviewing this appeal. In addition, the ratings on five other classes remain on CreditWatch because they are backed by closed-end second-lien mortgage collateral and will be addressed when Standard & Poor's reviews transactions backed by closed-end second-lien mortgage collateral.

Regarding the 70 classes placed on CreditWatch before July 10, 2007, 64 were downgraded and six remain on CreditWatch. Three classes remain on CreditWatch because the issuer is appealing the decision based on the presence of mortgage insurance and we are reviewing this appeal. Three classes remain on CreditWatch because they were placed on CreditWatch before July 10, 2007, and involve either closed-end second-lien or Alternative A mortgage collateral. They will be addressed when Standard & Poor's reviews transactions backed by closed-end second-lien and Alternative A mortgage collateral.

These actions follow Standard & Poor's announcement on July 10, 2007, of its revised methodology for assigning new ratings to and surveilling RMBS transactions backed by U.S. first-lien subprime mortgage collateral rated from the fourth quarter of 2005 through the fourth quarter of 2006. The July 10, 2007, press release can also be found on Standard & Poor's Web site at www.standardandpoors.com. Select Products and Services and then Ratings. Choose Standard & Poor's Views On The Subprime Mortgage Market and scroll down to Structured Finance.

The release, "S&PCORRECT: 612 U.S. Subprime RMBS Classes Put On Watch Neg; Methodology Revisions Announced," is also available on RatingsDirect.

Of the 612 classes placed on CreditWatch on July 10, 2007, the 498 downgraded classes total approximately $5.69 billion in rated securities, which represents 1.01% of the $565.3 billion in U.S. RMBS first-lien subprime mortgage collateral rated by Standard & Poor's between the fourth quarter of 2005 and the fourth quarter of 2006. The 64 downgraded classes that were placed on CreditWatch before July 10, 2007, total approximately $700.9 million, which represents 0.12% in RMBS first-lien subprime mortgage collateral rated between the fourth quarter of 2005 and the fourth quarter of 2006. The combined impact of these 562 downgrades total approximately $6.39 billion in rated securities, or 1.13% of all RMBS first-lien subprime mortgage collateral rated by Standard & Poor's between the fourth quarter of 2005 and the fourth quarter of 2006. The ratings associated with the downgraded classes, as a percentage of the total $6.39 billion in downgraded securities, are as follows:

Rating	Percent
-- AA	0.07%
-- AA-	0.22%
-- A+	1.66%
-- A	4.61%
-- A-	6.79%
-- BBB+	14.01%
-- BBB	17.96%
-- BBB-	24.49%
-- BB+	16.58%
-- BB	11.24%
-- BB-	1.06%
-- B	1.31%

Standard & Poor's is also reviewing its ratings on classes of RMBS backed by U.S. closed-end second-lien mortgage collateral rated from the beginning of the fourth quarter of 2005 through the end of the fourth quarter of 2006, and will most likely announce any rating changes next week. Thereafter, Standard & Poor's will undertake a review of RMBS backed by U.S. Alternative A mortgage collateral and net interest margin securities rated from the beginning of the fourth quarter of 2005 through the end of the fourth quarter of 2006.

Standard & Poor's, a division of The McGraw-Hill Companies (NYSE:MHP), is the world's foremost provider of independent credit ratings, indices, risk evaluation, investment research and data. With approximately 6,300 employees located in 20 countries and markets, Standard & Poor's is an essential part of the world's financial infrastructure and has played a leading role for more than 140 years in providing investors with the independent benchmarks they need to feel more confident about their investment and financial decisions. For more information, visit http://www.standardandpoors.com.

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EXHIBIT J

STANDARD
&POOR'S

Global Credit Portal
RatingsDirect®

October 15, 2007

Ratings Lowered On 402 First-Lien Subprime U.S. RMBS Classes From 1Q-3Q Of 2005

Primary Credit Analysts:
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com
Robert B Pollsen, New York (1) 212-438-2577; robert_pollsen@standardandpoors.com
Andrew J Giudici, New York (1) 212-438-1659; andrew_giudici@standardandpoors.com

Secondary Credit Analysts:
Monica Perelmuter, New York (1) 212-438-6309; monica_perelmuter@standardandpoors.com
Michael Stock, New York (1) 212-438-2611; michael_stock@standardandpoors.com

U.S. Practice Leader-ABS/RMBS Ratings:
Susan E Barnes, U.S. Practice Leader-ABS/RMBS Ratings, New York (1) 212-438-2394;
susan_barnes@standardandpoors.com

Global Practice Leader-ABS/RMBS Ratings:
Rosario Buendia, Global Practice Leader-ABS/RMBS Ratings, New York (1) 212-438-2410;
rosario_buendia@standardandpoors.com

Chief Quality Officer-SF Ratings:
Thomas G Gillis, Chief Quality Officer-SF Ratings, New York (1) 212-438-2468; tom_gillis@standardandpoors.com

Media Contact:
Adam M Tempkin, New York (1) 212-438-7530; adam_tempkin@standardandpoors.com

NEW YORK (Standard & Poor's) Oct. 15, 2007--Standard & Poor's Ratings Services today lowered its ratings on 402 classes of U.S. RMBS backed by first-lien subprime mortgage loans issued during the first three quarters of 2005. These classes are from 138 transactions. The affected classes represent approximately \$4.6 billion of original par amount, which is 1.45% of the \$320 billion original par amount of U.S. residential mortgage-backed securities (RMBS) backed by first-lien subprime mortgage loans rated by Standard & Poor's between the first and third quarters of 2005. Standard & Poor's also affirmed its ratings on securities issued from the same period, representing \$252.4 billion original par value of first-lien subprime U.S. RMBS.

The complete ratings list, along with a related transition matrix, is included in "U.S. Subprime Classes Issued During First Three Quarters Of 2005 Affected By Oct. 15, 2007, Rating Actions," available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis. The tables can also be found on Standard & Poor's Web site at www.standardandpoors.com. Select Products and Services and then Ratings. Choose Standard & Poor's Views On The Subprime And Related Mortgage Markets and scroll down to Structured Finance.

These rating actions incorporate our most recent economic assumptions, and reflect our expectation of further defaults and losses on the underlying mortgage loans and the consequent reduction of credit support from current and projected losses. Furthermore, the affected transactions include provisions that allow the release of credit support on certain step-down dates. The release of credit support after the step-down dates will leave these transactions even more vulnerable to losses going forward. At the end of this article, we discuss our new assumptions regarding the calculation of minimum overcollateralization (O/C) after step-down dates, which address this aspect of the rated structures. These assumptions are in addition to the increased credit enhancement levels we implemented in July 2007.

IMPACT ON ABCP, SIVs, AND CDOs

Standard & Poor's has completed its global review of all its rated asset-backed commercial paper (ABCP) conduits with exposure to these U.S. RMBS classes and confirms that the ratings on these ABCP conduits are not adversely affected by these rating actions.

Standard & Poor's has also completed its review of all S&P-rated SIV and SIV-lite structures with regard to exposure to these U.S. RMBS classes. This review shows that there is no exposure to the affected U.S. RMBS classes in any SIV or SIV-lite and therefore not adversely affected by these rating actions.

Standard & Poor's is also conducting a review of its rated collateralized debt obligation (CDO) transactions with exposure to these U.S. RMBS classes. Where appropriate, we will take action on the affected CDO classes within the next several days.

FACTORS DRIVING RATING ACTIONS

Mortgage Pool Performance

The lowered ratings reflect current pool performance as of the September 2007 distribution date and the delinquency pipelines in these mortgage loan pools. Although most of these pools have incurred low cumulative losses to date, the projected credit support for these classes is no longer sufficient to support the previous ratings. Some of these transactions have higher-than-expected foreclosure and real estate owned (REO) amounts, with sums that exceed current O/C amounts. In addition, stressed losses may outpace excess interest and erode credit support, causing O/C levels to fall below their targets.

Aggregate losses on all first-lien subprime U.S. RMBS transactions that were issued from the beginning of the first quarter of 2005 through the third quarter of 2005 with an average of 24 months are approximately 92 basis points (0.92%). This is in contrast with the downgraded transactions that have experienced approximately 104 basis points (1.04%) in aggregate losses -- this is 13% higher than the average for this period. This compares with 98 basis points (0.98%) of aggregate losses experienced by transactions issued in 2000, previously the worst-performing vintage of the decade.

Economic Factors

Standard & Poor's expects that the U.S. housing market will continue to experience price declines. Weakness in the property markets is evidenced by rising loss severities reported by servicers, with little prospect for improvement in the near term.

Additional property value declines are expected. Standard & Poor's currently projects that property values will decline 11% on average from peak to trough and will begin to recover in late 2008, with the peak having occurred in the spring of 2006. The continued decline in prices will apply additional stress to these transactions: foreclosures will cause increased losses and many borrowers will face the inability to refinance or sell their homes to meet debt obligations. As lenders have tightened underwriting guidelines, fewer refinance options may be available to these borrowers, especially if their loan-to-value (LTV) and combined loan-to-value (CLTV) ratios have risen in the wake of declining home values.

Mortgage Payment Adjustments

Adjustable- and interest-only loans subject to contractual increases in their monthly payments will continue to pressure borrowers' ability to meet monthly payments in the future. The affected 2005 transactions contain, on average, 70%-80% of the types of loans that recently received, or are subject to, some type of payment adjustment in the near future. Most of these are 2/1 adjustable-rate mortgages that are already in their adjustable-rate stage and are already past their first, and typically largest payment reset. Despite some industry claims of increased accommodations to subprime borrowers, we expect losses to increase for borrowers who have experienced (1) rising loan payments due to resetting terms of their adjustable-rate loans, and (2) principal amortization that occurs after the interest-only period ends for adjustable- and fixed-rate loans.

ADDITIONAL SUBPRIME SURVEILLANCE ASSUMPTIONS

Given the current factors noted above, we are refining our surveillance approach for the 2005 vintage of U.S. RMBS backed by first-lien subprime mortgages.

We employed and complemented the subprime surveillance assumptions that were used for our July 2007 subprime rating actions, which were described in "612

U.S. Subprime RMBS Classes Put On Watch Neg; Methodology Revisions Announced," which was published July 11, 2007, and is available on RatingsDirect and www.standardandpoors.com. We assumed a loss severity of 33% on defaulted loans for transactions that closed during the first half of 2005 and a loss severity of 40% for transactions that closed during the second half of 2005. This is because loans originated in the first half of 2005 have experienced some home price appreciation. The 40% loss severity assumption reflects the increased stress applied for the 2006 transactions we reviewed in July 2007.

Incorporating actual losses, we stressed the delinquency pipeline using the 2/1 historical default curve. Since many of the mortgage loans included in these securitizations have already experienced interest rate resets, and since the transactions are approaching their step-down dates, we ran additional scenarios to measure the impact of stressed defaults and the timing of losses. Specifically, for U.S. first-lien subprime mortgage loans, we assume that the REO loans are liquidated evenly over eight months and loans in foreclosure are liquidated evenly over 15 months. These time lines are consistent with market data and residential mortgage loan servicer experiences and expectations. We employed the 33% and 40% loss severity assumptions described above.

We lowered our rating to 'CCC' on any class that did not pass our stress test within 12 months, regardless of its current rating. Similarly, we lowered our rating to 'B' on any class that did not pass our stress test scenario within 13 to 24 months. Also, we lowered our rating to 'BB' on any class that did not pass our stress test scenario within 25 to 30 months. Finally, we lowered our rating to 'BBB' on any class that did not pass our stress test scenario within 31 to 36 months. In cases where the remaining loss protection on a more senior class was materially eroded by stressed losses, we adjusted the rating lower to reflect the reduced relative protection of that class.

Rating changes were predominately in the 'BBB' rating categories. There were no rating changes for 'AAA' securities. The distribution of rating changes is as follows:

Rating Category	% Of Ratings Lowered
AAA	0.0
AA+	0.2
AA	0.7
AA-	0.2
A+	2.5
A	3.5
A-	7.2
BBB+	11.4
BBB	15.2
BBB-	23.4
BB+	15.7
BB	12.4
BB-	1.5
B+	1.0

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We reviewed all of the classes rated during the first quarter 2005 through the third quarter 2005. The classes that were issued during this period and remain outstanding that are not part of this press release demonstrated sufficient levels of protection for the current ratings. Therefore, we are affirming our ratings on these classes.

As previously announced, Standard & Poor's will review its ratings on transactions issued in 2007 based on its revised assumptions announced in July 2007. Furthermore, Standard & Poor's will continue its review of rated transactions issued in the remainder of 2005 and 2006 in light of new performance data and our most recent economic forecast.

REVISIONS TO RATING ASSUMPTIONS FOR NEW TRANSACTIONS

Since a number of the rating changes on the 2005 vintage result from the projected release of credit support following step-down dates, we reviewed the impact that O/C floors have on the release of credit support. Based on recent observations of performance for the 2005 subprime vintage, a dynamic O/C floor, derived on a transaction-specific basis, may better protect the stability of the ratings on classes in future transactions.

For new transactions that rely on excess spread, the minimum O/C floor will now be assessed based on the amount of support required to avoid losses to the rated securities given Standard & Poor's stressed default and loss curves, taking into consideration projected excess spread following the step-down date. The O/C floor will be a percentage of the original pool balance and will not be less than 50 basis points of the original collateral balance (including any prefunded amounts).

To illustrate, we back-tested one of the downgraded 2005 subprime transactions with the revised O/C floor in accordance with the new assumptions. We determined that one of the certificates from this deal, which is being downgraded two notches, would have avoided any rating action, while a second class, which is being downgraded four notches, would have experienced only a single-notch downgrade.

This approach is effective immediately. We expect that the revised O/C floor guidelines, in conjunction with the increased credit stresses implemented in July 2007, will result in enhanced ratings stability, as well as greater overall credit support for future rated transactions.

Standard & Poor's continues to review the impact of minimum O/C guidelines on credit support throughout the life of a transaction and anticipates publishing a full analysis upon completion of this review. We will monitor transaction performance in connection with these revisions and adjust our approach as appropriate.

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STANDARD & POOR'S

Global Credit Portal
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October 17, 2007

Review Of U.S. RMBS From First-Half 2007 Yields Downgrades, Watch Placements, Affirmations

Primary Credit Analysts:
Scott Mason, New York (1) 212-438-2539; scott_mason@standardandpoors.com
Brian Grow, New York (1) 212-438-1555; brian_d_grow@standardandpoors.com
Becky Cao, New York (1) 212-438-2595; becky_cao@standardandpoors.com

Secondary Credit Analysts:
Michael Stock, New York (1) 212-438-2611; michael_stock@standardandpoors.com
Allen Zimmerman, New York; allen_zimmerman@standardandpoors.com

Global Practice Leader-ABS/RMBS Ratings:
Rosario Buendia, Global Practice Leader-ABS/RMBS Ratings, New York (1) 212-438-2410; rosario_buendia@standardandpoors.com

U.S. Practice Leader-RMBS Ratings:
Susan E Barnes, U.S. Practice Leader-RMBS Rating, New York (1) 212-438-2394; susan_barnes@standardandpoors.com

Chief Quality Officer-SF Ratings:
Thomas G Gillis, Chief Quality Officer-SF Ratings, New York (1) 212-438-2468; tom_gillis@standardandpoors.com

Media Contact:
Adam M Tempkin, New York (1) 212-438-7530; adam_tempkin@standardandpoors.com

Editor's note: Following the publication of this release, we initiated a number of additional rating actions on nine classes of these securities. While the related percentages, principal amounts, and other numerical information in the release may have changed, they do still generally reflect the order of magnitude of the rating actions. Click here for the complete and updated list of rating actions.

NEW YORK (Standard & Poor's) Oct. 17, 2007--Standard & Poor's Ratings Services today lowered its ratings on 1,713 classes of U.S. RMBS backed by first-lien subprime mortgage loans, first-lien Alternative-A (Alt-A) mortgage loans, and closed-end second-lien mortgage loans issued from Jan. 1, 2007, through June 30, 2007. These classes are from 136 subprime transactions, 128 Alt-A transactions, and 19 closed-end second-lien transactions. The downgraded classes represent approximately $23.35 billion of original par amount, which is 6.28% of the $371.9 billion original par amount of these three types of U.S. RMBS rated by Standard & Poor's between Jan. 1, 2007, and June 30, 2007, and 4.71% of the approximately $495 billion original par amount of all U.S. RMBS rated during this period.

In addition, we placed the ratings on 646 other classes from 109 transactions backed by U.S. RMBS first-lien subprime mortgage loans and U.S. RMBS first-lien Alt-A mortgage loans issued during the same period on CreditWatch with negative implications. We expect to resolve the CreditWatch placements within the next few weeks, and anticipate that the results of that review will be similar to the rating actions announced herein.

Finally, we affirmed the ratings on securities representing $245.1 billion original par value of U.S. RMBS backed by these three types of mortgage loans issued during the same period.

The complete ratings list, along with a related transition matrix, is included in "U.S. Alt-A, Closed-End Second-Lien, And Subprime Classes From 2007 Vintage Affected By Oct. 17, 2007, Rating Actions," available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis. The tables can also be found on Standard & Poor's Web site at www.standardandpoors.com; select Products and Services and then Ratings. Choose Standard & Poor's Views On The Subprime And Related Mortgage Markets and scroll down to Structured Finance.

The current rating actions reflect a review of the transactions using our most recently updated rating assumptions for new deals. Transactions issued in 2007 do not have sufficient payment histories to reliably apply the surveillance method announced in July 2007. However, the same risks that are apparent in the transactions issued in 2006 are also present in the 2007 transactions.

IMPACT ON ABCP, SIV, AND CDOs

Standard & Poor's has completed a global review of its rated asset-backed commercial paper (ABCP) conduits with exposure to these U.S. RMBS transactions and confirms that the ratings on these ABCP conduits are not adversely affected by these rating actions.

Standard & Poor's has also completed a global review of its rated SIV and SIV-lite structures with regard to exposure to these U.S. RMBS classes. This review shows that two SIV-lites have exposure to six tranches of these U.S. RMBS classes. In addition, five SIVs have exposure to 20 tranches of these U.S. RMBS classes. However, exposure to the affected U.S. RMBS classes will not, in and of itself, result in any adverse rating actions with regard to these SIV and SIV-lite structures.

Standard & Poor's is also conducting a review of its rated collateralized debt obligation (CDO) transactions with exposure to these U.S. RMBS classes and will take action on the affected CDO class ratings when appropriate within the next several days.

FACTORS DRIVING RATING ACTIONS

Assumptions Applied To Deals Issued In First Half Of 2007 Backed By First-Lien Subprime And First-Lien Alt-A Mortgage Loans:

The first step, as stated above, was to review all of the transactions with our updated default, loss, and cash flow assumptions for rating new deals. We then subjected these results to qualitative adjustments in order to more apprcpriately match rating actions with increases in credit risk, but concurrently mitigate minor differences in model results and account for increasing ratio of credit support to outstanding pool balance.

We then separated the results into quartiles depending on the ratio of seriously delinquent loans (90-plus-days, foreclosures, and real estate owned (REO)) to Standard & Poor's expected defaults. The ratings on the top 25% and bottom 25% of the issues were further adjusted positively or negatively. Transactions issued in May and June 2007 proved too unseasoned for delinquency experience to sufficiently develop a meaningful relative ranking, so there was no delinquency based adjustment around those results.

Given that our 'AAA' and 'AA' stressed default and loss assumptions are very different from the current market environment, we subjected a sample of these bonds to a hybrid stress and analyzed that sample with a modified default and loss curve. First, we stressed losses at the 'BBB' level (for the purposes of this analysis, this averaged a lifetime rate of 13.6% for subprime and 3.1% for Alt-A) for the first three years. After year three, we increased the default and loss stress to a 'AAA' level (which averaged a lifetime rate of 31.6% for subprime and 8.8% for Alt-A) for the remaining life of the transactions. The results of this analysis showed that the 'AAA' and 'AA' tranches survived without incurring an interest shortfall or principal loss, and led, together with other factors, to the affirmations of the 'AAA' and 'AA' securities.

Assumptions Applied To Deals Issued In First Half Of 2007 Backed By Closed-End Second-Lien Mortgage Loans:

We also undertook a review of U.S. RMBS backed by closed-end second-lien loans issued during the same period. We reviewed all of the first-half 2007 closed-end second-lien transactions under the new, more stressful assumptions for rating new deals. This resulted in a significant increase to loss coverage requirements, resulting in downgrades that are more severe than those for first-lien mortgage loans. This is consistent with the extremely poor and unprecedented performance we have seen in closed-end second-liens in recent

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ECONOMIC FACTORS

Standard & Poor's expects that conditions in the U.S. housing market, especially in the subprime sector, will continue to decline before they improve, with home prices remaining under stress. For details regarding Standard & Poor's views on the weakness in the property markets, rising monthly mortgage payments, and the corresponding effects on delinquencies, defaults, and losses, please see "Ratings Lowered On 402 First-Lien Subprime U.S. RMBS Classes From 1Q-3Q Of 2005," published on Oct. 15, 2007, and available on RatingsDirect and www.standardandpoors.com.

CLASSES DOWNGRADED

Subprime Downgrades

We lowered the ratings on a total of 136 U.S. RMBS transactions backed by first-lien subprime mortgage loans. The 1,029 downgraded classes had an original par amount of approximately $17.43 billion, which represents 11.63% of the approximately $150 billion in U.S. RMBS backed by first-lien subprime mortgage loans rated by Standard & Poor's from Jan. 1, 2007 through the end of June 2007. These downgrades are distributed across rating categories, as a percentage of the total amount downgraded, as follows:

Rating category	Percentage of ratings lowered
AAA	14.10
AA+	3.10
AA	8.34
AA-	10.92
A+	12.41
A	11.34
A-	8.39
BBB+	10.12
BBB	7.31
BBB-	8.36
BB+	4.03
BB	1.52
BB-	0.00
B+	0.07

Alt-A Downgrades

We also lowered the ratings on a total of 128 U.S. RMBS transactions backed by first-lien Alt-A mortgage loans. The 524 downgraded classes had an original par amount of approximately $2.55 billion, which represents 1.25% of the approximately $204.6 billion in U.S. RMBS backed by first-lien Alt-A mortgage loans rated by Standard & Poor's from Jan. 1, 2007 through the end of June 2007. These downgrades are distributed across rating categories, as a percentage of the total amount downgraded, as follows:

Rating category Percentage of ratings lowered

AAA	2.09
AA+	3.38
AA	11.22
AA-	5.51
A+	7.37
A	13.08
A-	10.12
BBB+	8.31
BBB	13.33
BBB-	9.29
BB+	1.60
BB	8.55
BB-	1.05
B+	0.00
B	5.09

Closed-End Second-Lien Downgrades

We also lowered the ratings on a total of 19 U.S. RMBS transactions backed by closed-end second-lien mortgage loans. The 160 downgraded classes had an original par amount of approximately $3.35 billion, which represents 19.37% of the approximately $17.3 billion in U.S. RMBS backed by closed-end second-lien mortgage loans rated by Standard & Poor's from Jan. 1, 2007 through the end of June 2007. These downgrades are distributed across rating categories, as a percentage of the total amount downgraded, as follows:

Rating category	Percentage of ratings lowered
AAA	50.50
AA+	6.95
AA	8.54
AA-	3.93
A+	3.60
A	5.30
A-	4.84
BBB+	3.90
BBB	3.23
BBB-	3.72
BB+	4.66
BB	0.84

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October 19, 2007

Ratings Cut On 1,413 1st-Lien Subprime RMBS Classes From Fourth-Quarter 2005 And 2006 Vintages

Primary Credit Analysts:
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com
Andrew J Giudici, New York (1) 212-438-1659; andrew_giudici@standardandpoors.com
Robert B Pollsen, New York (1) 212-438-2577; robert_pollsen@standardandpoors.com

Secondary Credit Analysts:
Monica Perelmuter, New York (1) 212-438-6309; monica_perelmuter@standardandpoors.com
Martin Kennedy, New York (1) 212-438-2509; martin_kennedy@standardandpoors.com
Michael Stock, New York (1) 212-438-2611; michael_stock@standardandpoors.com

U.S. Practice Leader - RMBS Ratings:
Susan E Barnes, New York (1) 212-438-2394; susan_barnes@standardandpoors.com

Global Practice Leader - ABS/RMBS Ratings:
Rosario Buendia, New York (1) 212-438-2410; rosario_buendia@standardandpoors.com

Chief Quality Officer - SF Ratings:
Thomas G Gillis, New York (1) 212-438-2468; tom_gillis@standardandpoors.com

Media Contact:
Adam M. Tempkin, New York (1) 212-438-7530; adam_tempkin@standardandpoors.com

Editor's note: Following the publication of this release, we initiated a number of additional rating actions. While the related percentages, principal amounts, and other numerical information in the release may have changed slightly, they do still generally reflect the order of magnitude of the rating actions. Click here for the complete and updated list of rating actions.

