**STANDARD & POOR'S Structured Finance**

**Moderator: Chris Atkins**
**July 10, 2007**
**10:00 am ET**

Coordinator: Good morning and thank you all for holding. At this time I would like to inform all participants that your lines have been placed on listen only until the Question and Answer portion of today's conference.

During the Question and Answer portion if you'd like to ask a question, you may press star 