NEW YORK (Standard & Poor's) Oct. 19, 2007--Standard & Poor's Ratings Services today lowered its ratings on 1,413 classes of U.S. residential mortgage-backed securities (RMBS) backed by first-lien subprime mortgage loans from 325

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transactions issued from the beginning of the fourth quarter of 2005 through the fourth quarter of 2006. The affected classes represent an original par amount of approximately $22.02 billion, which is 4% of the $554.4 billion par amount of U.S. RMBS backed by first-lien subprime mortgage loans rated by Standard & Poor's from the beginning of fourth-quarter 2005 through the fourth quarter of 2006. These rating actions bring the total number of classes issued during this period and downgraded to date to 1,671. In total, the downgraded classes represent an original par amount of approximately $24.8 billion, which is 4.5% of the aforementioned $554.4 billion original par amount. Approximately $3.4 billion of the total amount downgraded represents repeat rating actions.

The ratings on the $531.6 billion original par amount issued during this period that remain outstanding and that are not downgraded today or currently on CreditWatch are affirmed.

The complete ratings list, along with a related rating transition matrix, is included in "U.S. First-Lien Subprime RMBS Classes From Fourth-Quarter 2005 And 2006 Vintages Affected By Oct. 19, 2007, Rating Actions," published today on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.RatingsDirect.com. The list and matrix can also be found on Standard & Poor's Web site at www.standardandpoors.com. Select "Products and Services" and then "Ratings." Choose "Standard & Poor's Views On The Subprime And Related Mortgage Markets" and scroll down to "Structured Finance."

IMPACT ON ABCP, SIVs, AND CDOs

Standard & Poor's has completed its global review of all Standard & Poor's rated asset-backed commercial paper (ABCP) conduits with exposure to these transactions and confirms that the ratings on those ABCP conduits are not adversely affected by these rating actions.

Standard & Poor's has also completed a global review of the exposure of its rated structured investment vehicle (SIV) and SIV-lite structures with regard to exposure to these fourth-quarter 2005 through fourth-quarter 2006 vintage U.S. RMBS classes. This review shows that there is exposure to eight tranches of these affected U.S. RMBS classes in two SIV-lite structures. In addition, there is no exposure to these U.S. RMBS classes in any SIV. However, exposure to the affected U.S. RMBS classes will not, in and of itself, result in any adverse rating actions with regard to the SIV and SIV-lite structures.

Standard & Poor's is also conducting a review of its rated collateralized debt obligation (CDO) transactions with exposure to the downgraded RMBS classes, and will take action on the affected CDO class ratings where appropriate within the next several days.

FACTORS DRIVING RATING ACTIONS

Mortgage Pool Performance

The lowered ratings reflect current pool performance as of the September 2007 distribution date and the delinquency pipelines in these mortgage loan pools. These pools have evidenced increasing levels of severe delinquencies (90-plus days, foreclosures, and real estate owned (REO)) and increasing delinquency pipelines. While cumulative losses to date remain low, Standard & Poor's expects that current levels of credit support, including subordination, excess interest, and overcollateralization (O/C), will not be sufficient to maintain the current ratings given current and projected losses. Based on the data from the September 2007 distribution date, cumulative losses for the fourth-quarter 2005 through fourth-quarter 2006 vintage have increased by 138% to 69 basis points (bps), from 29 bps at the time of our July 2007 review. In addition, for the fourth-quarter 2005 through fourth-quarter 2006 vintage, total delinquencies averaged 21.43%, and severe delinquencies averaged 14.17%. The total and severe delinquencies for the transactions with lowered ratings averaged 23.33% and 15.73%, respectively. These levels exceed the total (18.03%) and severe (11.38%) delinquencies of transactions that did not experience downgrades by approximately 29.40% and 38.23%, respectively.

Economic Factors

Standard & Poor's expects that conditions in the U.S. housing market, especially in the subprime sector, will continue to decline before they improve, with home prices remaining under stress. For details regarding Standard & Poor's views on the weakness in the property markets, rising monthly mortgage payments, and the corresponding effects on delinquencies, defaults, and losses, please see "Ratings Lowered On 402 First-Lien Subprime U.S. RMBS Classes From 1Q-3Q Of 2005," published on Oct. 15, 2007, and available on RatingsDirect and www.standardandpoors.com.

Mortgage Payment Adjustments

Adjustable-rate and interest-only loans subject to contractual increases in their monthly payments will continue to put pressure on borrowers' ability to meet monthly payments in the future. The affected transactions contain, on average, 60%-70% of loans that recently received some type of payment adjustment or will be subject to one in the near future. Despite some industry claims of increased accommodations to subprime borrowers, we expect losses to increase due to (1) rising loan payments resulting from resetting terms of their adjustable-rate loans, and (2) principal amortization that occurs after the interest-only period ends for adjustable- and fixed-rate loans.

2/1 ARM reset information by quarter:

Sold during	Orig. subprime balance ($) (all loans)	% of 2/1 ARM	Reset quarter
2005 - Q4	138,888,212,337	64	2007 - Q3
2006 - Q1	108,014,850,161	70	2007 - Q4
2006 - Q2	121,149,551,887	70	2008 - Q1
2006 - Q3	98,332,355,370	62	2008 - Q2

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2006 - Q4	98,965,073,697	60	2008 - Q3

ADDITIONAL SUBPRIME SURVEILLANCE ASSUMPTIONS

In reviewing these transactions, we employed the first-lien subprime surveillance assumptions announced on July 11, 2007, and described in "612 U.S. Subprime RMBS Classes Put On Watch Neg; Methodology Revisions Announced" (available on RatingsDirect and www.standardandpoors.com), adjusted for our more negative views on home prices, delays in liquidating REO assets, and the impact of loan resets and loan modifications. Therefore, we assumed a 40% level of loss severity for transactions that closed during the second half of 2005; we assumed a 45% level of loss severity for transactions that closed during 2006, compared with a 40% level of loss severity assumed for 2006 transactions at the time of the July 11, 2007, rating actions. The increased loss severity for the 2006 vintage reflects Standard & Poor's most recent projections of house price declines.

Standard & Poor's believes that the delayed liquidation of REO assets is delaying the recognition of losses. All other factors being equal, the longer a loss is postponed, the more stressful the loss will be to the transaction. This is because carrying costs will increase and excess interest, a source of loss protection, will decline in future months. To capture our view on the recognition of loss in our analysis, we employed an additional loss curve that stressed losses later in the life of the transaction. We projected forward a delinquency pipeline using a modified 2/1 ARM historical default curve. The process for deriving this default curve is outlined in an article being published concurrently with this release, "Standard & Poor's Revised Default And Loss Curves For U.S. Subprime RMBS," which is available on RatingsDirect and www.standardandpoors.com. Transactions that closed in fourth-quarter 2006 were subjected to the assumptions described in the July 11, 2007, commentary.

In the aforementioned article, we note that the expected losses for the entire 2006 vintage that result from applying the 2006 curve range from 12% to 17%. Losses for the fourth-quarter 2006 transactions will more likely be toward the higher end of that range, based on higher delinquencies and lower home price appreciation.

For the fourth-quarter 2005 through third-quarter 2006 vintage transactions, we then compared the projected losses for the next distribution date that result from applying the two aforementioned approaches to actual losses incurred on the September 2007 distribution date, as well as to the average losses incurred during the past three months. When the projected losses exceeded the actual losses, we used the results from the modified default curve assumptions, which emphasized delinquency trends; when actual losses exceeded projected losses, we utilized the loss curve detailed in the July 11, 2007, commentary. For the fourth-quarter 2006 transactions, we primarily used the July assumptions due to the insufficient seasoning of the transactions from that quarter.

For both sets of default and loss assumptions, we lowered our rating to 'CCC' on any class that did not pass our stress test scenario within 12 months, regardless of its current rating. Similarly, we lowered our rating to 'B' on any class that did not pass our stress test scenario within 13 to 24 months. Finally, we lowered our rating to 'BB' on any class that did not pass our stress test scenario within 25 to 36 months. In cases where the remaining loss protection on a more senior class was materially eroded by stressed losses, we adjusted the rating lower to reflect the reduced relative protection of the class.

Rating changes predominantly affected the 'BBB' rating categories. These downgrades, as a percentage of the total dollar amount downgraded, are distributed across the rating categories as follows:

Rating category	Percentage of ratings lowered
AAA	1.1
AA+	0.8
AA	4.2
AA-	3.5
A+	6.1
A	8.4
A-	10.5
BBB+	11.0
BBB	14.4
BBB-	13.2
BB+	8.9
BB	7.9
BB-	0.9
B+	0.3
B	8.7

Standard & Poor's believes that current credit support is sufficient for the affirmed 'AAA' rated tranches to maintain those ratings given our current expectations of losses. In fact, our analysis of the 'AAA' rated securities from the four transactions with the highest percentage of severe delinquencies (MASTR Asset Backed Securities Trust 2006-FRE1, Bravo Mortgage Asset Trust 2006-1, Fremont Home Loan Trust 2006-1, and SG Mortgage Securities Trust 2006-FRE1) shows that projected outstanding credit support from subordination after projected losses incurred continues to provide strong protection, equaling or exceeding the percentage of subordination at origination.

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Global Credit Portal
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January 15, 2008

U.S. RMBS Surveillance, CDO Of ABS Assumptions Revised Amid Defaults, Negative Housing Outlook

Primary Credit Analysts:
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com
Andrew J Giudici, New York (1) 212-438-1659; andrew_giudici@standardandpoors.com
Robert B Pollsen, New York (1) 212-438-2577; robert_pollsen@standardandpoors.com

Secondary Credit Analyst:
Stephen Anderberg, New York (1) 212-438-8991; stephen_anderberg@standardandpoors.com

U.S. RMBS Practice Leader:
Susan E Barnes, U.S. RMBS Practice Leader, New York (1) 212-438-2394; susan_barnes@standardandpoors.com

Global Practice Leader - ABS/RMBS Ratings:
Rosario Buendia, Global Practice Leader - ABS/RMBS Ratings, New York (1) 212-438-2410; rosario_buendia@standardandpoors.com

Global Practice Leader SF Surveillance:
Peter D'Erchia, Global Practice Leader SF Surveillance, New York (1) 212-438-2438; peter_derchia@standardandpoors.com

Global Practice Leader CDOs:
Patrice Jordan, Global Practice Leader CDOs, New York (1) 212-438-2501; pat_jordan@standardandpoors.com

Chief Quality Officer-SF Ratings:
Thomas G Gillis, Chief Quality Officer-SF Ratings, New York (1) 212-438-2468; tom_gillis@standardandpoors.com

Media Contact:
Adam M Tempkin, New York (1) 212-438-7530; adam_tempkin@standardandpoors.com

NEW YORK (Standard & Poor's) Jan. 15, 2008--Standard & Poor's Ratings Services today announced that it has revised the assumptions it uses for the surveillance of U.S. residential mortgage-backed securities (RMBS), and that the correlation and recovery assumptions used to rate and monitor collateralized debt obligation (CDO) transactions backed by U.S. RMBS are in the process of being revised.

We have made three fundamental changes to our surveillance assumptions for U.S. RMBS.

1.) We extended our stresses of the expected loss amount over the lifetime of the transactions (compared with the 36-month period we currently use) to evaluate the adequacy of credit enhancement. Because we expect the duration of the housing downturn to be longer than previously anticipated, we believe that using a longer term and corresponding revisions to loss curves may be appropriate.

2.) We revised our expected losses for the 2006 vintage subprime collateral to 19% from 14%, as delinquencies continue to rise, and we will recalculate lifetime loss expectations for all vintages of U.S. RMBS. Additional losses are projected to result directly for the additional delinquencies and defaults.

3.) We revised our assumptions on availability of excess spread, as the increased number of loan modifications will likely reduce future excess spread available to cover credit losses. These assumptions are consistent with scenarios recently published in "Reviewing The Impact Of Rate Freezes On Rated U.S. First-Lien Subprime RMBS Under Two Scenarios," which was published on Dec. 21, 2007.

These revisions reflect the growing economic consensus that U.S. home price declines will be larger than previously forecasted and that the slump in the U.S. housing market is expected to last far longer than previously anticipated. These factors, combined with the persistence of significant growth in seriously delinquent borrowers, are leading to upward revisions in loss expectations and greater likelihood that these expectations will be realized. Loan modifications appear to be gaining traction in the industry, increasing the likelihood that excess interest in the affected securitizations will decline and reduce credit enhancement to cover losses.

At the CDO level, we are reviewing the correlation and recovery assumptions we use for U.S. RMBS securities held within CDO collateral pools. Existing CDO of ABS transactions with exposure to U.S. RMBS securities could be affected by these changes in CDO assumptions.

We believe U.S. RMBS transactions backed by subprime loan collateral of all vintages could be adversely affected by our pending assumption changes, especially those transactions issued in 2005, 2006, and 2007, as they are collateralized by mortgage loans that are less seasoned and are more sensitive to current market conditions. Once we finalize our revised base surveillance assumptions, we will conduct a review of all outstanding RMBS to determine the impact of these assumptions on our outstanding ratings.

FACTORS DRIVING REVISED SURVEILLANCE METHODOLOGY

Monthly performance data reveals that delinquencies and foreclosures continue to accumulate at an increasing rate for the 2006 vintage. Since July 2007, cumulative losses for all subprime RMBS transactions issued during 2006 have

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increased 156% to 1.13%. The cumulative loss amount is based on the original balance of the transactions. At the same time, total and severe delinquencies (90-plus days, foreclosure, and REO) have increased 49% and 66%, respectively. As of the December 2007 distribution date, total delinquencies for the 2006 vintage had increased to 28.79% and severe delinquencies were 18.83% of the remaining principal balance of the transactions. This delinquency trend has caused us to increase our expected lifetime loss projection.

PROJECTED VERSUS ACTUAL PERFORMANCE COMPARISON

On Oct. 19, 2007, Standard & Poor's incorporated new default curves into its surveillance process. We use the default curves to project future defaults and monthly losses. In order to account for the seasoning of each transaction, the data is reported by month of issuance. As of the December 2007 distribution date, foreclosures represented approximately 9.81% of the current pool balance for the 2006 vintage subprime collateral, which is approximately 3.4% higher than Standard & Poor's projection of approximately 9.49%. If defaults exceed our projections for an extended period of time, we may revise our loss projections to account for the increased credit risk. Significant revisions in our loss projections usually result in additional rating actions.

Although monthly foreclosures have been exceeding our default projections, cumulative losses have been below our expectations. As of the December 2007 distribution date, cumulative losses represented approximately 1.13% of the original pool balance for the 2006 vintage subprime collateral, which is approximately 44% lower than Standard & Poor's projection of 1.63%. While monthly losses are currently coming in lower than our original projections, we believe that the growth in monthly losses will increase significantly in the upcoming months as servicers start to liquidate properties more aggressively. The delay in monthly losses will have a negative impact on the transactions as monthly excess spread, overcollateralization, and subordination are released.

ECONOMIC FACTORS

On a macroeconomic level, we expect the U.S. housing market, especially the subprime sector, will continue to decline before it improves, and we expect home prices will continue to come under stress. Recent industry reports reveal that home prices have declined by approximately 6% since the beginning of 2006. Weakness in the property markets continues to exacerbate losses, with little prospect for improvement in the near term. Furthermore, we expect losses to continue increasing, as borrowers experience rising loan payments as the terms of their adjustable-rate loans reset and the principal amortization occurs after the interest-only period ends for both adjustable- and fixed-rate loans. However, we expect many of the affected borrowers to find relief through loan modifications that will hold initial interest rates constant for several years. We expect available credit enhancement to decrease as a result of the loan modifications. Although property values have decreased, we expect additional declines. David Wyss, Standard & Poor's chief economist, has adjusted his projection that property values will decline by 8% to 11% on average between 2006 and 2008, and will bottom out during mid 2008.

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January 30, 2008

S&P Takes Action On 6,389 U.S. Subprime RMBS Ratings And 1,953 CDO Ratings

RMBS Primary Credit Analysts:
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com
Andrew J Giudici, New York (1) 212-438-1659; andrew_giudici@standardandpoors.com
Robert B Pollsen, New York (1) 212-438-2577; robert_pollsen@standardandpoors.com

CDO Primary Credit Analysts:
Stephen Anderberg, New York (1) 212-438-8991; stephen_anderberg@standardandpoors.com
Ramki Muthukrishnan, New York (1) 212-438-1384; ramki_muthukrishnan@standardandpoors.com
Jimmy Kobylinski, New York (1) 212-438-6314; jimmy_kobylinski@standardandpoors.com

Chief Criteria Officer, RMBS Ratings:
Francis Parisi, Ph.D., New York (1) 212-438-2570; francis_parisi@standardandpoors.com

Chief Quality Officer-Structured Finance Ratings:
Thomas G Gillis, New York (1) 212-438-2468; tom_gillis@standardandpoors.com

Media Contact:
Mimi Barker, New York (1) 212-438-5054; mimi_barker@standardandpoors.com

NEW YORK (Standard & Poor's) Jan. 30, 2008--Standard & Poor's Ratings Services today announced that it has placed on CreditWatch with negative implications or downgraded its ratings on 6,389 classes from U.S. residential mortgage-backed securities (RMBS) transactions backed by U.S. first-lien subprime mortgage collateral rated between January 2006 and June 2007. At the same time, it placed on CreditWatch negative 1,953 ratings from 572 global CDO of asset-backed securities (ABS) and CDO of CDO transactions.

The affected U.S. RMBS classes represent an issuance amount of approximately

$270.1 billion, or approximately 46.6% of the par amount of U.S. RMBS backed by first-lien subprime mortgage loans rated by Standard & Poor's during 2006 and the first half of 2007. The CDO of ABS and CDO of CDO classes with ratings placed on CreditWatch negative represent an issuance amount of approximately $263.9 billion, which is about 35.2% of Standard & Poor's rated CDO of ABS and CDO cf CDO issuance worldwide.

Standard & Poor's has completed its global review of all its rated asset-backed commercial paper (ABCP) conduits with exposure to these U.S. RMBS and CDO classes and confirms that none of its ratings on any outstanding ABCP notes will be adversely affected solely as a result of today's rating actions.

Standard & Poor's has also completed its review of all Standard & Poor's rated structured investment vehicle (SIV) and SIV-lite structures with regard to exposure to these U.S. RMBS classes. This review shows that there are nine SIVs with exposure to 133 of the affected tranches. The vast majority of the exposure is to tranches with ratings placed on CreditWatch. These exposures are primarily in SIVs that have restructured, defaulted already, or are receiving liquidity support, and therefore the SIVs are not adversely affected by these rating actions. Of the five SIV-lites originally rated, only one is currently still operating and has been restructured. This review of this SIV-lite shows that there is exposure to two of the affected U.S. RMBS classes, and the ratings are not adversely affected by these rating actions.

Complete lists of the classes affected by today's RMBS and CDO rating actions and CreditWatch placements are available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com, and also at www.spviews.com, Standard & Poor's special Web site for subprime and related mortgage matters. The list of RMBS downgrades and CreditWatch placements, along with two related transition matrices, is included in "U.S. RMBS Ratings Affected By Jan. 30, 2008, Rating Actions," while the list of CDO classes with ratings placed on CreditWatch negative can be found in "CDO Classes Affected By Jan. 30, 2008, Rating Actions."

A teleconference to discuss today's ratings actions will be held on Thursday, Jan. 31, 2008, at 11:00 a.m. EST. Dial-in information can be found at the end of this release.

RATING ACTIONS ON 2006 AND 2007 VINTAGE FIRST-LIEN SUBPRIME RMBS

We lowered our ratings on 2,607 classes from the 2006 vintage RMBS backed by first-lien subprime mortgage collateral. The balance of these downgraded classes was approximately $34.7 billion as of the December 2007 distribution date. These rating actions bring the total number of classes issued during this period and downgraded to date to 2,651. In total, the downgraded classes represent an original par amount of approximately $35.2 billion, which is 8.2% of the $422.0 billion original par amount issued during 2006. Approximately $17.6 billion of the total amount downgraded represents repeat rating actions.

We placed on CreditWatch negative 2,035 classes issued during 2006. These classes had an original principal balance of $182.0 billion and had paid down to $136.0 billion as of the December 2007 distribution date. In total, these actions represent approximately 42.4% of the total amount of subprime transactions rated by Standard & Poor's during 2006 ($428 billion; total slightly adjusted to reflect reclassification of mortgage pools). In addition, 44 classes remain on CreditWatch negative, 29 of which were placed there due to transaction performance and 15 in connection with the placement on CreditWatch negative of Ambac Assurance Corp.'s 'AAA' financial strength rating. We affirmed our ratings on the outstanding remaining 1,735 classes issued during 2006.

The RMBS rating downgrades for the 2007 vintage include 1,180 classes backed by first-lien subprime mortgage collateral. The balance of the downgraded classes was approximately $15.4 billion as of the December 2007 distribution date. These rating actions resolve the CreditWatch negative placements of 19 of the subprime classes placed there on Oct. 17, 2007. Of the remaining 13 subprime classes placed on CreditWatch negative, five are due to transaction performance and eight are due to the placement on CreditWatch negative of Ambac. These rating actions bring the total number of classes issued during this period and downgraded to date to 1,188. In total, the downgraded classes represent an original par amount of approximately $15.9 billion, which is 10.6% of the $150.4 billion original par amount issued during 2007 (the original par amount was adjusted to reflect the reclassification of the mortgage pools). Approximately $14.7 billion of the total amount downgraded represents repeat rating actions.

We placed on CreditWatch negative 567 classes issued during 2007. These classes had an original principal balance of $37.8 billion and had paid down to $34.8 billion as of the December 2007 distribution date. In total, these actions represent approximately 25% of the total amount of subprime transactions rated by Standard & Poor's during the period of issuance ($150.4 billion). We affirmed the ratings on the outstanding remaining 691 classes issued during 2007.

These rating actions follow Standard & Poor's announcement on Jan. 15, 2008, of further revised assumptions for surveilling RMBS transactions backed by U.S. residential mortgage collateral and planned revisions to assumptions used for CDOs of ABS. The Jan. 15, 2008, media release can also be found at www.spviews.com.

Today's rating actions incorporate our most recent economic assumptions and reflect our expectation of further defaults and losses on the underlying mortgage loans and the consequent reduction of credit support from current and projected losses. Later in this media release we discuss in more detail the changes to our surveillance assumptions for all of RMBS securities. This includes the application of lifetime expected losses, our revised expected losses for 2006, our expected losses for 2007, and our view of the potential effect of loan modifications.

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CDO OF ABS AND CDO OF CDO CREDITWATCH PLACEMENTS

Today's CDO CreditWatch negative placements result from several factors, including the effect of today's rating actions on first-lien subprime RMBS classes. These subprime RMBS classes represent a large proportion of the collateral assets held by mezzanine and high-grade CDOs. Mezzanine CDOs are CDOs of ABS typically collateralized at origination primarily by 'A' through 'BB' rated tranches of RMBS and other structured finance assets, while high-grade CDOs are CDOs of ABS typically collateralized at origination primarily by 'AAA' through 'A' rated tranches of RMBS and other structured finance transactions. Generally speaking, the credit performance of the underlying assets is the most important determinant of CDO rating performance, and today's RMBS rating actions will significantly affect the ratings assigned to a large number of 2006 and 2007 vintage mezzanine and high-grade CDOs. Mezzanine and high-grade CDOs have, on average, approximately 67% and 40% collateral exposure to subprime RMBS, respectively.

The CDO CreditWatch placements also result from our estimate of the effect of the changes Standard & Poor's is making to the recovery rate and correlation assumptions we use to assess U.S. RMBS held within CDO collateral pools. These assumptions are used for both the rating of new CDO transactions and the monitoring of existing CDO transactions. We have placed on CreditWatch negative the ratings of CDO tranches for which we expect to see a negative rating impact from the lower recovery rate assumptions and higher correlation assumptions. Standard & Poor's announced on Jan. 15, 2008 that these assumptions were in the process of being revised (see "U.S. RMBS Surveillance, CDO Of ABS Assumptions Revised Amid Defaults, Negative Housing Outlook," published on RatingsDirect). We expect to publish certain revised correlation and recovery rate numbers within the next several days.

Included in today's CreditWatch negative placements are ratings from 213 non-excess-spread synthetic CDO transactions. We will resolve these placements after the updated correlation and recovery assumptions have been released and incorporated into CDS Accelerator. CDS Accelerator is the analytical tool through which the non-excess-spread synthetic CDO transactions are run each month to generate synthetic rated overcollateralization (SROC) numbers, which serve as the foundation of the surveillance process for these transactions. We expect to be in a position to incorporate CDS Accelerator with the new CDO recovery rate and correlation assumptions within the next several weeks.

For the 359 cash flow and hybrid CDO transactions with ratings placed on CreditWatch negative today, the timing of the resolution will depend in part on the nature of the underlying collateral pool. Standard & Poor's expects to resolve the CreditWatch placements on the affected cash flow and hybrid mezzanine CDO of ABS transactions within the next six weeks. The resolution of the CreditWatch placements on most high-grade CDOs will occur after the reviews for the mezzanine CDOs and after the resolution of today's CreditWatch placements on 'AAA' and 'AA' rated tranches from the 2007 vintage first-lien subprime RMBS transactions. Because most high-grade CDOs are collateralized in part by highly rated classes from subprime RMBS transactions, the resolution of tcday's RMBS CreditWatch negative placements should provide input into the analysis for these CDO transactions.

Additionally, the reviews of high-grade CDOs will follow the reviews for mezzanine CDOs because high-grade CDOs originated during 2006 and 2007 have an average of 10% to 12% collateral exposure to senior tranches issued by mezzanine CDOs. To the extent that mezzanine CDO tranches held within a given high-grade SF CDO's portfolio are impacted by today's RMBS downgrades, this may affect the outcome of the high-grade CDO review. The CreditWatch placements on the CDO of CDO transaction ratings should follow the reviews of the ratings on the underlying CDO transactions.

Including today's CDO CreditWatch placements, globally Standard & Poor's has lowered the ratings on a total of 1,383 tranches from 420 CDOs, and has placed on CreditWatch negative the ratings on 2,880 tranches from 719 CDOs, as a result of RMBS credit deterioration and stress in the U.S. residential mortgage market, affecting a total of $357.6 billion in CDO issuance. Information on Standard & Poor's rating actions as a result of RMBS credit deterioration and stress in the residential mortgage market is updated weekly and is available on RatingsDirect and at www.spviews.com.

FACTORS DRIVING RMBS RATING ACTIONS

Mortgage Pool Performance—2006

Monthly performance data reveal that delinquencies and foreclosures continue to accumulate at an increasing rate for the 2006 vintage. Since July 2007, cumulative losses on all U.S. subprime RMBS transactions issued during 2006 are 1.13%, an increase of 156%. At the same time, total and severe delinquencies have increased by 49% and 66%, respectively. As of the December 2007 distribution date the total delinquency rate had increased to 28.79% and severe delinquencies were 18.83%.

This delinquency trend, together with loan level risk characteristics and continuing deterioration in the macroeconomic outlook, has caused us to increase our lifetime loss projection to 19% from the 14% we projected at mid-year 2007 based on performance up to that date. At that time, the range for expected losses was 12%-16%, but this range has now increased to 18%-20%.

Mortgage Pool Performance—2007

The transactions issued during the first half of 2007 have what we consider to be an established trend of poor delinquency performance and have already realized losses. Many of these transactions closed with approximately 1%-3% of loans already seasoned by several months. Since July 2007, cumulative losses on the subprime RMBS transactions issued during the first half of 2007 have increased to 0.25% from approximately 0.01%. At the same time, total delinquencies have grown to 20.40% from 7.43% and severe delinquencies have grown to 11.51% from 2.48%. As of the December 2007 distribution date, the total delinquency rate had increased to 20.4% and severe delinquencies were

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11.51%. We are projecting lifetime losses for these transactions to be around 17%, with a range of approximately 16%-18%.

Our loss projections on the 2007 vintage are based on an analysis of the loan characteristics and relative vulnerability to property value declines. Credit scores, loan-to-value (LTV) ratios, and combined loan-to-value (CLTV) ratios are comparable to mortgages sold in 2006. The pools from the first half of 2007 have a higher percentage of fixed-rate loans, a lower percentage of 2/1 adjustable-rate mortgages (ARMs), a lower percentage of low-doc or no-doc loans, and a lower percentage of loans used for purchase. Data analysis shows that these differences yield an overall lower risk profile for the H1 2007 vintage.

Moreover, an analysis of the S&P/Case-Shiller National House Price Index shows that price declines from 2006 are larger than the declines experienced since the first half of 2007, on average, by approximately 2%. By comparing the index change from 2006 to the October 2007 reported index, we note that prices have declined about 6% on average. Similarly, comparing the index change from the first half of 2007 to the October reported index, prices have declined about 4% on average. Thus, loans from the 2006 vintage are secured by properties that have suffered greater declines on average than the properties backing the 2007 vintage. As a result, we believe the projected losses will be slightly lower than those for 2006.

FACTORS DRIVING NEW RMBS SURVEILLANCE ASSUMPTIONS

In reviewing the 2006 and 2007 subprime transactions, we employed the surveillance assumptions announced on Jan. 15, 2008, and described in "U.S. RMBS Surveillance, CDO Of ABS Assumptions Revised Amid Defaults, Negative Housing Outlook." We believe that the application of expected lifetime losses has become appropriate as the depth and duration of the housing downturn continues to increase. In most cases our loss expectations exceed the credit enhancement available for the average 'A' rated class and below. As a result, those classes that had expected lifetime losses greater than credit enhancement had their ratings lowered to 'CCC'.

In addition, the ratings on many of the 2006 notes previously rated 'B' and 'CCC' and various ratings from pools with extraordinarily high levels of severely delinquent loans were lowered to 'CC' as our analysis revealed that these classes have a greater likelihood of default in the nearer term. Our view as to the ability of a class to withstand losses in excess of our projections determined the extent to which a rating was adjusted. In anticipation of increased loan modifications, we discounted the excess spread available to cover credit losses. These assumptions are consistent with scenarios recently published in "Reviewing The Impact Of Rate Freezes On Rated U.S. First-Lien Subprime RMBS Under Two Scenarios," on Dec. 21, 2007.

RMBS RATING ACTIONS AND WHAT WE CAN EXPECT

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'AAA' And 'AA' Rating Levels

By number of ratings, we placed on CreditWatch negative approximately 45% of the outstanding 'AAA' and 57% of the 'AA' rating categories from the 2006 vintage. At the same time, we placed on CreditWatch negative approximately 20% of the outstanding 'AAA' and 93% of the 'AA' rating categories from the first half of 2007.

While each of the certificate classes placed on CreditWatch negative currently lack what we believe to be a sufficient amount of credit enhancement in excess of projected losses, subsequent rating actions will not occur until additional analysis is completed on each of the individual classes affected. We expect to further evaluate the adequacy of credit enhancement given the recent cuts to the federal fund rates and their effect on excess spread, the date of projected defaults versus the date of payment in full, and the relationships between projected credit support and projected losses throughout the remaining life of the certificates.

Tables 1 and 2 show the classes with ratings lowered and placed on CreditWatch negative as a percentage of the original balance of the total amount affected ($215 billion for 2006 and $53 billion for 2007).

Table 1
2006 Vintage

	Total $ actions (%)	
Rating	Downgrades	CreditWatch negative
AAA	0.00	69.08
AA+	0.00	5.27
AA	0.00	6.79
AA-	0.00	2.59
A+	2.41	0.05
A	1.90	0.03
A-	1.36	0.02
BBB+	2.34	0.03
BBB	0.78	0.03
BBB-	0.66	0.02
BB+	0.51	0.02
BB	1.94	0.01
BB-	0.03	0.00
B+	0.10	0.00
B	2.25	0.00
B-	0.01	0.00
CCC	1.79	0.00
Total	16.08	83.92

Table 2
2007 Vintage

	Total $ actions (%)	
Rating	Downgrades	CreditWatch negative
AAA	0.00	45.94

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AA+	0.00	12.94
AA	0.00	8.74
AA-	0.00	3.33
A+	2.10	0.00
A	3.14	0.00
A-	2.77	0.00
BBB+	3.43	0.00
BBB	3.39	0.00
BBB-	3.54	0.00
BB+	3.76	0.00
BB	2.94	0.00
BB-	2.15	0.00
B+	1.09	0.00
B	0.27	0.00
B-	0.48	0.00
CCC	0.00	0.00
Total	29.04	70.96

ECONOMIC FACTORS

On a macroeconomic level, we expect that the U.S. housing market, especially the subprime sector, will continue to decline before it improves, and we expect housing prices will continue to come under stress. Recent industry reports reveal that housing prices have declined by approximately 6% since the start of 2006 and approximately 4% since the start of 2007. Weakness in the property markets continues to exacerbate losses, with little prospect for improvement in the near term. As of November 2007, the number of properties in foreclosure in the U.S. reached 1,329,703.

Furthermore, we expect losses to continue increasing, with borrowers experiencing rising loan payments as the terms of adjustable-rate loans originated in early 2006 reset and principal amortization occurs after the interest-only period ends for both adjustable- and fixed-rate loans. An estimated $342 billion of mortgages is expected to reset during 2008. However, we expect many of the affected borrowers will find relief through loan modifications that will hold initial interest rates constant for several years.

We expect available credit enhancement to decrease as a result of the loan modifications. Although property values have decreased approximately 6% to date, we expect additional declines. David Wyss, Standard & Poor's chief economist, has adjusted his projection, forecasting that by the end of 2008 property values will have declined by as much as 13% on average since 2006, and the market will bottom out early in 2009.

While this is an aggregate view, it is important to note that certain markets have already suffered declines greater than this forecast. According to the S&P/Case-Shiller Tiered Price Indices, cities such as San Diego and San Francisco have experienced price declines of 12.0% and 6.5%, respectively, and lower-priced homes in those areas have experienced declines of 18.5% and

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17.5%, respectively. These lower-priced homes, which carry an average loan balance of around $213,000, generally secure subprime mortgages. Similarly, for Tampa, the aggregate decline since 2006 averages approximately 12%, and this is consistent across price tiers. In many cases, the actual losses experienced to date reflect larger declines in value than those forecasted. It is possible, therefore, that further price declines may not have as great an effect on losses as one might expect.

Except for the CreditWatch resolutions, we do not anticipate further major rating actions for the U.S. RMBS subprime ratings issued during 2006 and the first half of 2007. We anticipate reviewing other vintages and products in the RMBS sector over the next few weeks, including prior vintages of subprime mortgages, RMBS backed by Alt-A mortgages, and securities backed by prime collateral. We expect that this review will be concluded and the results announced over the next two months.

Standard & Poor's will hold a teleconference on Thursday, Jan. 31, 2008, at 11:00 a.m. Eastern Standard Time to discuss the Structured Finance rating actions announced today. Please note that Standard & Poor's offers all of its broadcast teleconference calls to all interested participants on a complimentary basis. The call will begin promptly at the time indicated. Please call at least 15 minutes before the scheduled start of the call to complete the pre-call registration process.

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374 U.S. RMBS Ratings Lowered, 264 Affirmed After FGIC, XLCA, And MBIA Rating Actions

Primary Credit Analyst:
Jessica Rivera, New York (1) 212-438-1726; jessica_rivera@standardandpoors.com
Secondary Credit Analyst:
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com

NEW YORK (Standard & Poor's) Feb. 26, 2008--Standard & Poor's Ratings Services has lowered its ratings on 374 classes from 141 U.S. residential mortgage-backed securities (RMBS) transactions guaranteed by Financial Guaranty Insurance Co. (FGIC) and XL Capital Assurance Inc. (XLCA) due to the recent rating actions on these insurers. In addition, we affirmed our ratings on 264 classes guaranteed by MBIA Insurance Corp. (MBIA) and removed them from CreditWatch with negative implications. (For more information on the rating actions affecting these insurers, see "S&P Takes Additional Bond Insurer Rating Actions," published Feb. 25, 2008.)

Lists of the U.S. RMBS classes affected by the recent rating actions on these insurers are available in "U.S. RMBS Ratings Affected By FGIC, MBIA, And XL Capital Rating Actions," published earlier today on RatingsDirect. The lists are also posted on www.spviews.com; go to the left navigation bar and click on "Deals Affected" to view or download the lists.

On Feb. 25, 2008, Standard & Poor's took the following actions on the financial enhancement ratings of these insurers:

-- We lowered the rating on FGIC to 'A' from 'AA' and kept it on CreditWatch with developing implications;

-- We affirmed the 'AAA' rating on MBIA and removed it from CreditWatch with negative implications; and

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-- We lowered the rating on XLCA to 'A-' from 'AAA' and kept it on CreditWatch with negative implications.

The FGIC rating actions affected 341 U.S. RMBS classes, all of which were rated 'AAA' before the downgrades. Eleven of these classes were not on CreditWatch before the downgrades, and we removed the remaining 330 ratings from CreditWatch with negative implications, where they had been placed during recent months. We lowered 333 of these ratings to 'A', two to 'A+', one to 'AA-', and five to 'AA'. Standard & Poor's determined that despite the recent negative rating actions on FGIC, certain transactions have sufficient credit enhancement to support ratings that are higher than the 'A' rating assigned to the FGIC monoline. We have therefore maintained higher ratings on the related classes.

Additionally, we affirmed our 'AAA' ratings on 264 U.S. RMBS classes and removed them from CreditWatch negative to reflect the affirmation of the rating on MBIA and its removal from CreditWatch. Standard & Poor's Bond Insurance group resolved the negative CreditWatch placement on MBIA after the insurer successfully accessed $2.6 billion of additional claims-paying resources. This, in turn, ensures that credit enhancement to the RMBS classes MBIA insures is sufficient and stable, as reflected in the long-term ratings on these classes.

The downgrades of 33 classes from 15 U.S. RMBS deals resulted from the XLCA rating actions. Twenty-five of these ratings were lowered to 'A-' and remain on CreditWatch negative; five were lowered to 'A'; two were lowered to 'A+'; and one was lowered to 'AA+' and removed from CreditWatch negative. Standard & Poor's determined that despite the recent negative rating actions on XLCA, certain transactions have sufficient credit enhancement to support ratings that are higher than the 'A-' rating assigned to the XLCA monoline. We have therefore maintained higher ratings on the related classes.

Standard & Poor's will continue to monitor its ratings on all classes linked to the referenced bond insurers and take appropriate rating actions, as necessary.

EXHIBIT P

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February 26, 2008

66 Ratings Lowered On 15 U.S. CDO Of ABS, Synthetic Deals; $7.265 Bil. In Issuance Affected

Primary Credit Analysts:
Ramki Muthukrishnan, New York (1) 212-438-1384; ramki_muthukrishnan@standardandpoors.com
Kate Scanlin, New York (1) 212-438-2002; kate_scanlin@standardandpoors.com

Secondary Credit Analysts:
Stephen Anderberg, New York (1) 212-438-8991; stephen_anderberg@standardandpoors.com
Jimmy Kobylinski, New York (1) 212-438-6314; jimmy_kobylinski@standardandpoors.com

Media Contact:
Adam M Tempkin, New York (1) 212-438-7530; adam_tempkin@standardandpoors.com

NEW YORK (Standard & Poor's) Feb. 26, 2008--Standard & Poor's Ratings Services today lowered its ratings on 59 tranches from 10 U.S. cash flow and hybrid collateralized debt obligation (CDO) transactions and removed them from CreditWatch with negative implications. Additionally, we affirmed our 'AAA' ratings on two classes and removed them from CreditWatch negative (see list). These downgraded tranches have a total issuance amount of $7.085 billion. All of the affected transactions are mezzanine structured finance (SF) CDOs of asset-backed securities (ABS), which are CDOs of ABS collateralized in large part by mezzanine tranches of residential mortgage-backed securities (RMBS) and other SF securities.

At the same time, we lowered our ratings on seven tranches from five U.S. synthetic CDO transactions and removed them from CreditWatch with negative implications (see list). The seven U.S. synthetic CDO tranche ratings have a direct link to the ratings on their respective reference obligations, which are being lowered as part of today's CDO of ABS rating actions. The downgraded tranches have a total issuance amount of $180 million.

Today's CDO downgrades reflect a number of factors, including credit deterioration and recent negative rating actions on U.S. subprime RMBS securities (see "S&P Takes Action On 6,389 U.S. Subprime RMBS Ratings And 1,953 CDO Ratings," published Jan. 30, 2008, on RatingsDirect), as well as changes Standard & Poor's has made to the recovery rate and correlation assumptions it uses to assess U.S. RMBS held within CDO collateral pools (see "Correlation And Recovery Assumptions Revised For CDOs Of ABS Backed By RMBS," published Feb. 4, 2008, on RatingsDirect).

To date, including the CDO tranches listed below and including actions on both publicly and confidentially rated tranches, we have lowered our ratings on 1,898 tranches from 463 U.S. cash flow, hybrid, and synthetic CDO transactions as a result of stress in the U.S. residential mortgage market and credit deterioration of U.S. RMBS. In addition, 1,859 ratings from 549 transactions are currently on CreditWatch negative for the same reasons. In all, the affected CDO tranches represent an issuance amount of $346.288 billion.

Standard & Poor's will continue to monitor the CDO transactions it rates and take rating actions, including CreditWatch placements, when appropriate. For additional information and updates on Standard & Poor's residential mortgage-related rating actions on U.S. CDO transactions, please visit RatingsDirect, at www.ratingsdirect.com, or www.spviews.com.

RATING AND CREDITWATCH ACTIONS

		Rating	
Transaction	Class	To	From
AMPSS 2007-4 SPC IV segregated portfolio	Notes	BB	AAA/Watch Neg
AMPSS 2007-4 SPC I segregated portfolio	Notes	BB	AAA/Watch Neg
AMPSS 2007-4 SPC II segregated portfolio	Notes	BB	AAA/Watch Neg
AMPSS 2007-4 SPC III segregated portfolio	Notes	BB	AAA/Watch Neg
Arca Funding 2006-1 Ltd.	II Fd Sr	CC	A+/Watch Neg
Arca Funding 2006-1 Ltd.	III Fd Sr	CC	BB+/Watch Neg
Arca Funding 2006-1 Ltd.	IV Fd Sr	CC	BB/Watch Neg
Arca Funding 2006-1 Ltd.	Super Sr	B-	AAA/Watch Neg
Arca Funding 2006-1 Ltd.	V Fd Mezz	CC	BB-/Watch Neg
Arca Funding 2006-1 Ltd.	VI Fd Mezz	CC	B/Watch Neg
Arca Funding 2006-1 Ltd.	VII FdMezz	CC	B-/Watch Neg
Arca Funding 2006-1 Ltd.	VIII FdMez	CC	CCC/Watch Neg
Cherry Creek CDO II Ltd	A1J	CC	A/Watch Neg
Cherry Creek CDO II Ltd	A-1S	CCC	AAA/Watch Neg
Cherry Creek CDO II Ltd	A2	CC	BBB/Watch Neg
Cherry Creek CDO II Ltd	A3	CC	B+/Watch Neg
Crystal Cove CDO Ltd.	A1	AAA	AAA/Watch Neg
Crystal Cove CDO Ltd.	A2	A-	AAA/Watch Neg
Crystal Cove CDO Ltd.	B	BB+	AA/Watch Neg
Crystal Cove CDO Ltd.	C1	B-	BBB/Watch Neg
Crystal Cove CDO Ltd.	C2	B-	BBB/Watch Neg

Duke Funding IX Ltd.	A2F	BBB+	AA/Watch Neg
Duke Funding IX Ltd.	A2V	BBB+	AA/Watch Neg
Duke Funding IX Ltd.	A3F	B+	A/Watch Neg
Duke Funding IX Ltd.	A3V	B+	A/Watch Neg
Duke Funding IX Ltd.	B	CCC-	BBB-/Watch Neg
Ixion PLC (HELD 2006-1)	Series 1	BBB	AAA/Watch Neg
Ixion PLC (HELD 2006-1)	Series 2	BBB-	AA/Watch Neg
Ixion PLC (HELD 2006-1)	Series 3	BB	A/Watch Neg
Lacerta ABS CDO 2006-1 Ltd.	A-1	B-	AA/Watch Neg
Lacerta ABS CDO 2006-1 Ltd.	A-2	CCC	BBB+/Watch Neg
Lacerta ABS CDO 2006-1 Ltd.	B	CC	BB-/Watch Neg
Lacerta ABS CDO 2006-1 Ltd.	C	CC	CCC-/Watch Neg
Libertas Preferred Funding I Ltd	A-1	A	AAA/Watch Neg
Libertas Preferred Funding I Ltd	A-2	BBB-	AAA/Watch Neg
Libertas Preferred Funding I Ltd	B	BB	AA/Watch Neg
Libertas Preferred Funding I Ltd	C	BB-	AA-/Watch Neg
Libertas Preferred Funding I Ltd	D	B-	A/Watch Neg
Libertas Preferred Funding I Ltd	E	CCC	BBB/Watch Neg
Libertas Preferred Funding I Ltd	F	CCC-	BBB-/Watch Neg
Libertas Preferred Funding I Ltd	G	CC	BB+/Watch Neg
Libertas Preferred Funding V Ltd	A-1	B-	AAA/Watch Neg
Libertas Preferred Funding V Ltd	A-2	CCC+	AAA/Watch Neg
Libertas Preferred Funding V Ltd	A-3	CCC	AAA/Watch Neg
Libertas Preferred Funding V Ltd	B	CCC-	AA/Watch Neg
Libertas Preferred Funding V Ltd	C	CCC-	A/Watch Neg
Libertas Preferred Funding V Ltd	D	CC	BBB/Watch Neg
Libertas Preferred Funding V Ltd	E	CC	BBB-/Watch Neg
Libertas Preferred Funding V Ltd	X	BB	AAA/Watch Neg
TABS 2006-6 Ltd.	A1J	CC	BB/Watch Neg
TABS 2006-6 Ltd.	A1S	CCC-	AAA/Watch Neg
Vertical Virgo 2006-1 Ltd.	A1J	B-	AAA/Watch Neg
Vertical Virgo 2006-1 Ltd.	A-1S	BB	AAA/Watch Neg
Vertical Virgo 2006-1 Ltd.	A2	CCC-	AA/Watch Neg
Vertical Virgo 2006-1 Ltd.	A3	CC	A/Watch Neg
Vertical Virgo 2006-1 Ltd.	B1	CC	BBB+/Watch Neg
Vertical Virgo 2006-1 Ltd.	B2	CC	BBB/Watch Neg
Vertical Virgo 2006-1 Ltd.	B3	CC	BBB-/Watch Neg
Vertical Virgo 2006-1 Ltd.	I Sub Nts	CC	BBB/Watch Neg
Vertical Virgo 2006-1 Ltd.	II Sub Nts	CC	BBB-/Watch Neg
Whately CDO I Ltd.	A-1A	AAA	AAA/Watch Neg
Whately CDO I Ltd.	A-1BF	A+	AAA/Watch Neg
Whately CDO I Ltd.	A-1BV	A+	AAA/Watch Neg
Whately CDO I Ltd.	A-2	BB+	AA/Watch Neg
Whately CDO I Ltd.	A-3	B+	A/Watch Neg
Whately CDO I Ltd.	B-F	CC	BBB/Watch Neg
Whately CDO I Ltd.	B-V	CC	BBB/Watch Neg
Whately CDO I Ltd.	Combo A	CC	BBB/Watch Neg

OTHER OUTSTANDING RATINGS

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Transaction	Class	Rating
Cherry Creek CDO II Ltd	B	CC
Cherry Creek CDO II Ltd	C	CC
Duke Funding IX Ltd.	A1	AAA
Lacerta ABS CDO 2006-1 Ltd.	D	CC
Lacerta ABS CDO 2006-1 Ltd.	E	CC
TABS 2006-6 Ltd.	A2	CC
TABS 2006-6 Ltd.	A3	CC
TABS 2006-6 Ltd.	B1	CC
TABS 2006-6 Ltd.	B2	CC
TABS 2006-6 Ltd.	B3	CC
TABS 2006-6 Ltd.	C	CC
TABS 2006-6 Ltd.	I Sub Nts	CC

EXHIBIT Q

STANDARD & POOR'S

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February 26, 2008

240 Ratings On 164 U.S. Synthetic CDOs Of ABS Lowered; 21 Ratings From 18 CDOs Affirmed

Primary Credit Analyst:
Jimmy Kobylinski, New York (1) 212-438-6314; jimmy_kobylinski@standardandpoors.com

Secondary Credit Analyst:
Stephen Anderberg, New York (1) 212-438-8991; stephen_anderberg@standardandpoors.com

Global Practice Leader, SF Surveillance:
Peter D'Erchia, Global Practice Leader, SF Surveillance, New York (1) 212-438-2438; peter_derchia@standardandpoors.com

Chief Quality Officer-Structured Finance Ratings:
Thomas G Gillis, Chief Quality Officer-Structured Finance Ratings, New York (1) 212-438-2468; tom_gillis@standardandpoors.com

Media Contact:
Adam M Tempkin, New York (1) 212-438-7530; adam_tempkin@standardandpoors.com

NEW YORK (Standard & Poor's) Feb. 26, 2008--Standard & Poor's Ratings Services today lowered its ratings on 240 tranches from 164 U.S. synthetic collateralized debt obligations of asset-backed securities (CDOs of ABS) transactions. At the same time, we affirmed our ratings on 21 tranches from 18 transactions and removed them from CreditWatch with negative implications. The downgraded tranches have a total issuance amount of $6.314 billion. All of the affected transactions are non-excess-spread synthetic CDOs of ABS that reference structured finance securities, including residential mortgage-backed securities (RMBS).

The complete rating list is included in "U.S. Synthetic CDO Transactions Affected By Feb. 26, 2008, Rating Actions," available on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research and risk analysis, at www.ratingsdirect.com. The list can also be found on Standard & Poor's Web site, at www.standardandpoors.com, and at www.spviews.com.

On Jan. 30, 2008, Standard & Poor's lowered or placed on CreditWatch negative 6,389 ratings from 2006 and 2007 vintage U.S. RMBS transactions backed by first-lien subprime mortgages. At the same time, we placed on CreditWatch negative 1,953 global CDO of ABS and CDO of CDO ratings (see "S&P Takes Action On 6,389 U.S. Subprime RMBS Ratings And 1,953 CDO Ratings," published on RatingsDirect). Today's rating actions resolve the Jan. 30, 2008, CreditWatch placements affecting the U.S. synthetic CDO of ABS classes.

We initiated the Jan. 30, 2008, CDO CreditWatch placements to account for the subprime RMBS rating changes and the estimated impact of changes to Standard & Poor's assumptions used to assess correlation and recovery rates for RMBS assets held within (or referenced by) CDO transactions (see "Correlation And Recovery Assumptions Revised For CDOs Of ABS Backed By RMBS," published Feb. 4, 2008, on RatingsDirect). We have analyzed the CDO transactions addressed in this press release using CDS Accelerator, which incorporates the updated correlation and recovery assumptions, as well as the revised RMBS ratings. CDS Accelerator is the analytical tool we use to evaluate our rated non-excess-spread synthetic CDO transactions each month to generate synthetic rated overcollateralization (SROC) numbers. SROC serves as the foundation of the surveillance process for these transactions.

Our ratings on two tranches from high-grade SF CDO transactions, which generally reference senior tranches of RMBS and other structured finance transactions, remain on CreditWatch negative due to exposure to 'AAA' and 'AA' rated RMBS with ratings currently on CreditWatch negative.

Standard & Poor's is continuing to review its rated cash flow and hybrid CDO transactions with ratings placed on CreditWatch negative. Since Jan. 30, 2008, we have lowered our ratings on more than 150 cash flow and hybrid CDO transactions, nearly all of them mezzanine SF CDOs collateralized substantially by mezzanine tranches of 2006 and 2007 vintage subprime RMBS. We expect to resolve the remaining cash flow and hybrid mezzanine SF CDOs of ABS with ratings on CreditWatch negative within several weeks. The resolution of these CreditWatch placements will occur once the 'AAA' and 'AA' rated RMBS with ratings placed on CreditWatch negative on Jan. 30, 2008, have been resolved.

EXHIBIT R

STANDARD & POOR'S

Global Credit Portal

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October 6, 2008

193 Ratings Lowered On 24 U.S. Neg-Am Alt-A RMBS Deals Issued In 2006 And 2007; 127 Affirmed

Primary Credit Analyst:
Michael Graffeo, New York (1) 212-438-2680; michael_graffeo@standardandpoors.com

Secondary Credit Analysts:
Scott Davey, New York (1) 212-438-2441; scott_davey@standardandpoors.com
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com

NEW YORK (Standard & Poor's) Oct. 6, 2008--Standard & Poor's Ratings Services today lowered its ratings on 193 classes from 24 residential mortgage-backed securities (RMBS) transactions backed by U.S. negative-amortization (Neg-Am) Alternative-A (Alt-A) mortgage loan collateral issued in 2006 and 2007. The downgraded classes have a current balance of approximately $5.66 billion. We removed 95 of the lowered ratings from CreditWatch with negative implications. We downgraded class B-5 from Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2006-AR1 to 'D' due to a principal write-down to the class. In addition, we affirmed our ratings on 127 classes and removed 22 of the affirmed ratings from CreditWatch negative (see list).

The downgrades reflect our opinion that projected credit support for the affected classes is insufficient to maintain the previous ratings given our current projected losses, as stated in "S&P Publishes Revised Projected Losses For '06/'07 U.S. Alt-A Short-Reset Hybrid, Neg-Am RMBS," published Aug. 20, 2008, on RatingsDirect.

We arrived at our estimated projected losses for the Alt-A RMBS deals using the analysis outlined in "Standard & Poor's Revised Default And Loss Curves For U.S. Alt-A RMBS Transactions," published Dec. 19, 2007, on RatingsDirect. The revised loss assumptions used in this review also include

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our new loss severity assumptions, which we outlined in "Criteria: Standard & Poor's Revises U.S. Subprime, Prime, And Alternative-A RMBS Loss Assumptions," published on July 30, 2008, on RatingsDirect.

As part of our analysis, we considered the characteristics of the underlying mortgage collateral as well as macroeconomic influences. For example, the risk profile of the underlying mortgage pools influences our default projections, while our outlook for housing price declines and the health of the housing market influence our loss severity assumptions.

To assess the creditworthiness of each class, we reviewed the individual delinquency and loss trends of each transaction for changes, if any, in risk characteristics, servicing, and the expected ability to withstand additional credit deterioration. In order to maintain a rating higher than 'B', a class had to absorb losses in excess of the base-case assumptions we assumed in our analysis. For example, a class may have to withstand approximately 115% of our base-case loss assumptions in order to maintain a 'BB' rating, while a different class may have to withstand approximately 125% of our base-case loss assumptions to maintain a 'BBB' rating. A class that has an affirmed 'AAA' rating can likely withstand approximately 150% of our base-case loss assumptions under our analysis, subject to individual caps and qualitative factors assumed on specific transactions.

We also took into account the pay structure of each transaction and only stressed classes with losses that would occur while they remained outstanding.

Additionally, we only gave excess interest credit for the amount of time the classes would be outstanding. For example, if we projected a class to pay down in 15 months, then we only applied 15 months of losses to that class. Additionally, in such a case we assumed 15 months of excess spread if the class was structured with excess spread as credit enhancement.

In the coming weeks, Standard & Poor's will continue to analyze the remaining transactions affected by our revised loss expectations. We will analyze deals in order of performance, looking at worse-performing deals first.

RATING ACTIONS

Alternative Loan Trust 2006-OA11
Series 2006-OA11

		Rating	
Class	CUSIP	To	From
A-3A	02147DAE1	A	AAA
A-3B2	02147DAT8	A	AAA
A-5	02147DAV3	A	AAA
M-1	02147DAF8	BB	AA+
M-2	02147DAG6	B	AA/Watch Neg
M-3	02147DAH4	B-	AA-/Watch Neg
M-4	02147DAJ0	CCC	A+/Watch Neg
M-5	02147DAK7	CCC	A/Watch Neg
M-6	02147DAL5	CCC	A/Watch Neg
M-7	02147DAM3	CC	B/Watch Neg
M-8	02147DAN1	CC	CCC

Alternative Loan Trust 2006-OA16
Series 2006-OA16

		Rating	
Class	CUSIP	To	From
A-5	23242GBA1	BBB	AAA
M-1	23242GAH7	BB	AA+/Watch Neg
M-2	23242GAJ3	B	AA/Watch Neg
M-3	23242GAK0	B-	AA-/Watch Neg
M-4	23242GAL8	CCC	A+/Watch Neg
M-5	23242GAM6	CCC	BBB/Watch Neg
M-6	23242GAN4	CCC	BB/Watch Neg
M-7	23242GAP9	CCC	B/Watch Neg
M-8	23242GBB9	CC	CCC
M-9	23242GAQ7	CC	CCC

Alternative Loan Trust 2006-OA2
Series 2006-OA2

		Rating	
Class	CUSIP	To	From
A-4	126694S33	B	AAA/Watch Neg
A-6	126694S58	B	AAA/Watch Neg
A-7	126694V88	B	AAA/Watch Neg
M-1	126694S74	CCC	BBB
M-2	126694S82	CCC	B
M-7	126694T57	CC	CCC

Alternative Loan Trust 2006-OA6
Series 2006-OA6

		Rating	
Class	CUSIP	To	From
1A-1B	12668BE25	BBB	AAA
1A-4A	12668BE58	BBB	AAA
1A-4C	12668BE74	BBB	AAA
1A-4D	12668BE82	BBB	AAA
2-A	12668BE90	BBB	AAA
M-1	12668BF24	B	AA+/Watch Neg
M-2	12668BF32	B-	AA/Watch Neg
M-3	12668BF40	B-	A/Watch Neg
M-4	12668BF57	CCC	BB/Watch Neg
M-5	12668BF65	CC	B/Watch Neg
M-6	12668BF73	CC	CCC

Alternative Loan Trust 2006-OA8
Series 2006-OA8

		Rating	
Class	CUSIP	To	From
1-A-3	02147CAC7	BBB	AAA/Watch Neg
2-A-5	02147CAH6	BBB	AAA/Watch Neg
M-1	02147CAL7	BB	AA+/Watch Neg

M-2	02147CAM5	B	BBB/Watch Neg
M-3	02147CAN3	CCC	B/Watch Neg
M-4	02147CAP8	CCC	B/Watch Neg
M-5	02147CAQ6	CC	CCC
M-6	02147CAR4	CC	CCC
M-7	02147CAS2	CC	CCC

Chevy Chase Funding LLC Mortgage-Backed Certificates, Series 2006-2 Trust
Series 2006-2

		Rating	
Class	CUSIP	To	From
IO		AAA	AAA/Watch Neg
NIO		AAA	AAA/Watch Neg
B-1	16678WAC0	B	A/Watch Neg
B-1NA		B	A/Watch Neg
B-2	16678WAD8	CCC	B/Watch Neg
B-2NA		CCC	B/Watch Neg
B-3	16678WAE6	CC	CCC

Chevy Chase Funding LLC Mortgage-Backed Certificates, Series 2006-4 Trust
Series 2006-4

		Rating	
Class	CUSIP	To	From
A-1	16678XAA2	AA	AAA
A-2	16678XAB0	B	AAA
A-1I		AA	AAA
A-2I		B	AAA/Watch Neg
A-NA		AA	AAA
IO		AA	AAA/Watch Neg
NIO		AA	AAA/Watch Neg
B-1	16678XAC8	CCC	AA/Watch Neg
B-1I		CCC	AA/Watch Neg
B-1NA		CCC	AA/Watch Neg
B-2	16678XAD6	CC	BB/Watch Neg
B-2I		CC	BB/Watch Neg
B-2NA		CC	BB/Watch Neg
B-3	16678XAE4	CC	CCC
B-3I		CC	CCC
B-3NA		CC	CCC

Chevy Chase Funding LLC Mortgage-Backed Certificates, Series 2007-1 Trust
Series 2007-1

		Rating	
Class	CUSIP	To	From
A-2I		AAA	AAA/Watch Neg
IO		AAA	AAA/Watch Neg
NIO		AAA	AAA/Watch Neg
B-1I		A	A/Watch Neg
B-1NA		A	A/Watch Neg
B-2	16679AAD5	B	B/Watch Neg

B-2I		B	B/Watch Neg
B-2NA		B	B/Watch Neg

Chevy Chase Funding LLC Mortgage-Backed Certificates, Series 2007-2 Trust
Series 2007-2

		Rating	
Class	CUSIP	To	From
A-2I		AAA	AAA/Watch Neg
IO		AAA	AAA/Watch Neg
NIO		AAA	AAA/Watch Neg
B-1	16679BAC5	BBB	BBB/Watch Neg
B-1I		BBB	BBB/Watch Neg
B-1NA		BBB	BBB/Watch Neg
B-2	16679BAD3	B	B/Watch Neg
B-2I		B	B/Watch Neg
B-2NA		B	B/Watch Neg

Chevy Chase Funding LLC Trust, Series 2006-1
Series 2006-1

		Rating	
Class	CUSIP	To	From
IO		AAA	AAA/Watch Neg
NIO		AAA	AAA/Watch Neg
B-1	16678RFD4	BB	AA
B-1NA		BB	AA/Watch Neg
B-2	16678RFE2	B-	B/Watch Neg
B-2NA		B-	B/Watch Neg

CHL Mortgage Pass-Through Trust 2006-3
Series 2006-3

		Rating	
Class	CUSIP	To	From
1-A-3	126694YL6	A	AAA/Watch Neg
1-M-1	126694YU6	B	AA/Watch Neg
1-M-2	126694YV4	CCC	AA-/Watch Neg
1-M-3	126694YW2	CCC	A+/Watch Neg
1-M-4	126694YX0	CC	A/Watch Neg
1-M-5	126694YY8	CC	BB/Watch Neg
1-M-6	126694YZ5	CC	B/Watch Neg
2-A-3	126694YP7	AAA	AAA/Watch Neg
2-M-1	126694ZB7	BBB	AA-/Watch Neg
3-A-2	126694YR3	AA	AAA/Watch Neg
3-A-3	126694YS1	BB	AAA/Watch Neg
3-M-1	126694ZJ0	CCC	BBB/Watch Neg
3-M-2	126694ZK7	CCC	BB/Watch Neg
3-M-3	126694ZL5	CCC	B/Watch Neg
3-M-4	126694ZM3	CC	CCC
3-M-5	126694ZN1	CC	CCC
3-M-6	126694ZP6	CC	CCC

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CMALT (CitiMortgage Alternative Loan Trust), Series 2006-A2
Series 2006-A2

		Rating	
Class	CUSIP	To	From
A-1	17309CAA3	A	AAA
A-2	17309CAB1	A	AAA
A-3	17309CAC9	A	AAA
A-4	17309CAD7	A	AAA
A-5	17309CAE5	A	AAA
A-6	17309CAF2	A	AAA
A-7	17309CAG0	A	AAA
A-8	17309CAH8	A	AAA
A-PO	17309CAJ4	A	AAA
B-1	17309CAK1	B	AA
B-2	17309CAL9	CCC	A
B-3	17309CAM7	CCC	BBB
B-4	17309CAN5	CC	CCC

WaMu Mortgage Pass-Through Ceritifcates Series 2006-AR3 Trust
Series 2006-AR3

		Rating	
Class	CUSIP	To	From
B-3	92925CDH2	A	AA-
B-4	92925CDJ8	BB	A+/Watch Neg
B-5	92925CDK5	B+	A/Watch Neg
B-6	92925CDL3	B	A-/Watch Neg
B-7	92925CDM1	B-	BBB+/Watch Neg
B-8	92925CDN9	CCC	BBB/Watch Neg
B-9	92925CDP4	CCC	BBB-/Watch Neg
B-10	92925CEB4	CCC	BB+/Watch Neg
B-11	92925CEC2	CC	BB/Watch Neg
B-12	92925CED0	CC	BB-/Watch Neg
B-13	92925CEE8	CC	B/Watch Neg

WaMu Mortgage Pass-Through Certificates Series 2006-AR7 Trust
Series 2006-AR7

		Rating	
Class	CUSIP	To	From
B-1	93363CAL3	BB	BBB
B-2	93363CAM1	B-	B/Watch Neg
B-3	93363CAN9	CCC	B/Watch Neg

WaMu Mortgage Pass-Through Certificates Series 2007-OA1 Trust
Series 2007-OA1

		Rating	
Class	CUSIP	To	From
A-1C	92926WAC1	BB	AAA
B-1	92926WAF4	B	AA+
B-2	92926WAG2	CCC	A/Watch Neg
B-3	92926WAH0	CCC	BBB/Watch Neg

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B-4	92926WAJ6	CCC	BB/Watch Neg
B-5	92926WAK3	CCC	B/Watch Neg
B-6	92926WAL1	CC	B/Watch Neg
B-7	92926WAM9	CC	CCC
B-8	92926WAN7	CC	CCC
B-9	92926WAP2	CC	CCC

WaMu Mortgage Pass-Through Certificates Series 2007-OA2 Trust
Series 2007-OA2

		Rating	
Class	CUSIP	To	From
CA-1C	933635AD6	BBB	AAA
1X-PPP	933635AE4	BBB	AAA
2X-PPP	933635AG9	BBB	AAA
B-1	933635AH7	BB	AA+
B-2	933635AJ3	B	AA/Watch Neg
B-3	933635AK0	CCC	A/Watch Neg
B-4	933635AL8	CCC	BB/Watch Neg
B-5	933635AM6	CCC	B/Watch Neg
B-6	933635AN4	CCC	B/Watch Neg
B-8	933635AQ7	CC	CCC
B-9	933635AR5	CC	CCC

WaMu Mortgage Pass-Through Certificates Series 2007-OA3 Trust
Series 2007-OA03

		Rating	
Class	CUSIP	To	From
CA-1B	93364AAE2	BBB	AAA
CA-1C	93364AAF9	BB	AAA
B-1	93364AAJ1	B	AA+
B-2	93364AAK8	CCC	BBB-/Watch Neg
B-3	93364AAL6	CCC	BB+/Watch Neg

WaMu Mortgage Pass-Through Certificates Series 2007-OA4 Trust
Series 2007-OA4

		Rating	
Class	CUSIP	To	From
CA-1C	93364CAE8	BB	AAA
B-1	93364CAH1	B	AA+
B-2	93364CAJ7	CCC	BBB/Watch Neg
B-3	93364CAK4	CCC	BBB-/Watch Neg

WaMu Mortgage Pass-Through Certificates Series 2007-OA5 Trust
Series 2007-OA5

		Rating	
Class	CUSIP	To	From
CA-1B	93364BAD2	AA	AAA
CA-1C	93364BAE0	BB	AAA
B-1	93364BAH3	B	BBB+/Watch Neg
B-2	93364BAJ9	CCC	BB/Watch Neg

B-3	93364BAK6	CC	BB-/Watch Neg
B-4	93364BAL4	CC	B/Watch Neg
B-5	93364BAM2	CC	CCC

WaMu Mortgage Pass-Through Certificates, Series 2006-AR9
Series 2006-AR9

		Rating	
Class	CUSIP	To	From
B2	93363DAL1	BBB	AA
B3	93363DAM9	BB	AA-/Watch Neg
B4	93363DAN7	B+	A+/Watch Neg
B5	93363DAP2	B	A/Watch Neg
B6	93363DAQ0	B-	A-/Watch Neg
B7	93363DAR8	CCC	BBB+/Watch Neg
B8	93363DAS6	CCC	BB/Watch Neg
B9	93363DAT4	CCC	B/Watch Neg
B10	93363DAU1	CC	CCC
B11	93363DAW7	CC	CCC

Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2006-AR1
Trust
Series 2006-AR1

		Rating	
Class	CUSIP	To	From
A-1C	93934FJS2	B	AA/Watch Neg
B-1	93934FJV5	CCC	B/Watch Neg
B-2	93934FJW3	CC	CCC
B-3	93934FJX1	CC	CCC
B-5	93934FKE1	D	CC

Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2007-OA1
Trust
Series 2007-OA1

		Rating	
Class	CUSIP	To	From
1A	93935NAA2	A	AAA
2A	93935NAB0	A	AAA
CA-1B	93935NAC8	BB	A
CA-1C	93935NAD6	B	BBB
CX-1	93935NAE4	A	AAA
CX-2-PPP	93935NAF1	A	AAA
B-1	93935NAG9	CCC	BB
B-2	93935NAH7	CCC	B+
B-3	93935NAJ3	CCC	B
B-4	93935NAK0	CCC	B-

Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2007-OA4
Trust
Series 2007-OA4

Rating

Class	CUSIP	To	From
A-1B	93936MAB1	AA	AAA
A-1C	93936MAC9	BB	A
A-1D	93936MAD7	B	BBB
B-1	93936MAF2	CCC	BB
B-2	93936MAG0	CCC	B
B-3	93936MAH8	CCC	B-
B-5	93936MAK1	CC	CCC

Washington Mutual Mortgage Pass-Through Certificates, WMALT Series 2007-OA2 Trust
Series 2007-OA2

		Rating	
Class	CUSIP	To	From
1A	93935QAA5	A	AAA
2A	93935QAB3	A	AAA
CA-1B	93935QAC1	BB	A
CA-1C	93935QAD9	B	BBB
CX-1	93935QAE7	A	AAA
CX-2-PPP	93935QAF4	A	AAA
B-1	93935QAG2	CCC	BB
B-2	93935QAH0	CCC	B+
B-3	93935QAJ6	CCC	B

RATINGS AFFIRMED

Alternative Loan Trust 2006-OA11
Series 2006-OA11

Class	CUSIP	Rating
A-1B	02147DAB7	AAA
A-1C	02147DAC5	AAA
A-2	02147DAD3	AAA
A-3B1	02147DAS0	AAA
A-4	02147DAU5	AAA

Alternative Loan Trust 2006-OA16
Series 2006-OA16

Class	CUSIP	Rating
A-1B	23242GAB0	AAA
A-1C	23242GAC8	AAA
A-1D	23242GAD6	AAA
A-2	23242GAE4	AAA
A-3	23242GAF1	AAA
A-4A	23242GAG9	AAA
A-4B	23242GAR5	AAA
A-4C	23242GAZ7	AAA

Alternative Loan Trust 2006-OA2
Series 2006-OA2

Class	CUSIP	Rating

A-1	126694R75	AAA
A-2A	126694R83	AAA
A-2B	126694R91	AAA
A-3	126694S25	AAA
A-5	126694S41	AAA
X-1	126694S66	AAA
X-2	126694V96	AAA
X-1P	126694Z68	AAA

Alternative Loan Trust 2006-OA6
Series 2006-OA6

Class	CUSIP	Rating
1A-1A	12668BD91	AAA
1A-2	12668BE33	AAA
1A-3	12668BE41	AAA
1A-4B	12668BE66	AAA

Alternative Loan Trust 2006-OA8
Series 2006-OA8

Class	CUSIP	Rating
1-A-1	02147CAA1	AAA
1-A-2	02147CAB9	AAA
2-A-2	02147CAE3	AAA
2-A-3	02147CAF0	AAA
2-A-4	02147CAG8	AAA
X	02147CAJ2	AAA

Chevy Chase Funding LLC Mortgage-Backed Certificates, Series 2006-2 Trust
Series 2006-2

Class	CUSIP	Rating
A-1	16678WAA4	AAA
A-2	16678WAB2	AAA
A-NA		AAA

Chevy Chase Funding LLC Mortgage-Backed Certificates, Series 2007-1 Trust
Series 2007-1

Class	CUSIP	Rating
A-1	16679AAA1	AAA
A-1I		AAA
A-2	16679AAB9	AAA
A-NA		AAA
B-1	16679AAC7	A

Chevy Chase Funding LLC Mortgage-Backed Certificates, Series 2007-2 Trust
Series 2007-2

Class	CUSIP	Rating
A-1	16679BAA9	AAA
A-1I		AAA
A-2	16679BAB7	AAA
A-NA		AAA

Chevy Chase Funding LLC Trust, Series 2006-1
Series 2006-1

Class	CUSIP	Rating
A-1	16678RFB8	AAA
A-2	16678RFC6	AAA
A-NA		AAA

CHL Mortgage Pass-Through Trust 2006-3
Series 2006-3

Class	CUSIP	Rating
1-A-1	126694YJ1	AAA
1-A-2	126694YK8	AAA
2-A-1	126694YM4	AAA
2-A-2	126694YN2	AAA
3-A-1	126694YQ5	AAA

WaMu Mortgage Pass-Through Ceritifcates Series 2006-AR3 Trust
Series 2006-AR3

Class	CUSIP	Rating
A-1A	92925CDA7	AAA
A-1B	92925CDB5	AAA
A-1C	92925CDC3	AAA
X	92925CDE9	AAA
B-1	92925CDF6	AA+
B-2	92925CDG4	AA

WaMu Mortgage Pass-Through Certificates Series 2006-AR7 Trust
Series 2006-AR7

Class	CUSIP	Rating
1A	93363CAA7	AAA
2A	93363CAB5	AAA
3A	93363CAC3	AAA
3A-1B	93363CAD1	AAA
CA-1B1	93363CAE9	AAA
CA-1B2	93363CAF6	AAA
CA-1B3	93363CAG4	AAA
CA-1B4	93363CAH2	AAA
CX-PPP	93363CAJ8	AAA
3X-PPP	93363CAK5	AAA

WaMu Mortgage Pass-Through Certificates Series 2007-OA1 Trust
Series 2007-OA1

Class	CUSIP	Rating
A-1A	92926WAA5	AAA
A-1B	92926WAB3	AAA
X-1-PPP	92926WAD9	AAA
X-2	92926WAE7	AAA

WaMu Mortgage Pass-Through Certificates Series 2007-OA2 Trust

Series 2007-OA2

Class	CUSIP	Rating
1A	933635AA2	AAA
2A	933635AB0	AAA
CA-1B	933635AC8	AAA
1X-2	933635AF1	AAA

WaMu Mortgage Pass-Through Certificates Series 2007-OA3 Trust
Series 2007-OA03

Class	CUSIP	Rating
1A	93364AAA0	AAA
2A	93364AAB8	AAA
2A-1A	93364AAC6	AAA
2A-1B	93364AAD4	AAA
CX-PPP	93364AAH5	AAA
2X-1	93364AAG7	AAA

WaMu Mortgage Pass-Through Certificates Series 2007-OA4 Trust
Series 2007-OA4

Class	CUSIP	Rating
1A	93364CAA6	AAA
1A-1B	93364CAB4	AAA
2A	93364CAC2	AAA
CA-1B	93364CAD0	AAA
1X-PPP	93364CAF5	AAA
2X-PPP	93364CAG3	AAA

WaMu Mortgage Pass-Through Certificates Series 2007-OA5 Trust
Series 2007-OA5

Class	CUSIP	Rating
1A	93364BAA8	AAA
1A-1B	93364BAB6	AAA
2A	93364BAC4	AAA

WaMu Mortgage Pass-Through Certificates, Series 2006-AR9
Series 2006-AR9

Class	CUSIP	Rating
1A	93363DAA5	AAA
2A	93363DAB3	AAA
2A-1B	93363DAC1	AAA
1A-1B1	93363DAD9	AAA
1A-1B2	93363DAE7	AAA
1A-1B3	93363DAF4	AAA
1A-1B4	93363DAG2	AAA
1X-PPP	93363DAH0	AAA
2X-PPP	93363DAJ6	AAA
B1	93363DAK3	AA+

Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2006-AR1
Trust

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Series 2006-AR1

Class	CUSIP	Rating
A-1A	93934FJQ6	AAA
A-1B	93934FJR4	AAA
X-1	93934FJT0	AAA
X-2	93934FJU7	AAA

Washington Mutual Mortgage Pass-Through Certificates WMALT Series 2007-OA4 Trust

Series 2007-OA4

Class	CUSIP	Rating
A-1A	93936MAA3	AAA

EXHIBIT S

STANDARD & POOR'S Global Credit Portal

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October 6, 2008

331 Ratings Lowered On 22 U.S. Hybrid Alt-A RMBS Transactions From 2006, 2007; 61 Affirmed

Primary Credit Analyst:
Manish Consul, New York (1) 212-438-3870; manish_consul@standardandpoors.com

Secondary Credit Analysts:
Scott Davey, New York (1) 212-438-2441; scott_davey@standardandpoors.com
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com

NEW YORK (Standard & Poor's) Oct. 6, 2008--Standard & Poor's Ratings Services today lowered its ratings on 331 classes from 22 residential mortgage-backed securities (RMBS) transactions backed by U.S. hybrid Alternative-A (Alt-A) mortgage loan collateral issued in 2006 and 2007. The downgraded classes have a current balance of approximately $3.496 billion. We removed 248 of the lowered ratings from CreditWatch with negative implications. In addition, we affirmed our ratings on 61 classes and removed 18 of the affirmed ratings from CreditWatch negative (see list).

The downgrades reflect our opinion that projected credit support for the affected classes is insufficient to maintain the previous ratings, given our current projected losses as stated in "Revised Projected Losses For 2006/First-Half 2007 U.S. Alt-A Short-Reset Hybrid And Neg-Am RMBS," published Aug. 20, 2008, on RatingsDirect. We arrived at our estimated projected losses for the Alt-A RMBS deals using the analysis outlined in "Standard & Poor's Revised Default And Loss Curves For U.S. Alt-A RMBS Transactions," published Dec. 19, 2007, on RatingsDirect. The revised loss assumptions used in this review also include the new loss severity assumptions, which were outlined in " Criteria: Standard & Poor's Revises U.S. Subprime, Prime, And Alternative-A RMBS Loss Assumptions," published on July 30, 2008, on RatingsDirect.

As part of our analysis, we considered the characteristics of the underlying mortgage collateral as well as macroeconomic influences. For example, the risk profile of the underlying mortgage pools influences our default projections, while our outlook for housing price declines and the health of the housing market influence our loss severity assumptions.

To assess the creditworthiness of each class, we reviewed the individual delinquency and loss trends of each transaction for changes, if any, in risk characteristics, servicing, and the expected ability to withstand additional credit deterioration. In order to maintain a rating higher than 'B', a class had to absorb losses in excess of the base-case assumptions we assumed in our analysis. For example, one class may have to withstand approximately 115% of our base-case loss assumptions in order to maintain a 'BB' rating, while a different class may have to withstand approximately 125% of our base-case loss assumptions to maintain a 'BBB' rating. A class that has an affirmed 'AAA' rating can likely withstand approximately 150% of our base-case loss assumptions under our analysis, subject to individual caps and qualitative factors assumed on specific transactions.

We also took into account the pay structure of each transaction and only stressed each class with losses that would occur while it remained outstanding. Additionally, we only gave excess interest credit for the amount of time the class would be outstanding. For example, if we projected a class to pay down in 15 months, then we only applied 15 months of losses to that class. Additionally, in such a case we assumed 15 months of excess spread if the class was structured with excess spread as credit enhancement.

In the coming weeks, Standard & Poor's will continue to analyze the remaining transactions affected by our revised loss expectations. We will analyze deals in order of performance, looking at worse-performing deals first.

RATING ACTIONS

Adjustable Rate Mortgage Trust 2006-1
Series 2006-1

		Rating	
Class	CUSIP	To	From
1-A-1	225470A78	B	AAA/Watch Neg
1-A-2	225470A86	A	AAA
1-A-3	225470E74	B	AAA/Watch Neg
2-A-1	225470A94	A	AAA
2-A-2	225470B28	B	AAA/Watch Neg
3-A-2	225470B44	B	AAA/Watch Neg
3-A-3	225470E82	A	AAA
3-A-4	225470E90	B	AAA/Watch Neg
4-A-1	225470B51	A	AAA
4-A-2	225470B69	B	AAA/Watch Neg
5-A-1	225470B77	A	AAA
5-A-2	225470B85	B	AAA/Watch Neg
C-B-1	225470C76	CCC	AA+/Watch Neg
C-B-2	225470C84	CCC	AA/Watch Neg

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C-B-3	225470C92	CC	BBB/Watch Neg
C-B-4	225470D42	CC	BB/Watch Neg
C-B-5	225470D59	CC	B/Watch Neg
C-B-6	225470D67	CC	CCC
C-B-7	225470F24	D	CCC
6-A-1	225470B93	A	AAA/Watch Neg
6-A-2	225470C27	BB	AAA/Watch Neg
6-M-1	225470C35	CCC	A/Watch Neg
6-M-2	225470C43	CC	BB/Watch Neg
6-M-4	225470C68	D	CC

Bear Stearns ALT-A Trust 2007-2
Series 2007-2

		Rating	
Class	CUSIP	To	From
I-A-1	073870AA5	BB	AAA
I-A-2	073870AB3	B	AA+/Watch Neg
I-M-1	073870AC1	CCC	A-/Watch Neg
I-B-2	073870AE7	CC	CCC
II-A-2	073870AH0	AA	AAA/Watch Neg
II-A-3	073870AJ6	B	AAA/Watch Neg
II-X-2	073870AL1	AA	AAA
II-X-3	073870AM9	B	AAA
II-B-1	073870AN7	CCC	BB/Watch Neg
II-BX-1	073870AP2	CCC	BB/Watch Neg
II-B-2	073870AQ0	CCC	B/Watch Neg
II-B-3	073870AR8	CC	CCC
II-B-5	073870AW7	D	CC

JPMorgan Alternative Loan Trust 2006-A1
Series 2006-A1

		Rating	
Class	CUSIP	To	From
1-A-2	46627MCT2	AAA	AAA/Watch Neg
1-M-1	46627MDL8	BBB	AA+/Watch Neg
1-M-2	46627MDM6	B	A+/Watch Neg
1-B-1	46627MDN4	CCC	BBB+/Watch Neg
1-B-2	46627MDP9	CC	BBB/Watch Neg
2-A-3	46627MCW5	BBB	AAA/Watch Neg
2-A-X	46627MCX3	AAA	AAA/Watch Neg
3-A-2	46627MCZ8	BBB	AAA/Watch Neg
4-A-2	46627MDB0	BBB	AAA/Watch Neg
5-A-2	46627MDG9	BBB	AAA/Watch Neg
C-B-1	46627MDH7	CCC	AA/Watch Neg
C-B-2	46627MDJ3	CCC	B/Watch Neg
C-B-3	46627MDK0	CC	CCC

JPMorgan Alternative Loan Trust 2006-A5
Series 2006-A5

Rating

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Class	CUSIP	To	From
1-A-5	466284AE6	BB	AAA/Watch Neg
1-M-1	466284AF3	B	AA+/Watch Neg
1-M-2	466284AG1	CCC	AA-/Watch Neg
1-B-1	466284AH9	CC	A-/Watch Neg
1-B-2	466284AJ5	CC	BBB+/Watch Neg
2-A-8	466284AT3	BB	AAA/Watch Neg
2-M-1	466284AV8	CCC	AA+/Watch Neg
2-M-2	466284AW6	CCC	AA-/Watch Neg
2-B-1	466284AX4	CC	A-/Watch Neg
2-B-2	466284AY2	CC	BBB+/Watch Neg

JPMorgan Alternative Loan Trust 2006-A6
Series 2006-A6

		Rating	
Class	CUSIP	To	From
1-A-4	466285AD5	AAA	AAA/Watch Neg
1-A-5	466285AE3	BB	AAA/Watch Neg
1-M-1	466285AF0	CCC	BB+/Watch Neg
1-M-2	466285AG8	CCC	B/Watch Neg
1-B-1	466285AH6	CC	CCC
2-A-1	466285AK9	AAA	AAA/Watch Neg
2-A-2	466285AL7	AAA	AAA/Watch Neg
2-A-3	466285AM5	AAA	AAA/Watch Neg
2-A-4	466285AN3	AAA	AAA/Watch Neg
2-A-5	466285AP8	AAA	AAA/Watch Neg
2-A-6	466285AQ6	AAA	AAA/Watch Neg
2-A-7	466285AR4	AAA	AAA/Watch Neg
2-A-8	466285AS2	A	AAA/Watch Neg
2-M-1	466285AT0	CCC	AA+/Watch Neg
2-M-2	466285AU7	CCC	AA-/Watch Neg
2-B-1	466285AV5	CC	A-/Watch Neg
2-B-2	466285AW3	CC	BB/Watch Neg

JPMorgan Alternative Loan Trust 2007-A1
Series 2007-A1

		Rating	
Class	CUSIP	To	From
1-A-1A	466287AA7	BBB	AAA
1-A-3A	466287AC3	BBB	AAA
1-A-1B	466287BD0	BBB	AAA
1-A-4	466287AD1	BBB	AAA
1-A-5	466287AE9	B	AAA/Watch Neg
1-M-1	466287AF6	CCC	AA+/Watch Neg
1-M-2	466287AG4	CCC	AA+/Watch Neg
1-M-3	466287AH2	CCC	AA/Watch Neg
1-M-4	466287AJ8	CC	AA-/Watch Neg
1-M-5	466287AK5	CC	A+/Watch Neg
1-M-6	466287AL3	CC	A-/Watch Neg
1-B-1	466287AM1	CC	BBB/Watch Neg

VerDate Nov 24 2008 09:58 Dec 06, 2010 Jkt 57321 PO 00000 Frm 001174 Fmt 06601 Sfmt 06601 P:\DOCS\57321.TXT SAFFAIRS PsN: PAT

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1-B-2	466287AN9	CC	BB+/Watch Neg
2-A-1	466287AP4	BB	AAA/Watch Neg
2-A-1A	466287BY4	BB	AAA/Watch Neg
2-A-1B	466287BZ1	BB	AAA/Watch Neg
2-A-1C	466287BE8	BB	AAA/Watch Neg
2-A-1D	466287BF5	BB	AAA/Watch Neg
2-A-1E	466287BG3	BB	AAA/Watch Neg
2-A-1F	466287BH1	BB	AAA/Watch Neg
2-A-1G	466287BJ7	BB	AAA/Watch Neg
2-A-1H	466287BK4	BB	AAA/Watch Neg
2-A-1I	466287BL2	BB	AAA/Watch Neg
2-A-1J	466287BM0	BB	AAA/Watch Neg
2-A-2	466287AQ2	B	AAA/Watch Neg
3-A-1	466287AR0	BB	AAA/Watch Neg
3-A-1A	466287BN8	BB	AAA/Watch Neg
3-A-1B	466287BP3	BB	AAA/Watch Neg
3-A-1C	466287BQ1	BB	AAA/Watch Neg
3-A-1D	466287BR9	BB	AAA/Watch Neg
3-A-1E	466287BS7	BB	AAA/Watch Neg
3-A-1F	466287BT5	BB	AAA/Watch Neg
3-A-1G	466287BU2	BB	AAA/Watch Neg
3-A-1H	466287BV0	BB	AAA/Watch Neg
3-A-1I	466287BW8	BB	AAA/Watch Neg
3-A-1J	466287BX6	BB	AAA/Watch Neg
3-A-2	466287AS8	B	AAA/Watch Neg
C-B-1	466287AT6	CCC	AA/Watch Neg
C-B-2	466287AU3	CCC	A/Watch Neg
C-B-3	466287AV1	CC	BBB/Watch Neg
C-B-4	466287AX7	CC	B/Watch Neg
C-B-5	466287AY5	D	CCC

Merrill Lynch Mortgage Investors Trust Series 2006-AF2
Series 2006-AF2

		Rating	
Class	CUSIP	To	From
AF-1	59023NAP3	AAA	AAA/Watch Neg
AF-3	59023NAR9	AAA	AAA/Watch Neg
MF-1	59023NAS7	AA	AA/Watch Neg
MF-2	59023NAT5	B	A/Watch Neg
MF-3	59023NAU2	CCC	BBB/Watch Neg
BF-1	59023NBA5	CCC	BB/Watch Neg
BF-2	59023NBB3	CCC	B/Watch Neg
AV-1	59023NAA6	BB	AAA/Watch Neg
AV-2A	59023NAB4	AA	AAA/Watch Neg
AV-2B	59023NAC2	BB	AAA/Watch Neg
AV-2C	59023NAD0	BB	AAA/Watch Neg
AV-2D	59023NBD9	BB	AAA/Watch Neg
MV-1	59023NAE8	B+	AA+/Watch Neg
MV-2	59023NAF5	B	AA/Watch Neg
MV-3	59023NAG3	B-	AA-/Watch Neg

MV-4	59023NAH1	CCC	A+/Watch Neg
MV-5	59023NAJ7	CCC	A-/Watch Neg
MV-6	59023NAK4	CCC	BB+/Watch Neg
BV-1	59023NAL2	CCC	B/Watch Neg
BV-2	59023NAM0	CC	BB/Watch Neg
BV-3	59023NAN8	CC	BB/Watch Neg

Morgan Stanley Mortgage Loan Trust 2006-1AR
Series 2006-1AR

		Rating	
Class	CUSIP	To	From
1-A-1	61748HUF6	BB	AAA/Watch Neg
1-A-2	61748HUG4	A	AAA
1-A-3	61748HUH2	BB	AAA/Watch Neg
1-A-X	61748HUJ8	A	AAA
1-M-X	61748HUQ2	B	AAA
2-A	61748HUK5	B	AAA/Watch Neg
3-A	61748HUL3	B	AAA/Watch Neg
4-A-1	61748HUM1	BBB	AAA/Watch Neg
4-A-2	61748HUN9	B	AAA/Watch Neg
4-A-3	61748HUP4	B	AAA/Watch Neg
1-M-1	61748HUR0	B	AA+/Watch Neg
1-M-2	61748HUS8	CCC	AA/Watch Neg
B-1	61748HVA6	CCC	BB/Watch Neg
1-M-3	61748HUT6	CCC	AA-/Watch Neg
1-M-4	61748HUU3	CCC	A+/Watch Neg
1-M-5	61748HUV1	CCC	A/Watch Neg
1-M-6	61748HUW9	CCC	BBB/Watch Neg
1-B-1	61748HUX7	CC	BB/Watch Neg
1-B-2	61748HUY5	CC	B/Watch Neg
B-3	61748HVC2	CC	CCC
1-B-3	61748HUZ2	CC	B/Watch Neg
1-B-4	61748HTW1	CC	CCC
1-B-5	61748HTX9	D	CCC
B-5	61748HUA7	D	CC

Morgan Stanley Mortgage Loan Trust 2006-5AR
Series 2006-5AR

		Rating	
Class	CUSIP	To	From
A	61748HYQ8	B	AA
A-X	61748HYR6	B	AA
M-X	61748HYS4	CCC	AA
M-1	61748HYT2	CCC	BBB/Watch Neg
M-2	61748HYU9	CCC	BB/Watch Neg
M-3	61748HYV7	CCC	BB/Watch Neg
M-4	61748HYW5	CCC	B/Watch Neg
M-5	61748HYX3	CC	CCC
M-6	61748HYY1	CC	CCC
M-7	61748HYZ8	CC	CCC

M-8	61748HZA2	CC	CCC
M-9	61748HZB0	CC	CCC

Morgan Stanley Mortgage Loan Trust 2006-6AR
Series 2006-6AR

		Rating	
Class	CUSIP	To	From
1-A-1	61749CAA9	B	AAA/Watch Neg
1-A-2	61749CAB7	AAA	AAA/Watch Neg
1-A-3	61749CAC5	B	AAA/Watch Neg
1-A-4	61749CAD3	A	AAA/Watch Neg
1-A-5	61749CAE1	B	AAA/Watch Neg
1-M-1	61749CAQ4	CCC	AA/Watch Neg
1-M-2	61749CAR2	CCC	A/Watch Neg
1-M-3	61749CAS0	CCC	BBB-/Watch Neg
1-M-4	61749CAT8	CCC	BB/Watch Neg
1-M-5	61749CAU5	CCC	B/Watch Neg
1-M-6	61749CAV3	CC	B/Watch Neg
1-B-1	61749CAW1	CC	CCC
1-B-3	61749CAY7	D	CC
2-A	61749CAF8	B	AAA/Watch Neg
3-A-1	61749CAG6	BBB	AAA/Watch Neg
3-A-2	61749CAH4	BBB-	AAA/Watch Neg
3-A-3	61749CAJ0	B	AAA/Watch Neg
3-A-4	61749CAK7	B+	AAA/Watch Neg
3-A-5	61749CAL5	B	AAA/Watch Neg
4-A-1	61749CAM3	BBB-	AAA/Watch Neg
4-A-2	61749CAN1	B	AAA/Watch Neg
4-A-3	61749CAP6	BBB-	AAA/Watch Neg
B-1	61749CAZ4	CCC	B/Watch Neg
B-5	61749CBF7	D	CC

Morgan Stanley Mortgage Loan Trust 2007-2AX
Series 2007-2AX

		Rating	
Class	CUSIP	To	From
1-A	61751TAA7	B	AAA/Watch Neg
2-A-1	61751TAB5	BB	AAA
2-A-2	61751TAC3	BB	AAA
2-A-3	61751TAD1	BB	AAA
2-A-4	61751TAE9	B	AAA/Watch Neg
M-1	61751TAF6	CCC	AA+/Watch Neg
M-2	61751TAG4	CCC	A+/Watch Neg
M-3	61751TAH2	CCC	BBB/Watch Neg
M-4	61751TAJ8	CCC	BB/Watch Neg
M-5	61751TAK5	CCC	B/Watch Neg
M-6	61751TAL3	CC	CCC
B-1	61751TAM1	CC	CCC

Morgan Stanley Mortgage Loan Trust 2007-7AX

Series 2007-7AX

		Rating	
Class	CUSIP	To	From
1-A	61754HAA0	B	AAA/Watch Neg
2-A-1	61754HAB8	BB	AAA
2-A-2	61754HAC6	BB	AAA
2-A-3	61754HAD4	BB	AAA
2-A-4	61754HAE2	B	AAA/Watch Neg
2-A-5	61754HAF9	A	AAA
2-A-6	61754HAG7	B	AAA/Watch Neg
M-1	61754HAH5	CCC	BBB/Watch Neg
M-2	61754HAJ1	CCC	BB/Watch Neg
M-3	61754HAK8	CCC	B/Watch Neg

Nomura Asset Acceptance Corporation, Alternative Loan Trust Series 2007-1
Series 2007-1

		Rating	
Class	CUSIP	To	From
I-A-1A	65538PAA6	A	AAA/Watch Neg
I-A-IB	65538PAB4	A	AAA/Watch Neg
I-A-2	65538PAC2	B	AAA/Watch Neg
I-M-1	65538PAH1	CCC	AA/Watch Neg
I-M-2	65538PAJ7	CCC	AA-/Watch Neg
I-M-3	65538PAK4	CCC	A/Watch Neg
I-M-4	65538PAL2	CC	BBB+/Watch Neg
I-M-5	65538PAM0	CC	BB/Watch Neg
I-M-6	65538PAN8	CC	B/Watch Neg
II-A-1	65538NAA1	BB	AAA/Watch Neg
II-A-2	65538NAB9	BB	AAA/Watch Neg
II-A-3	65538NAC7	BB	AAA/Watch Neg
II-A-4	65538NAD5	BB	AAA/Watch Neg
II-A-M	65538NAE3	AA	AAA/Watch Neg
II-M-1	65538NAF0	CCC	BB/Watch Neg
II-M-2	65538NAG8	CCC	B/Watch Neg

Nomura Asset Acceptance Corporation, Alternative Loan Trust, Series 2006-AF2
Series 2006-AF2

		Rating	
Class	CUSIP	To	From
I-A-1	65536VAA5	AAA	AAA/Watch Neg
I-A-2	65536VAB3	BBB	AAA/Watch Neg
I-A-3	65536VAC1	B	AAA/Watch Neg
I-A-4	65536VAD9	B	AAA/Watch Neg
I-A-5	65536VAE7	B	AAA/Watch Neg
I-A-6	65536VAF4	B	AAA/Watch Neg
I-M-2	65536VAH0	CC	CCC
II-A	65536XAA1	B	AAA/Watch Neg
III-A-1	65536XAB9	B+	AAA/Watch Neg
III-A-2	65536XAC7	B	AAA/Watch Neg
IV-A	65536XAD5	B	AAA/Watch Neg

C-B-1	65536XAE3	CC	CCC
C-B-2	65536XAF0	CC	CCC
C-B-4	65536XAH6	D	CC
V-A-1	65536XAN3	B+	AAA/Watch Neg
V-A-2	65536XAP8	B	BBB
V-M-4	65536XAT0	D	CC
V-M-5	65536XAU7	D	CC

Nomura Home Equity Loan, Inc., Home Equity Loan Trust, Series 2007-1
Series 2007-1

		Rating	
Class	CUSIP	To	From
I-A-1	65537KAV2	A	AAA/Watch Neg
I-A-2	65537KAW0	B	AAA/Watch Neg
I-A-3	65537KAX8	B	AAA/Watch Neg
I-A-4	65537KAY6	B	AAA/Watch Neg
I-M-1	65537KAZ3	CCC	BB/Watch Neg
I-M-2	65537KBA7	CC	B/Watch Neg
II-1-A	65537KAA8	B	AAA/Watch Neg
II-2-A-1A	65537KAB6	B+	AAA/Watch Neg
II-2-A-1B	65537KAC4	B	AAA/Watch Neg
II-2-A-2	65537KAD2	B	AAA/Watch Neg
II-2-A-3	65537KAE0	B	AAA/Watch Neg
II-2-A-4A	65537KAF7	B+	AAA/Watch Neg
II-2-A-4B	65537KAG5	B	AAA/Watch Neg
II-M-1	65537KAH3	CCC	BB+/Watch Neg
II-M-2	65537KAJ9	CCC	BB/Watch Neg
II-M-3	65537KAK6	CC	B/Watch Neg
II-M-4	65537KAL4	CC	B/Watch Neg
II-M-5	65537KAM2	CC	CCC
II-M-6	65537KAN0	D	CCC
II-M-7	65537KAP5	D	CC
II-M-8	65537KAQ3	D	CC

Opteum Mortgage Acceptance Corporation Trust 2006-1
Series 2006-1

		Rating	
Class	CUSIP	To	From
I-APT	68383NDT7	A	AAA/Watch Neg
I-A1A	68383NDU4	AAA	AAA/Watch Neg
I-A1B	68383NDV2	A	AAA/Watch Neg
I-A1C2	68383NDX8	A	AAA/Watch Neg
II-APT	68383NDY6	A	AAA/Watch Neg
II-A2	68383NEA7	A	AAA/Watch Neg
M-1	68383NEB5	BB	AA+/Watch Neg
M-2	68383NEC3	B	AA/Watch Neg
M-3	68383NED1	CCC	BB/Watch Neg
M-4	68383NEE9	CCC	B/Watch Neg

RALI Series 2006-QA1 Trust

Series 2006-QA1

Class	CUSIP	Rating To	Rating From
A-I-1	761118SZ2	A	AAA
A-I-2	761118TA6	B	AAA/Watch Neg
A-II-1	761118TB4	A	AAA
A-II-2	761118TC2	B	AAA/Watch Neg
A-III-1	761118TD0	A	AAA
A-III-2	761118TE8	B	AAA/Watch Neg
M-1	761118TG3	CCC	BB/Watch Neg
M-2	761118TH1	CC	CCC
B-1	761118TK4	D	CC

RALI Series 2006-QA2 Trust
Series 2006-QA2

Class	CUSIP	Rating To	Rating From
I-A-1	761118TN8	BB	AAA
I-A-2	761118TP3	B	A/Watch Neg
I-A-IO	761118TQ1	BB	AAA/Watch Neg
II-A-1	761118TR9	BB	AAA
II-A-2	761118TS7	B	A/Watch Neg
II-A-IO	761118TT5	BB	AAA/Watch Neg
III-A-1	761118TU2	BB	AAA
III-A-2	761118TV0	B	A/Watch Neg
III-A-IO	761118TW8	BB	AAA/Watch Neg
M-1	761118UA4	CCC	B/Watch Neg
M-2	761118UB2	CC	CCC
B-1	761118UD8	D	CC

RALI Series 2006-QA5 Trust
Series 2006-QA5

Class	CUSIP	Rating To	Rating From
I-A-1	75115BAA7	BB	AAA/Watch Neg
I-A-3	75115BAY5	BB	AAA/Watch Neg
I-M-1	75115BAF6	B+	AA+/Watch Neg
I-M-2	75115BAG4	B	AA+/Watch Neg
I-M-3	75115BAH2	B-	AA+/Watch Neg
I-M-4	75115BAJ8	CCC	AA/Watch Neg
I-M-5	75115BAK5	CCC	AA-/Watch Neg
I-M-6	75115BAL3	CC	A-/Watch Neg
I-M-7	75115BAM1	CC	BB/Watch Neg
I-M-8	75115BAN9	CC	B/Watch Neg
I-M-9	75115BAP4	CC	CCC
II-A-1	75115BAC3	AA	AAA
II-A-2	75115BAD1	B	AAA/Watch Neg
II-M-1	75115BAQ2	CCC	BB/Watch Neg
II-B-2	75115BAV1	D	CC

RALI Series 2006-QA6 Trust
Series 2006-WA6

		Rating	
Class	CUSIP	To	From
A-1	74922MAA9	BB	AAA/Watch Neg
A-2	74922MAB7	AA	AAA
A-3	74922MAC5	AA	AAA
A-4	74922MAD3	BB	AAA/Watch Neg
M-1	74922MAE1	B	A/Watch Neg
M-2	74922MAF8	B-	BBB/Watch Neg
M-4	74922MAH4	CCC	BB/Watch Neg
M-5	74922MAJ0	CCC	B/Watch Neg
M-6	74922MAK7	CCC	B/Watch Neg
M-7	74922MAL5	CC	CCC
M-8	74922MAM3	CC	CCC
M-3	74922MAG6	CCC	BB/Watch Neg

RALI Series 2007-QA4 Trust
Series 2007-QA4

		Rating	
Class	CUSIP	To	From
A-1-A	74923YAA2	BB	AAA
A-1-B	74923YAB0	BB	AAA
A-2	74923YAC8	B	AAA/Watch Neg
M-1	74923YAD6	CCC	BB
M-2	74923YAE4	CC	CCC

RAMP Series 2006-RS6 Trust
Series 2006-RS6

		Rating	
Class	CUSIP	To	From
A-1	75156QAA4	AAA	AAA/Watch Neg
A-2	75156QAB2	AAA	AAA/Watch Neg
A-3	75156QAC0	B	AAA/Watch Neg
A-4	75156QAD8	B	AAA/Watch Neg
M-1	75156QAE6	CCC	AA+/Watch Neg
M-2	75156QAF3	CCC	AA/Watch Neg
M-4	75156QAH9	CC	CCC
M-9	75156QAN6	D	CC
B	75156QAP1	D	CC

RATINGS AFFIRMED

Adjustable Rate Mortgage Trust 2006-1
Series 2006-1

Class	CUSIP	Rating
3-A-1	225470B36	AAA

Bear Stearns ALT-A Trust 2007-2
Series 2007-2

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Class	CUSIP	Rating
II-A-1	073870AG2	AAA
II-X-1	073870AK3	AAA

JPMorgan Alternative Loan Trust 2006-A1
Series 2006-A1

Class	CUSIP	Rating
1-A-1	46627MCS4	AAA
2-A-1	46627MCU9	AAA
2-A-2	46627MCV7	AAA
3-A-1	46627MCY1	AAA
4-A-1	46627MDA2	AAA
4-A-3	46627MDC8	AAA
4-A-4	46627MDD6	AAA
4-A-X	46627MDE4	AAA
5-A-1	46627MDF1	AAA

JPMorgan Alternative Loan Trust 2006-A5
Series 2006-A5

Class	CUSIP	Rating
1-A-1	466284AA4	AAA
1-A-2	466284AB2	AAA
1-A-3	466284AC0	AAA
1-A-4	466284AD8	AAA
1-P	466284BB1	AAA
2-A-1	466284AL0	AAA
2-A-2	466284AM8	AAA
2-A-3	466284AN6	AAA
2-A-4	466284AP1	AAA
2-A-5	466284AQ9	AAA
2-A-6	466284AR7	AAA
2-A-7	466284AS5	AAA
2-P	466284BC9	AAA

JPMorgan Alternative Loan Trust 2006-A6
Series 2006-A6

Class	CUSIP	Rating
1-A-1	466285AA1	AAA
1-A-2	466285AB9	AAA
1-A-3	466285AC7	AAA
I-P	466285AY9	AAA
2-P	466285AZ6	AAA

JPMorgan Alternative Loan Trust 2007-A1
Series 2007-A1

Class	CUSIP	Rating
1-A-2A	466287AB5	AAA
1-P	466287BA6	AAA
2-P	466287BB4	AAA

Merrill Lynch Mortgage Investors Trust Series 2006-AF2

Series 2006-AF2

Class	CUSIP	Rating
AF-2	59023NAQ1	AAA
PO	59023NAW8	AAA
IO	59023NAV0	AAA

Nomura Asset Acceptance Corporation, Alternative Loan Trust Series 2007-1

Series 2007-1

Class	CUSIP	Rating
I-A-3	65538PAD0	AAA
I-A-4	65538PAE8	AAA
I-A-5	65538PAF5	AAA
I-A-6	65538PAG3	AAA

Opteum Mortgage Acceptance Corporation Trust 2006-1

Series 2006-1

Class	CUSIP	Rating
I-A1C1	68383NDW0	AAA
II-A1	68383NDZ3	AAA

RALI Series 2006-QA5 Trust

Series 2006-QA5

Class	CUSIP	Rating
I-A-2	75115BAB5	AAA

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EXHIBIT T

STANDARD & POOR'S

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RatingsDirect

October 6, 2008

95 Ratings Lowered, 126 Affirmed On 13 U.S. Alt-A RMBS Deals Issued In 2005-2007

Primary Credit Analyst:
Jeremy Schneider, New York (1) 212-438-5230; jeremy_schneider@standardandpoors.com

Secondary Credit Analyst:
Ernestine Warner, New York (1) 212-438-2633; ernestine_warner@standardandpoors.com

NEW YORK (Standard & Poor's) Oct. 6, 2008--Standard & Poor's Ratings Services today lowered its ratings on 95 classes from 13 U.S. Alternative-A residential mortgage-backed securities (RMBS) transactions. We removed 15 of the 95 lowered ratings from CreditWatch with negative implications. Additionally, we affirmed our ratings on 126 other classes from these transactions (see list). The affected shelves include Bear Stearns Mortgage Funding Trust, Lehman XS Trust, Luminent Mortgage Trust, and WaMu Mortgage Pass-Through Certificates Trust.

The downgrades, affirmations, and CreditWatch resolutions incorporate the current and projected losses based on the dollar amounts of loans currently in the delinquency, foreclosure, and real estate owned (REO) pipelines, as well as our projection of future defaults. We also incorporated cumulative losses to date in our analysis when determining ratings outcomes.

The lowered ratings reflect our belief that the amount of credit enhancement available for the downgraded classes is not sufficient to cover losses at the previous rating levels. Total delinquencies ranged from approximately 10% to 30%, and cumulative losses to date were generally less than 1.0%. Delinquencies tended to be highest for the Lehman XS, Luminent, and Bear Stearns Mortgage Funding trusts, and lower for the WaMu transactions. Although cumulative losses for most of these transactions have been relatively low, we are projecting an increase in losses due to increases in delinquencies and the current condition of the housing market. Additionally, due to the negative amortization feature, losses may be amplified relative to those for standard forward mortgages if the balances of those particular loans should grow.

The affirmations reflect sufficient credit enhancement to support the ratings at their current levels. Certain senior classes also benefit from senior support classes that would bear any applicable losses before the losses could affect the super-senior certificates.

The subordination of more-junior classes within each structure provides credit support for the affected transactions. Additionally, some of the structures use overcollateralization and excess spread to absorb losses and accelerate payments to certain securityholders. Certain classes also utilize certificate insurers as credit enhancement. The collateral backing the affected trusts originally consisted predominantly of Alternative-A, first-lien, adjustable-rate, negative-amortization residential mortgage loans on one- to four-family properties.

We monitor these transactions over time to incorporate updated losses and delinquency pipeline performance to determine whether the applicable credit enhancement features are sufficient to support the current ratings. We will continue to monitor these transactions and take additional rating actions as appropriate.

RATING ACTIONS

Bear Stearns Mortgage Funding Trust 2007-AR2
Series 2007-AR2

		Rating	
Class	CUSIP	To	From
A-2	07401TAB2	A	AAA
A-3	07401TAC0	B	AAA/Watch Neg
B-1	07401TAD8	CCC	AA-/Watch Neg
B-2	07401TAE6	CC	BBB/Watch Neg
B-3	07401TAF3	CC	BB/Watch Neg
B-4	07401TAG1	CC	B/Watch Neg

Lehman XS Trust
Series 2005-5N

		Rating	
Class	CUSIP	To	From
M3	86359DUX3	BB	A
M4	86359DVA2	CC	BBB

Lehman XS Trust Series 2005-9N
Series 2005-9N

		Rating	
Class	CUSIP	To	From
M1	525221GS0	BBB+	AA+
M2	525221GT8	BB-	AA
M3	525221GU5	B-	AA-
M4	525221GV3	CCC	A+
M5	525221GW1	CCC	A+

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M6	525221GX9	CCC	A
M7	525221GY7	CC	BBB+
M8	525221GZ4	CC	BBB-

Lehman XS Trust Series 2005-7N
Series 2005-7N

		Rating	
Class	CUSIP	To	From
M2-I	525221EW3	BB	AA
M3-I	525221EX1	B	AA
M4-I	525221EY9	CCC	A+
M5-I	525221EZ6	CCC	A
M6-I	525221FA0	CC	A-
M7-I	525221FB8	CC	BBB
M8-I	525221FC6	CC	BBB-
M1-II	525221FD4	B	AA
M2-II	525221FE2	B-	AA-
M3-II	525221FF9	CCC	A
M4-II	525221FG7	CC	BBB+
M5-II	525221FH5	CC	BBB
M6-II	525221FJ1	CC	BBB-

Luminent Mortgage Trust 2006-6
Series 2006-6

		Rating	
Class	CUSIP	To	From
A-2A	55027YAB4	A	AAA
A-2B	55027YAE8	A	AAA
A-3	55027YAF5	B	AAA/Watch Neg
B-1	55027YAG3	CCC	AA+/Watch Neg
B-2	55027YAH1	CCC	AA/Watch Neg
B-3	55027YAJ7	CCC	AA-/Watch Neg
B-4	55027YAK4	CCC	A+/Watch Neg
B-5	55027YAL2	CC	A/Watch Neg
B-6	55027YAM0	CC	A-/Watch Neg
B-7	55027YAN8	CC	BBB/Watch Neg
B-8	55027YAP3	CC	BB/Watch Neg
B-9	55027YAQ1	CC	B/Watch Neg

WaMu Mortgage Pass Through Certificates Series 2005-AR13 Trust
Series 2005-AR13

		Rating	
Class	CUSIP	To	From
B-8	92922F5F1	BB+	BBB
B-9	92922F5G9	B+	BBB-
B-10	92922F5M6	B	BB+
B-11	92922F5N4	CCC	BB
B-12	92922F5P9	CCC	BB-
B-13	92922F5Q7	CC	B

WaMu Mortgage Pass-Through Certificates Series 2005-AR15 Trust
Series 2005-AR15

		Rating	
Class	CUSIP	To	From
B-5	92922F6J2	BBB-	A
B-6	92922F6K9	BB	A-
B-7	92922F6L7	B	BBB+
B-8	92922F6M5	B-	BBB
B-9	92922F6N3	CCC	BBB-
B-10	92922F6Q6	CCC	BB+
B-11	92922F6R4	CCC	BB
B-12	92922F6S2	CCC	BB-
B-13	92922F6T0	CC	B

WaMu Mortgage Pass-Through Certificates Series 2005-AR17 Trust
Series 2005-AR17

		Rating	
Class	CUSIP	To	From
B-5	92922F8D3	BBB	A
B-6	92922F8E1	BB	A-
B-7	92922F8F8	B	BBB+
B-8	92922F8G6	B-	BBB
B-9	92922F8H4	CCC	BBB-
B-10	92925CAA0	CCC	BB+
B-11	92925CAB8	CCC	BB
B-12	92925CAC6	CCC	BB-
B-13	92925CAD4	CC	B

WaMu Mortgage Pass-Through Certificates Series 2005-AR2 Trust
Series 2005-AR2

		Rating	
Class	CUSIP	To	From
B-6	92922FE61	BB	A-
B-7	92922FF29	B+	BBB+
B-8	92922FF37	B	BBB
B-9	92922FF45	B-	BBB-
B-10	92922FF52	CCC	BB
B-11	92922FF60	CC	B

WaMu Mortgage Pass-Through Certificates Series 2005-AR6 Trust
Series 2005-AR6

		Rating	
Class	CUSIP	To	From
B-6	92922FK49	BBB	A-
B-7	92922FK56	BB	BBB+
B-8	92922FK64	B+	BBB
B-9	92922FK72	B	BBB-
B-10	92922FK98	CCC	BB
B-11	92922FL22	CC	B

WaMu Mortgage Pass-Through Certificates Series 2005-AR9 Trust
Series 2005-AR9

		Rating	
Class	CUSIP	To	From
B-4	92922FV70	B	BB
B-5	92922FV88	CC	B

WaMu Mortgage Pass-Through Certificates Series 2006-AR4 Trust
Series 2006-AR4

		Rating	
Class	CUSIP	To	From
B-6	93934FQC9	BB+	A-
B-7	93934FQD7	B	BBB+
B-8	93934FQE5	B-	BBB
B-9	93934FQF2	CCC	BBB-

WaMu Mortgage Pass-Through Certificates Series 2006-AR5 Trust
Series 2006-AR5

		Rating	
Class	CUSIP	To	From
B-1	93362YAH5	A+	AA+
B-2	93362YAJ1	B+	AA
B-3	93362YAK8	B-	AA-
B-4	93362YAL6	CCC	A+
B-5	93362YAM4	CCC	A
B-6	93362YAN2	CCC	A-
B-7	93362YAP7	CCC	BBB+
B-8	93362YAQ5	CCC	BBB
B-9	93362YAR3	CC	BBB-
B-10	93362YAU6	CC	BB+
B-11	93362YAV4	CC	B
B-12	93362YAW2	CC	CCC

RATINGS AFFIRMED

Bear Stearns Mortgage Funding Trust 2007-AR2
Series 2007-AR2

Class	CUSIP	Rating
A-1	07401TAA4	AAA

Lehman XS Trust
Series 2005-5N

Class	CUSIP	Rating
1-A1	86359DUL9	AAA
1-A2	86359DUM7	AAA
1-A3	86359DUN5	AAA
2-A1	86359DUP0	AAA
2-A2	86359DUQ8	AAA
3-A1A	86359DUR6	AAA

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3-A1B	86359DUS4	AAA
3-A2	86359DUT2	AAA
3-A3B	86359DUY1	AAA
3-A3C	86359DUZ8	AAA
M1	86359DUV7	AA+
M2	86359DUW5	AA

Lehman XS Trust Series 2005-9N
Series 2005-9N

Class	CUSIP	Rating
1-A-1	525221GM3	AAA
1-A2	525221GN1	AAA
1-A3	525221GP6	AAA
2-A1	525221GQ4	AAA
2-A2	525221GR2	AAA

Lehman XS Trust, Series 2005-7N
Series 2005-7N

Class	CUSIP	Rating
1-A1A	525221EM5	AAA
1-A1B	525221EN3	AAA
1-A2A	525221EP8	AAA
1-A3	525221EQ6	AAA
2-A1	525221ER4	AAA
2-A2	525221ES2	AAA
M1-I	525221EV5	AA+
3-A1	525221ET0	AAA
3-A2	525221EU7	AAA

Luminent Mortgage Trust 2006-6
Series 2006-6

Class	CUSIP	Rating
A-1	55027YAD0	AAA

WaMu Mortgage Pass Through Certificates Series 2005-AR13 Trust
Series 2005-AR13

Class	CUSIP	Rating
A-1A1	92922F4M7	AAA
A-1A2	92922F4N5	AAA
A-1A3	92922F4P0	AAA
A-1B1	92922F4Q8	AAA
A-1B2	92922F4R6	AAA
A-1B3	92922F4S4	AAA
A-1C2	92922F4U9	AAA
A-1C3	92922F4V7	AAA
A-1C4	92922F4W5	AAA
X	92922F4X3	AAA
B-1	92922F4Y1	AA+
B-2	92922F4Z8	AA
B-3	92922F5A2	AA-

B-4	92922F5B0	A+
B-5	92922F5C8	A
B-6	92922F5D6	A-
B-7	92922F5E4	BBB+

WaMu Mortgage Pass-Through Certificates Series 2005-AR15 Trust
Series 2005-AR15

Class	CUSIP	Rating
A-1A1	92922F5T1	AAA
A-1A2	92922F5U8	AAA
A-1B1	92922F5V6	AAA
A-1B2	92922F5W4	AAA
A-1B3	92922F5X2	AAA
A-1B4	92922F5Y0	AAA
A-1C2	92922F6A1	AAA
A-1C3	92922F6B9	AAA
A-1C4	92922F6C7	AAA
X	92922F6D5	AAA
B-1	92922F6E3	AA+
B-2	92922F6F0	AA
B-3	92922F6G8	AA-
B-4	92922F6H6	A+

WaMu Mortgage Pass-Through Certificates Series 2005-AR17 Trust
Series 2005-AR17

Class	CUSIP	Rating
A-1A1	92922F7P7	AAA
A-1A2	92922F7Q5	AAA
A-1B1	92922F7R3	AAA
A-1B2	92922F7S1	AAA
A-1B3	92922F7T9	AAA
A-1C2	92922F7V4	AAA
A-1C3	92922F7W2	AAA
A-1C4	92922F7X0	AAA
X	92922F7Y8	AAA
B-1	92922F7Z5	AA+
B-2	92922F8A9	AA
B-3	92922F8B7	AA-
B-4	92922F8C5	A+

WaMu Mortgage Pass-Through Certificates Series 2005-AR2 Trust
Series 2005-AR2

Class	CUSIP	Rating
1-A-1A	92922FC97	AAA
1-A-1B	92922FE87	AAA
2-A-1A	92922FD21	AAA
2-A-1B	92922FD39	AAA
2-A-2A1	92922FD47	AAA
2-A-2A3	92922FD62	AAA

2-A-2B	92922FD70	AAA
2-A-3	92922FE95	AAA
X	92922FD88	AAA
B-1	92922FD96	AA+
B-2	92922FE20	AA
B-3	92922FE38	AA-
B-4	92922FE46	A+
B-5	92922FE53	A

WaMu Mortgage Pass-Through Certificates Series 2005-AR6 Trust
Series 2005-AR6

Class	CUSIP	Rating
1-A-1A	92922FH84	AAA
1-A-1B	92922FH92	AAA
2-A-1A	92922FJ25	AAA
2-A-1B2	92922FJ41	AAA
2-A-1B3	92922FL48	AAA
2-A-1C	92922FJ58	AAA
X	92922FJ66	AAA
B-1	92922FJ74	AA+
B-2	92922FJ82	AA
B-3	92922FJ90	AA-
B-4	92922FK23	A+
B-5	92922FK31	A

WaMu Mortgage Pass-Through Certificates Series 2005-AR9 Trust
Series 2005-AR9

Class	CUSIP	Rating
A-1A	92922FU48	AAA
A-1B	92922FU55	AAA
A-1C3	92922FU89	AAA
A-2A	92922FU97	AAA
X	92922FV21	AAA
B-1	92922FV39	AA
B-2	92922FV47	A
B-3	92922FV54	BBB

WaMu Mortgage Pass-Through Certificates Series 2006-AR4 Trust
Series 2006-AR4

Class	CUSIP	Rating
1A-1A	93934FPN6	AAA
1A-1B	93934FPP1	AAA
1A-1C2	93934FPR7	AAA
1A-1C3	93934FPS5	AAA
2A-1A	93934FPT3	AAA
1X-1A	93934FPU0	AAA
1X-1B	93934FPV8	AAA
2X	93934FPW6	AAA
PPP	93934FQH8	AAA
B-1	93934FPX4	AA+

B-2	93934FPY2	AA
B-3	93934FPZ9	AA-
B-4	93934FQA3	A+
B-5	93934FQB1	A

WaMu Mortgage Pass-Through Certificates Series 2006-AR5 Trust
Series 2006-AR5

Class	CUSIP	Rating
A-1A	93362YAA0	AAA
A-1A2A	93362YAB8	AAA
A-1A2B	93362YAC6	AAA
A-1B2	93362YAE2	AAA
A-1B3	93362YAF9	AAA
X	93362YAG7	AAA

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EXHIBIT U

STANDARD & POOR'S

Global Credit Portal
RatingsDirect

October 6, 2008

80 Ratings Lowered On 22 U.S. CDOs Of ABS, 1 Synthetic CDO; $10.696B Of Issuance Affected

Primary Credit Analysts:
Kate Scanlin, New York (1) 212-438-2002; kate_scanlin@standardandpoors.com
Ramki Muthukrishnan, New York (1) 212-438-1384; ramki_muthukrishnan@standardandpoors.com

Secondary Credit Analysts:
Jimmy Kobylinski, New York (1) 212-438-6314; jimmy_kobylinski@standardandpoors.com
Stephen Anderberg, New York (1) 212-438-8991; stephen_anderberg@standardandpoors.com

Media Contact:
Adam M Tempkin, New York (1) 212-438-7530; adam_tempkin@standardandpoors.com

NEW YORK (Standard & Poor's) Oct. 6, 2008--Standard & Poor's Ratings Services today lowered its ratings on 79 tranches from 22 U.S. cash flow and hybrid collateralized debt obligation (CDO) transactions. We removed 49 of the lowered ratings from CreditWatch with negative implications. The ratings on 23 of the downgraded tranches are on CreditWatch with negative implications, indicating a significant likelihood of further downgrades (see list). The CreditWatch placements primarily affect transactions for which a significant portion of the collateral assets currently have ratings on CreditWatch with negative implications or have significant exposure to assets rated in the 'CCC' category.

The 79 downgraded U.S. cash flow and hybrid tranches have a total issuance amount of $10.596 billion. Fourteen of the 22 affected transactions are mezzanine structured finance (SF) CDOs of asset-backed securities (ABS), which are collateralized in large part by mezzanine tranches of residential mortgage-backed securities (RMBS) and other SF securities. Five of the 22 transactions are high-grade SF CDOs of ABS, which were collateralized at origination primarily by 'AAA' through 'A' rated tranches of RMBS and other SF securities. The other three transactions are CDOs of CDOs that were collateralized at origination primarily by notes from other CDOs, as well as by tranches from RMBS and other SF transactions. Today's CDO downgrades reflect a number of factors, including credit deterioration and recent negative rating actions on U.S. subprime RMBS.

At the same time, we lowered our rating on one tranche from one U.S. synthetic CDO transaction. The downgraded U.S. synthetic CDO tranche has a total issuance amount of $100 million.

To date, including the CDO tranches listed below and including actions on both publicly and confidentially rated tranches, we have lowered our ratings on 3,875 tranches from 877 U.S. cash flow, hybrid, and synthetic CDO transactions as a result of stress in the U.S. residential mortgage market and credit deterioration of U.S. RMBS. In addition, 1,294 ratings from 454 transactions are currently on CreditWatch with negative implications for the same reasons. In all, we have downgraded $449.414 billion of CDO issuance. Additionally, our ratings on $33.261 billion of securities have not been lowered but are currently on CreditWatch with negative implications, indicating a high likelihood of future downgrades.

Standard & Poor's will continue to monitor the CDO transactions it rates and take rating actions, including CreditWatch placements, when appropriate. For additional information and updates on Standard & Poor's residential mortgage-related rating actions on U.S. CDO transactions, please visit RatingsDirect, at www.ratingsdirect.com, or www.spviews.com.

RATING ACTIONS

		Rating	
Transaction	Class	To	From
Altius IV Funding Ltd	A-1F	AA/Watch Neg	AA+
Altius IV Funding Ltd	A-1B	CC	BB+/Watch Neg
Altius IV Funding Ltd	A-1V	CC	BB+/Watch Neg
Altius IV Funding Ltd	A-2a	CC	BB+/Watch Neg
Altius IV Funding Ltd	A-2b	CC	BB-/Watch Neg
Altius IV Funding Ltd	B	CC	CCC-/Watch Neg
Bering CDO I Ltd	A-1S1	BB/Watch Neg	A+/Watch Neg
Bering CDO I Ltd	A-1S2	CC	B+/Watch Neg
Bering CDO I Ltd	A-1J	CC	CCC-/Watch Neg
Cairn Mezz ABS CDO II Ltd	A-1 VFN	CC	BBB-/Watch Neg
Cairn Mezz ABS CDO II Ltd	A-2a	CC	BB/Watch Neg
Cairn Mezz ABS CDO II Ltd	A-2b	CC	CCC-/Watch Neg
Class V Funding II Ltd	A-1	B/Watch Neg	AA-/Watch Neg
Duke Funding High Grade IV	A-1	B+/Watch Neg	AA/Watch Neg
Duke Funding High Grade IV	A-2	CC	A/Watch Neg
Duke Funding High Grade IV	B-1	CC	BBB+/Watch Neg
Duke Funding High Grade IV	B-2	CC	BBB-/Watch Neg
Duke Funding High Grade IV	C-1	CC	B+/Watch Neg
Duke Funding High Grade IV	C-2	CC	CCC/Watch Neg
GSC ABS CDO 2006-2m, Ltd.	A1A	B-/Watch Neg	AA-/Watch Neg
GSC ABS CDO 2006-2m, Ltd.	A1B	CC	CCC-/Watch Neg

G-Star 2003-3 Ltd.	B-2	BBB-	BBB
G-Star 2003-3 Ltd.	Pfd Shares	CCC-	BB
Independence IV CDO, Ltd.	A-1Series1	BBB/Watch Neg	AA/Watch Neg
Independence IV CDO, Ltd.	A-1Series2	BBB/Watch Neg	AA/Watch Neg
Independence IV CDO, Ltd.	A-2	CCC/Watch Neg	BB+/Watch Neg
Independence IV CDO, Ltd.	A-3	CC	CCC+/Watch Neg
Independence VII CDO, Ltd.	A-1A	CC	BB+/Watch Neg
Independence VII CDO, Ltd.	A-1B	CC	BB+/Watch Neg
Independence VII CDO, Ltd.	A-2	CC	BB/Watch Neg
Independence VII CDO, Ltd.	B	CC	B/Watch Neg
Independence VII CDO, Ltd.	C	CC	CCC+/Watch Neg
Ischus Synthetic ABS CDO 2006-1	X	B+/Watch Neg	A/Watch Neg
Ischus Synthetic ABS CDO 2006-1	A-1LB	CC	BB/Watch Neg
Ischus Synthetic ABS CDO 2006-1	A-2L	CC	CCC-/Watch Neg
IXIS ABS CDO 3, Ltd.	X	CC	BB+/Watch Neg
IXIS ABS CDO 3, Ltd.	A-1LA-SS	CCsrp	BB+srp/Watch Neg
IXIS ABS CDO 3, Ltd.	A-1LB	CC	B-/Watch Neg
IXIS ABS CDO 3, Ltd.	A-2L	CC	CCC/Watch Neg
IXIS ABS CDO 3, Ltd.	A-3L	CC	CCC-/Watch Neg
Jupiter High Grade CDO Ltd	A-2	AA/Watch Neg	AAA
Jupiter High Grade CDO Ltd	B	BB-/Watch Neg	AA
Jupiter High Grade CDO Ltd	C	CCC-/Watch Neg	BBB/Watch Neg
Klio Funding Ltd	A-1	AA+/Watch Neg	AAA
Klio Funding Ltd	A-2	A+/Watch Neg	AAA
Klio Funding Ltd	B	BB/Watch Neg	A
Klio Funding Ltd	Fund Notes	AA+/Watch Neg	AAA
Neptune CDO II, Ltd.	A-1	BBB-/Watch Neg	AAA/Watch Neg
Neptune CDO II, Ltd.	A-2	CC	BBB-/Watch Neg
Neptune CDO II, Ltd.	B	CC	BB-/Watch Neg
Neptune CDO II, Ltd.	C	CC	CCC+/Watch Neg
Pinnacle Point Funding Ltd	ABCP	AA-/A-1+/Watch Neg	AA+/A-1+
Pinnacle Point Funding Ltd	A-1	CCC-/Watch Neg	BB+
Pinnacle Point Funding Ltd	A-2	CC	CCC-/Watch Neg
Point Pleasant Fund 2007-1	S	BB+/Watch Neg	AAA
Point Pleasant Fund 2007-1	UnfdSrExpo	CCsrp	CCCsrp/Watch Neg
Putnam Structured Product CDO 2001-1 Ltd	B	A	AA
Putnam Structured Product CDO 2001-1 Ltd	C-1	CCC	BB
Putnam Structured Product CDO 2001-1 Ltd	C-2	CCC	BB
Scorpius CDO Ltd	A-1	CC	BB/Watch Neg
Scorpius CDO Ltd	A-2A	CC	B+/Watch Neg
Scorpius CDO Ltd	A-2B	CC	B-/Watch Neg
Scorpius CDO Ltd	B	CC	CCC+/Watch Neg
Scorpius CDO Ltd	C	CC	CCC/Watch Neg
Scorpius CDO Ltd	D	CC	CCC/Watch Neg

Sorin CDO V Ltd	A1S	CC	BB/Watch Neg
Sorin CDO V Ltd	A1J	CC	CCC+/Watch Neg
Soter 2007-CRN2 Ltd	Notes	CC	BBB-/Watch Neg
Structured Finance Advisors ABS CDO III, Ltd.	A	AA-	AAA
Structured Finance Advisors ABS CDO III, Ltd.	B	CC	B+/Watch Neg
Whately CDO I, Ltd.	A-1A	AA+/Watch Neg	AAA
Whately CDO I, Ltd.	A-1BF	CCC/Watch Neg	A+/Watch Neg
Whately CDO I, Ltd.	A-1BV	CCC/Watch Neg	A+/Watch Neg
Whately CDO I, Ltd.	A-2	CC	BB+/Watch Neg
Whately CDO I, Ltd.	A-3	CC	B+/Watch Neg
Zais Investment Grade IX	A-1	AA	AAA
Zais Investment Grade IX	A-2	A	AAA/Watch Neg
Zais Investment Grade IX	B	BB+	A+/Watch Neg
Zais Investment Grade IX	C	CC	BBB-/Watch Neg
Zais Investment Grade IX	D	CC	B+/Watch Neg

OTHER OUTSTANDING RATINGS

Transaction	Class	Rating
Altius IV Funding Ltd	C	CC
Altius IV Funding Ltd	D	CC
Altius IV Funding Ltd	E	CC
Bering CDO I Ltd	A-2	CC
Bering CDO I Ltd	A-3	CC
Bering CDO I Ltd	B	CC
Bering CDO I Ltd	C	CC
Cairn Mezz ABS CDO II Ltd	B-1	CC
Cairn Mezz ABS CDO II Ltd	B-2	CC
Cairn Mezz ABS CDO II Ltd	C	CC
Cairn Mezz ABS CDO II Ltd	Combo Note	CC
Cairn Mezz ABS CDO II Ltd	D	CC
Cairn Mezz ABS CDO II Ltd	E	CC
Class V Funding II Ltd	A-2A	CC
Class V Funding II Ltd	A-2B	CC
Class V Funding II Ltd	B	CC
Class V Funding II Ltd	C	CC
Class V Funding II Ltd	D	CC
Duke Funding High Grade IV Ltd	D	CC
GSC ABS CDO 2006-2m, Ltd.	A-2	CC
GSC ABS CDO 2006-2m, Ltd.	B	CC
GSC ABS CDO 2006-2m, Ltd.	C	CC
GSC ABS CDO 2006-2m, Ltd.	D	CC
GSC ABS CDO 2006-2m, Ltd.	E	CC
GSC ABS CDO 2006-2m, Ltd.	F	CC
GSC ABS CDO 2006-2m, Ltd.	G	CC
G-Star 2003-3 Ltd.	A-1	AAA
G-Star 2003-3 Ltd.	A-2	AAA
G-Star 2003-3 Ltd.	A-3	AA
G-Star 2003-3 Ltd.	B-1	A-

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Independence IV CDO, Ltd.	B	CC
Independence IV CDO, Ltd.	C	CC
Independence VII CDO, Ltd.	D	CC
Independence VII CDO, Ltd.	E	CC
Independence VII CDO, Ltd.	F	CC
Ischus Synthetic ABS CDO 2006-1 Ltd.	A-3L	CC
Ischus Synthetic ABS CDO 2006-1 Ltd.	B-1L	CC
IXIS ABS CDO 3, Ltd.	B-1L	CC
IXIS ABS CDO 3, Ltd.	B-2L	CC
Jupiter High Grade CDO Ltd	A-1A	AAA
Jupiter High Grade CDO Ltd	A-1B	AAA
Neptune CDO II, Ltd.	D	CC
Pinnacle Point Funding Ltd	B	CC
Point Pleasant Funding 2007-1 Ltd	A-1	CC
Point Pleasant Funding 2007-1 Ltd	A-2	CC
Point Pleasant Funding 2007-1 Ltd	B	CC
Point Pleasant Funding 2007-1 Ltd	C	CC
Point Pleasant Funding 2007-1 Ltd	D	CC
Putnam Structured Product CDO 2001-1 Ltd	A-1MM-a	AAA/A-1+
Putnam Structured Product CDO 2001-1 Ltd	A-1MM-b	AAA/A-1+
Putnam Structured Product CDO 2001-1 Ltd	A-1SS	AAA
Putnam Structured Product CDO 2001-1 Ltd	A-2	AAA
Scorpius CDO Ltd	E	CC
Scorpius CDO Ltd	F	CC
Scorpius CDO Ltd	G	CC
Sorin CDO V Ltd	A2	CC
Sorin CDO V Ltd	A3	CC
Sorin CDO V Ltd	B	CC
Sorin CDO V Ltd	C	CC
Structured Finance Advisors ABS CDO III, Ltd.	C	CC
Structured Finance Advisors ABS CDO III, Ltd.	Pfd Shares	CC
Whately CDO I, Ltd.	B-F	CC
Whately CDO I, Ltd.	B-V	CC
Whately CDO I, Ltd.	Combo A	CC
Zais Investment Grade Limited IX	X	AAA

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The McGraw-Hill Companies

EXHIBIT V

STANDARD & POOR'S

Global Credit Portal

RatingsDirect

October 6, 2008

37 Ratings Lowered On 9 U.S. CDOs Of ABS Transactions; $8.161B Of Issuance Affected

Primary Credit Analysts:
Ramki Muthukrishnan, New York (1) 212-438-1384; ramki_muthukrishnan@standardandpoors.com
Kate Scanlin, New York (1) 212-438-2002; kate_scanlin@standardandpoors.com

Secondary Credit Analysts:
Jimmy Kobylinski, New York (1) 212-438-6314; jimmy_kobylinski@standardandpoors.com
Stephen Anderberg, New York (1) 212-438-8991; stephen_anderberg@standardandpoors.com

Media Contact:
Adam M Tempkin, New York (1) 212-438-7530; adam_tempkin@standardandpoors.com

NEW YORK (Standard & Poor's) Oct. 6, 2008--Standard & Poor's Ratings Services today lowered its ratings on 37 tranches from nine U.S. cash flow and hybrid collateralized debt obligation (CDO) transactions. We removed 20 of the lowered ratings from CreditWatch with negative implications. The ratings on 17 of the downgraded tranches are on CreditWatch with negative implications, indicating a significant likelihood of further downgrades (see list). The CreditWatch placements primarily affect transactions for which a significant portion of the collateral assets currently have ratings on CreditWatch with negative implications or have significant exposure to assets rated in the 'CCC' category.

The 37 downgraded U.S. cash flow and hybrid tranches have a total issuance amount of $8.161 billion. Five of the nine affected transactions are mezzanine structured finance (SF) CDOs of asset-backed securities (ABS), which are collateralized in large part by mezzanine tranches of residential mortgage-backed securities (RMBS) and other SF securities. Four of the nine transactions are high-grade SF CDOs of ABS, which were collateralized at origination primarily by 'AAA' through 'A' rated tranches of RMBS and other SF securities. Today's CDO downgrades reflect a number of factors, including credit deterioration and recent negative rating actions on U.S. subprime RMBS.

To date, including the CDO tranches listed below and including actions on both publicly and confidentially rated tranches, we have lowered our ratings on 3,884 tranches from 878 U.S. cash flow, hybrid, and synthetic CDO transactions as a result of stress in the U.S. residential mortgage market and credit deterioration of U.S. RMBS. In addition, 1,278 ratings from 451 transactions are currently on CreditWatch with negative implications for the same reasons. In all, we have downgraded $452.023 billion of CDO issuance. Additionally, our ratings on $30.992 billion of securities have not been lowered but are currently on CreditWatch with negative implications, indicating a high likelihood of future downgrades.

Standard & Poor's will continue to monitor the CDO transactions it rates and take rating actions, including CreditWatch placements, when appropriate. For additional information and updates on Standard & Poor's residential mortgage-related rating actions on U.S. CDO transactions, please visit RatingsDirect, at www.ratingsdirect.com, or www.spviews.com.

RATING ACTIONS

		Rating	
Transaction	Class	To	From
ABS Capital Funding II Ltd.	A-1	AA-/Watch Neg	AAA
ABS Capital Funding II Ltd.	A-3	A+/Watch Neg	AAA
ABS Capital Funding II Ltd.	B	B-/Watch Neg	BBB+
ABS Capital Funding II Ltd.	C-1	CC	CCC-/Watch Neg
ABS Capital Funding II Ltd.	C-2	CC	CCC-/Watch Neg
Buckingham CDO II Ltd.	A CP	BB/B/Watch Neg	A+/A-1+/Watch Neg
Buckingham CDO II Ltd.	B	CCC+/Watch Neg	BBB+/Watch Neg
Buckingham CDO II Ltd.	C	CC	BBB-/Watch Neg
Buckingham CDO II Ltd.	D	CC	BB-/Watch Neg
Buckingham CDO II Ltd.	E	CC	B-/Watch Neg
Davis Square Funding IV Ltd.	A-1LT-a	A/Watch Neg	AAA/Watch Neg
Davis Square Funding IV Ltd.	A-1LT-b-1	A/Watch Neg	AAA/Watch Neg
Davis Square Funding IV Ltd.	A-2	BB+/Watch Neg	AA+/Watch Neg
Davis Square Funding IV Ltd.	B	CCC-/Watch Neg	BBB+/Watch Neg
Davis Square Funding IV Ltd.	C	CC	B/Watch Neg
Davis Square Funding IV Ltd.	D	CC	CCC-/Watch Neg
Davis Square Funding IV Ltd.	E	BBB-/Watch Neg	AAA/Watch Neg
Duke Funding IV Ltd.	A-1	B	BBB+/Watch Neg
Duke Funding IV Ltd.	A-2	CCC/Watch Neg	BBB+/Watch Neg
Duke Funding IV Ltd.	B	CC	CCC-/Watch Neg
Duke Funding XII Ltd.	A1	CC	B/Watch Neg
Duke Funding XII Ltd.	A2	CC	CCC-/Watch Neg
Duke Funding XII Ltd.	A-S1VFA	CC	BB+/Watch Neg
Duke Funding XII Ltd.	A-S1VFB	CC	BB+/Watch Neg
Grand Avenue CDO II Ltd.	A-1A	CC	BB+/Watch Neg
Grand Avenue CDO II Ltd.	A-1B	CC	B/Watch Neg
Grand Avenue CDO II Ltd.	A-2	CC	CCC+/Watch Neg
Grand Avenue CDO II Ltd.	A-3	CC	CCC-/Watch Neg
Kleros Preferred Funding Ltd.	A-1	AA/Watch Neg	AAA/Watch Neg
Kleros Preferred Funding Ltd.	A-2	BBB/Watch Neg	AA+/Watch Neg

Kleros Preferred Funding Ltd.	B	CCC-/Watch Neg	BBB/Watch Neg
Kleros Preferred Funding Ltd.	C	CC	BB-/Watch Neg
South Coast Funding IV Ltd.	B	A+/Watch Neg	AA
South Coast Funding IV Ltd.	C	B-/Watch Neg	BBB+/Watch Neg
South Coast Funding IV Ltd.	Pre shares	CCC-/Watch Neg	BB-/Watch Neg
Tabs 2005-4 Ltd.	A	CC	BB-/Watch Neg
Tabs 2005-4 Ltd.	B	CC	CCC-/Watch Neg

OTHER OUTSTANDING RATINGS

Transaction	Class	Rating
ABS Capital Funding II Ltd.	A-2	AAA
Duke Funding IV Ltd.	C	CC
Duke Funding IV Ltd.	Comp sec	CC
Duke Funding XII Ltd	A3	CC
Duke Funding XII Ltd	B1	CC
Duke Funding XII Ltd	B2	CC
Duke Funding XII Ltd	B3	CC
Grand Avenue CDO II Ltd	B	CC
Grand Avenue CDO II Ltd	C	CC
Grand Avenue CDO II Ltd	D	CC
Kleros Preferred Funding Ltd	D	CC
South Coast Funding IV Ltd.	A-1	AAA
South Coast Funding IV Ltd.	A-2	AAA
Tabs 2005-4 Ltd.	C	CC
Tabs 2005-4 Ltd.	D	CC
Tabs 2005-4 Ltd.	E	CC

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EXHIBIT W

STANDARD & POOR'S

Global Credit Portal
RatingsDirect

November 25, 2008

Criteria | Structured Finance | RMBS:

Standard & Poor's Enhanced Mortgage Originator And Underwriting Review Criteria For U.S. RMBS

Primary Credit Analysts:
Kent Bergey, New York (1) 212-438-4059; kent_bergey@standardandpoors.com
Michael Stock, New York (1) 212-438-2611; michael_stock@standardandpoors.com

Secondary Credit Analyst:
Scott Mason, New York (1) 212-438-2539; scott_mason@standardandpoors.com

Global RMBS Criteria Officer:
Francis Parisi, Ph.D., Global RMBS Criteria Officer, New York (1) 212-438-2570; francis_parisi@standardandpoors.com

Media Contact:
Adam M Tempkin, New York (1) 212-438-7530; adam_tempkin@standardandpoors.com

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Criteria | Structured Finance | RMBS:

Standard & Poor's Enhanced Mortgage Originator And Underwriting Review Criteria For U.S. RMBS

Standard & Poor's Ratings Services has concluded the criteria review process initiated by its Sept. 10, 2008, Request For Comment regarding mortgage originator and underwriting reviews, and has developed rating criteria to more explicitly factor our view of the quality of the mortgage originator into our ratings analysis of U.S. residential mortgage-backed securities (RMBS) transactions. Beginning Dec. 1, 2008, we will consider the information as more fully described below regarding historical performance and quality of an originator's process and guidelines for loan origination and underwriting when we rate U.S. RMBS backed by prime, Alternative-A (Alt-A), home equity lines of credit (HELOC), and subprime loan collateral. These criteria apply only to an analysis for which a public rating has been requested from Standard & Poor's.

This article addresses the "credit quality of the securitized assets and operational and administrative risks" principles discussed in "Principles-Based Rating Methodology For Global Structured Finance Securities," published May 29, 2007, on RatingsDirect at www.ratingsdirect.com and Standard & Poor's Web site at www.standardandpoors.com.

Criteria Summary

Standard & Poor's believes that the quality of a lender's mortgage origination and underwriting process may affect the performance of the loans it originates. For example, two different lenders can originate loans that have identical characteristics and attributes, but the subsequent performance of those loans could be very different. Therefore, Standard & Poor's will, subject to certain thresholds regarding percentage concentration in a pool, as part of its ratings analysis, rank mortgage originators based on the past historical performance of their loans, and based on our reviews of their process and guidelines for loan origination and underwriting. After controlling for loan attributes (e.g., FICO score, loan-to-value (LTV)), we will evaluate the performance of each originator's products in relation to our projections and to the performance of the originator's peers. Then we will assess the originator's policies and procedures and how they've changed over time. We will factor our overall assessment of the originator into our credit enhancement levels when we rate U.S. RMBS. Originators will be ranked in the Top Tier, Middle Tier, or Bottom Tier ranking categories.

Methodology

First, we will rank originators based upon the historical performance of loans they've originated, product type (e.g., subprime), and vintage. We will create an average ratio of all originators' performance and compare that with the ratio for each individual originator as determined by the percentage of cumulative losses and delinquencies relative to that of their 'BBB' enhancement level (see the following example). We will then rank all originators by product type, vintage, and average performance ratio, from lowest to highest. We will update these rankings semiannually. For originators with no performance history, we will assume they have average performance until sufficient performance data exists.

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Example

For illustrative purposes, the table shows the ratio calculation for three different subprime originators.

Losses For Three Sample Subprime Originators (2006 Vintage)

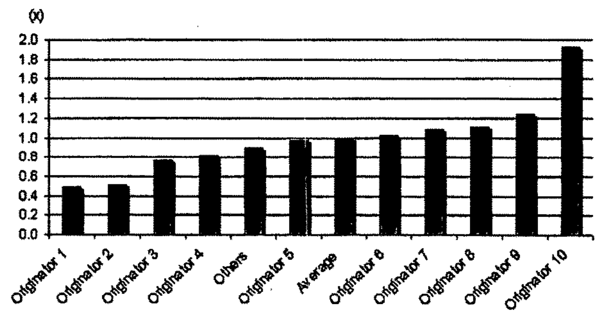
Originator	Estimated loss from 30-59 day delinquency (%)	Estimated loss from 60-89 day delinquency (%)	Estimated loss from 90+ delinquency (%)	Realized losses to date (%)	Total loss (%)	'BBB' credit enhancement (%)	Ratio
A	3.0	3.0	1.0	0.5	7.5	16.0	0.50
B	4.00	2.00	1.00	1.25	8.25	11.04	0.75
C	1.00	2.00	5.00	0.50	8.50	10.00	0.85

In this example, Originator A has the best relative performance for this product type and vintage year. We would assign it the highest performance ranking (Top Tier). We would assign a Middle Tier performance ranking to Originator B's performance. Originator C's performance would receive the lowest ranking (Bottom Tier).

Based on our research, we found that after we accounted for loan and borrower characteristics, default experience (defined as 90 days or more delinquent) varied by as much as 30% above and below the average among different originators. This excludes outliers. As part of its ratings analysis, Standard & Poor's will adjust the credit enhancement for a specific transaction based on the originator's ranking by as much as 30% or more, as described below. The following charts illustrate the results of our analysis for the prime, Alt-A, and subprime product types, respectively.

Chart 1

Prime Originator Multipliers For 2006 Transactions



Source: Loan Performance.

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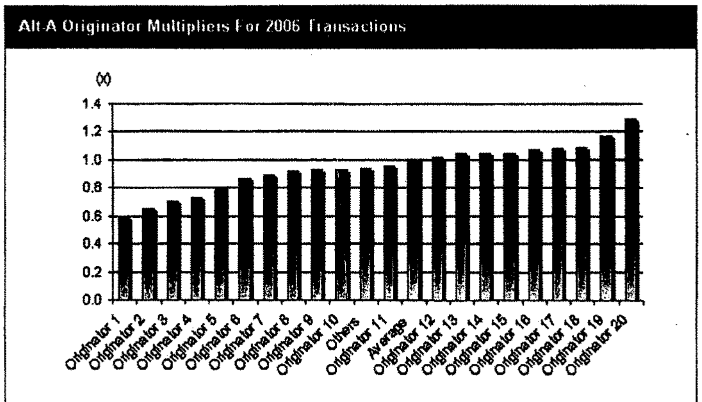
Chart 2



Source: Loan Performance.

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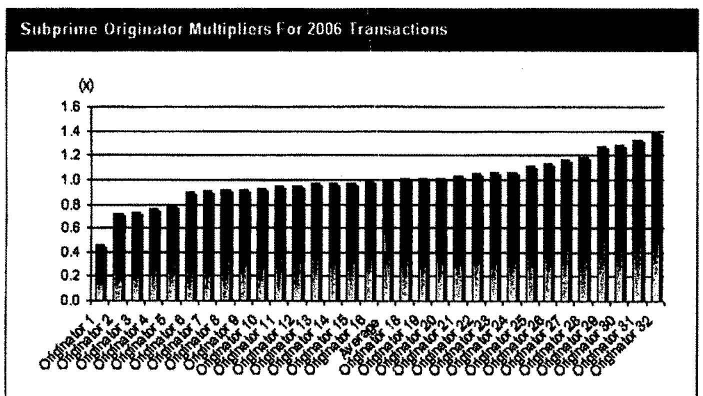
Chart 3



Source: Loan Performance.

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In addition to reviewing historical loan performance, we will review the originator's process and guidelines for loan origination and underwriting. Because we believe changes to the process and guidelines could mean that future loan performance would differ from historical performance, Standard & Poor's will conduct periodic reviews of originators. We will include our opinions of these operational functions in our reviews and our focus will be on the areas listed below each operational function:

Management and organization, including financial strength

- Commitment to a risk-driven culture, regulatory compliance, and responsiveness to internal and external audit findings;
- Exposure from outstanding lawsuits;
- Comprehensiveness of business strategy;
- Origination growth and market share ranking;
- Quality of information systems;
- Quality, breadth, and depth of training programs; and
- Corporate credit rating (Standard & Poor's financial condition review for unrated entities).

Risk management

- Reporting lines and independence;
- Approval authority for new products, transactions, and strategic initiatives;
- Audit results;
- Involvement in setting, monitoring, and enforcing limits to guideline exceptions;
- Quality of risk management reports;
- Participation in pricing and portfolio management methodology and decisions; and
- Staffing adequacy.

Broker/correspondent/retail loan officer management

- Approval process for brokers, correspondent lenders, and retail loan officers;
- Independent verification of loan application data;
- Use of internal or external tools to detect fraudulent third-party activity;
- Performance monitoring and ranking system for all origination channels; and
- Process for elevating performance deficiencies to senior management and risk management.

Underwriting

- Skill and experience level of underwriting staff;
- Underwriting philosophy;
- Loan approval and exception approval hierarchies;
- Underwriter compensation structure;
- Performance tracking for exceptions and nonexceptions;
- FICO selection methodology;
- Procedures for reviewing a "thin" credit file;
- Methodology for calculating debt-to-income ratio; and
- Compliance with interagency regulatory guidance for hybrid adjustable-rate mortgage (ARM), interest-only, and option-ARM loan products.

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Prefunding data quality

- Independence and tenure of prefunding data quality personnel;
- Breadth and depth of prefunding data quality review;
- Use of third-party or proprietary tools to verify borrower information; and
- Use of hard and soft stops to protect data quality.

Post-funding quality control

- Independence and tenure of post-funding review personnel;
- Effectiveness of post-funding review feedback;
- Breadth and depth of prefunding data quality review; and
- Sample size and selection methodology.

Appraisal/valuation management

- Reporting lines for appraisal management function;
- Appraisal value appeal process;
- Use of electronic tools to validate appraised values and identify potential flipping activity;
- Variance percentage for validating appraised values;
- Presence of USPAP certified and trained appraisal management staff;
- Independence of appraisal orders;
- Quality and scope of appraisal review prior to closing;
- Quality and scope of appraisal review after closing; and
- Management of relationships with appraisers.

Regulatory compliance

- Reporting lines for compliance group;
- Experience level of chief compliance officer and interaction with senior management;
- Loan origination system capabilities for high-cost calculations and legal compliance; and
- Degree of interaction with internal or external legal staff.

Because we believe an originator's management sets the corporate culture and commitment to originating quality assets, we added management and organization. Prefunding data quality is an element of a lender's infrastructure that, in our view, is responsible for detecting potential indicators of fraud or misrepresentation before a loan is funded. With certain recent losses attributed to mortgage fraud, we believe it is important to assess this function as well. Finally, our ratings analysis will address post-funding quality control, as we believe this function is important for detecting underwriting and process errors and providing a feedback loop to underwriters and the management team. In our view, management, prefunding data quality, and post-funding quality control may have played important roles in poor underwriting practices of originators.

Our evaluation of the operational functions relates to our view of the originator's historical performance. After we rank originators by historical performance, we will use our evaluation of the operational functions to assign an overall ranking to each originator. Operational factors can override historical performance and alter the overall ranking of an originator. For instance, if an originator with poor historical performance tightens its underwriting standards, we might be reluctant to assign a higher overall ranking to this originator until we have several years of performance indicating to us that the more stringent underwriting standards have had a positive impact on performance. In contrast, we may assign a lower overall ranking if an originator loosens its lending standards even if performance to date has been in our view strong. Another example of other factors overriding historical performance is when an originator is acquired. If the acquiring firm will be changing the acquired originator's underwriting standards and practices, the acquired originator's historical performance might no longer be meaningful to us. We will establish a finite number of originators that could fall into either the Top Tier or Bottom Tier categories. Our intent is to maintain a generally neutral adjustment factor for the population over time.

After we have ranked mortgage originators based on their historical performance as well as our view of their underwriting and origination processes, we will assign credit enhancement adjustments to each originator. For example, if we ranked an originator in the Top Tier (approximately the top 15% of the population), our ratings analysis would reduce credit enhancement by up to 30%, or by a factor of 0.70x. On the other hand, if we ranked an originator in the Bottom Tier (approximately the bottom 15% of the population), our ratings analysis would increase credit enhancement by up to 30% or more, or a factor of 1.30x or more, depending on the information that is reported to us. The aggregate of originator adjustment factors will be maintained at 1.0x for the population.

We will coordinate our on-site reviews with our Servicer Evaluations, Corporate and Government Ratings, and Surveillance groups. We will also seek input from these groups and communicate the results of our analysis and rankings, including any adverse findings.

Related Publications

- "Principles-Based Rating Methodology For Global Structured Finance Securities," published May 29, 2007;
- "Detailed Descriptions Of S&P's New Actions Aimed At Strengthening The Ratings Process," published Feb. 7, 2008; and
- "What Standard & Poor's Is Doing To Increase Transparency And Information To Enhance U.S. RMBS Ratings," published May 5, 2008.

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by the issuer or issue specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issue or issuer specific factors, or new empirical evidence that would affect our credit judgment.

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RICHARD BLUMENTHAL
ATTORNEY GENERAL

55 Elm Street
P.O. Box 120
Hartford, CT 06141-0120

Office of The Attorney General
State of Connecticut

TESTIMONY OF
ATTORNEY GENERAL RICHARD BLUMENTHAL
BEFORE THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
OF THE SENATE COMMITTEE ON HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
APRIL 23, 2010

I appreciate the opportunity to submit testimony on the topic of "Wall Street and the Financial Crisis: The Role of Credit Rating Agencies".

As a result of investigations beginning in 2007, I have sued credit rating agencies for violations of Connecticut's Unfair Trade Practices Act.

Although credit rating agencies repeatedly emphasized their independence and objectivity when rating structured finance securities, I found that Moody's and S&P knowingly failed to fulfill their representations. In particular, their ratings on structured finance securities were tainted by their desire to earn lucrative fees.

Moody's and S&P knowingly catered to the demands of investment banks and other large issuers of structured finance securities to increase their own revenues. As a result, many risky structured finance securities undeservedly received Moody's and S&P's highest ratings.

Essentially, these credit rating agencies gave the best ratings money could buy, thus serving their powerful investment banking clients, rather than objectively rating risky securities. They misled investors and others -- including individuals, banks, mutual funds, insurance companies, hedge funds, pension funds and government regulators -- into believing that their credit ratings were independent and objective. Many investors may have avoided particular investments if they knew that these instruments contained far more risk than the agencies' ratings indicated, with many ultimately proving nearly worthless.

My investigation demonstrated as well that the current business model -- where the issuer pays for the rating and there is virtually no oversight or accountability -- must be fixed. We can no longer afford band aids and quick fixes to a problem that runs much deeper and originates with the skewed incentives at the core of the system.

As guardians of America's financial markets, Moody's and S&P have an obligation to fulfill their promises of independence and objectivity. Similarly, they must end their misplaced focus on meeting the demands of their big financial firm clients at the cost of objective analysis and maximizing revenue to the detriment of ratings quality. Competition between the rating agencies cannot be a race to the bottom -- victory going to the company that most quickly and deftly weakens its methodologies to satisfy a powerful customer.

Permanent Subcommittee on Investigations
EXHIBIT #109

The rating agencies have been enablers of the wrongdoing that brought our nation to the brink of economic catastrophe.

This insidious dynamic was thrust into public view by the lawsuit filed last week by the Securities and Exchange Commission ("SEC") against Goldman Sachs & Company. According to the SEC's complaint, the ABACUS CDO -- a security that unknown to investors was *designed to fail* -- was given the highest rating by both Moody's and S&P, and yet was nearly worthless within months of its issuance. As described in an email contained in the SEC's complaint, "rating agencies . . . have all the incentives to keep the game going, while 'real money' investors have neither the analytical tools nor the institutional framework" to prevent such calamities.

ABACUS is just one of several significant examples of the credit rating agencies' dismal and deceptive conduct. In the absence of meaningful and systematic reform, our country will be left with more of these ticking time bombs, likely culminating in another financial crisis.

The credit rating agencies have been allowed to claim immunity for their willful misconduct for far too long. Congress needs to impose accountability. Ironically, contrary to their lawyers' strained interpretations of the law, this simple principle apparently even has support within the rating agencies. As part of a presentation in October of 2007 chronicling Moody's lapse in standards and outlining solutions, Moody's CEO advised his Board of Directors: "Bad ratings must be perceived to have (much) worse consequences than market share slippage. Accountability is key." Accountability is what I encourage the Subcommittee to foster and the lawsuits filed by my office seek to provide.[1]

Structured finance securities include, among other things, the securities composed of sub-prime loans and other assets. Some of the most common securities at issue are residential mortgage backed securities ("RMBS") and collateralized debt obligations ("CDOs"). In order to successfully market and sell these investments, issuers require a credit rating from Moody's, S&P, or other credit rating agency recognized by the SEC.

Credit rating agencies such as Moody's and S&P are gatekeepers on whom investors and other market participants rely. Moody's and S&P play a special role in the structured finance securities market because their investment grade rating is required by SEC regulations for many institutional investors to buy debt securities. Furthermore, structured finance securities are incredibly complex and opaque investments whose value and credit risk are not easily determined by even the most sophisticated institutional investors. As a result, purchasers of structured finance securities and other market participants are particularly dependent on the ratings assigned by Moody's and S&P.

Moody's and S&P are aware of investors and other market participants' reliance on their ratings of structured finance securities and encourage this reliance by making repeated public representations assuring the independence and objectivity of their analysis. Indeed, Moody's and S&P take every opportunity to proclaim that their ratings are objective, independent, and not

[1] A more detailed recitation of Moody's and S&P's knowing misconduct and the relief requested by the State of Connecticut can be found in our complaints filed on March 10, 2010, and located at http://www.ct.gov/ag/cwp/view.asp?A=2341&Q=456804.

influenced by either their own or their clients' financial interests. These statements of independence and objectivity are simply untrue, and Moody's and S&P know it.

Specifically, as far back as 2001, Moody's and S&P knowingly catered to the demands of investment banks and other large issuers of structured finance securities in order to increase their own revenues. As a result, many risky structured finance securities undeservedly received Moody's and S&P's highest ratings.

Moreover, the users of Moody's and S&P's structured finance ratings received a product or service significantly different from what Moody's and S&P publicly represented that they were providing to the marketplace. Instead of being independent and objective, Moody's and S&P placed their own financial interests, and those of their largest clients, ahead of those they pledged to protect -- the investing public.

Issuer Pays for Ratings Business Model

Lack of independence and objectivity resulted directly from conflicts of interest inherent in the "Issuer Pays" business model, where Moody's and S&P are compensated by the issuers of the structured finance securities that they rate. The "Issuer Pays" business model remains in effect, placing the same pressures and conflicts of interest on Moody's and S&P. Moody's and S&P have demonstrated that, despite their public representations to the contrary, they are unable to manage this conflict of interest effectively.

With "Issuer Pays," Moody's and S&P -- in order to maintain their revenue, high profit margins, and win new business -- have to continually please the large issuers of structured finance securities, who are their repeat customers and collectively account for a large percentage of both companies' revenue. As my investigation and others show, Moody's and S&P decided that the best way to please issuers of structured finance securities was to weaken criteria for evaluating these investments so that a high credit rating was more readily given. Contrary to their public promises, both Moody's and S&P willfully relaxed standards in order to further their own and their clients' financial interests.

Ratings Shopping by Businesses under the Issuer Pays Business Model

"Ratings shopping" is the practice of an issuer offering structured finance security rating business to competing rating agencies and usually giving the work to the firm (or firms) willing to assign the highest rating. If the issuer is unhappy with the credit rating agency's initial analysis, the issuer attempts to influence the process by informing the agency of the rating that one of its competitors is willing to assign. Based on this information, the rating agency either compromises its core standards to meet the rating of its competitor or forgoes its fees.

Between at least 2006 and 2007, both Moody's and S&P were repeatedly pitched by issuers attempting to influence the rating assigned to a specific security. Upon learning of the rating the competition was likely to assign to a transaction, Moody's and S&P routinely relaxed their analysis and agreed to provide the higher rating. Moody's and S&P's greed clouded their judgment, as both companies chose to increase their revenue rather than lose out on business to a competitor. As Moody's CEO, Raymond McDaniel, acknowledged to his Board of Directors in

October of 2007: "Analysts and [managing directors] are continually pitched by bankers, issuers, investors . . . whose views can color credit judgment, sometimes improving it, other times degrading it (we drink the Kool-Aid). Coupled with strong internal emphasis on market share & margin focus, this does constitute a risk to ratings quality."

Changes to Ratings Methodologies Based on a Quest for Revenue

The pressure to increase revenue and win business also ultimately influenced the methodologies that Moody's and S&P developed for rating structured finance securities. Going back to at least 2001 for S&P and 2004 for Moody's, both companies hid from the general public that their respective ratings methodologies were directly influenced by the wishes of their clients. Moody's and S&P adopted this approach specifically to please their clients (*i.e.*, the issuers that paid their fees) and to enhance their revenue. Whether Moody's and S&P's ratings methodologies accounted for all the credit risk that Moody's and S&P knew existed was of secondary importance to their own bottom line. Moreover, the independence and objectivity that both companies promised to the marketplace was largely forgotten.

S&P in particular knew that its ratings methodologies were based on limited and out-of-date data about the actual performance of the new sub-prime mortgage products flooding the market. Rather than obtain that data, which was readily available to S&P, and implement the necessary changes to update its rating methodologies, S&P simply continued using the models that were already generating the high ratings that its clients desired. In the words of one S&P executive, the primary factor in S&P's decision not to update its model was that ". . . [S&P] enjoyed the largest ratings market share among the three major ratings agencies (often 92% or better), and improving the model would not add to S&P's revenues."

S&P's flagrant disregard for independent and objective credit analysis also impacted how it monitored the structured finance ratings that it already had assigned. S&P publicly represented that it conducted extensive surveillance on the structured finance securities that it rated so as to make sure that its ratings continued to correctly reflect its current assessment of credit risk. In actuality, however, prior to at least 2008, S&P deliberately subverted its surveillance team, which was woefully understaffed, saddled with outmoded monitoring resources and thus rendered incapable of keeping up with S&P's voluminous deal flow.

Specifically, S&P failed to employ its rating models or knowledge and updates its analysts garnered about how poorly sub-prime loans were performing to review ratings on earlier vintage RMBS or other structured finance securities. S&P failed to do so because it knew that if it actually carried through on its public representations of a thorough surveillance process, it would have to acknowledge that many of the structured finance securities that it had previously rated AAA were undeserving of such a high rating. This would have resulted in multiple downgrades and, ultimately, S&P making less money.

Punishment of Employees with Dissenting Views

Moody's was equally culpable. In addition to allowing its rating methodologies to be influenced by financial considerations, Moody's took significant steps to ensure that its employees adhered to its hidden objectives of revenue enhancement and pleasing the dominant issuers of structured finance securities and punished those workers who expressed dissenting viewpoints. Specifically, employees who raised concerns about Moody's practices were given negative performance reviews, reassigned or demoted and, in some cases, were ultimately forced out of the company. The message to Moody's employees was clear: If you speak up and potentially interfere with Moody's plan to please issuers and, therefore, generate additional revenue for Moody's, you should be prepared to suffer the consequences. This incentive was directly at odds with Moody's public emphasis on maintaining independence and objectivity in its ratings and damaged the quality of Moody's ratings on structured finance securities.

Marginalization of Compliance Department

Similarly, rather than viewing its Compliance Department as a partner, Moody's senior management regarded it as an obstacle to be contained and marginalized. In 2006, senior compliance personnel were replaced by inexperienced employees from Moody's structured finance group. Additionally, Moody's compliance department was intentionally and routinely excluded from matters within its own jurisdiction. In the words of the former director of the department, "my guidance was routinely ignored if that guidance meant making less money or placing separation requirements to address conflicts of interest."

As the above examples demonstrate, rather than being the independent and objective evaluators of credit risk they claimed to be, Moody's and S&P were hopelessly conflicted and allowed this conflict to compromise the integrity of their ratings. As a result, many investors purchased structured finance securities riddled with concealed risk that ultimately proved to be nearly worthless.

Moody's and S&P's willful dereliction of their standards was particularly harmful because their ratings pervaded the entire financial system, including investors, issuers, government regulators, and private financial contracts (*i.e.*, credit default swaps). As the financial collapse has demonstrated, widespread issuance and investment in the toxic assets enabled by Moody's and S&P's biased and tainted ratings process has touched nearly every facet of our economy and has put our entire financial system at risk.

The harm caused by this catastrophic failure was not just born by the wealthy. In addition to financial institutions and hedge funds, structured finance securities are found in the portfolios and pension funds of schoolteachers, policemen, and factory workers; hardworking average Americans who count on these investments for their future.

In closing, I commend the Senate Subcommittee's work on this important issue. I want to emphasize that significant reform of the credit rating agencies' business practices is vital. In thinking of Moody's and S&P's misaligned priorities, I am reminded of a quote from the Chinese Zen Master Hsi Tang - - "Although gold dust is precious, when it gets in your eyes it obstructs your vision." That is clearly what happened to the rating agencies.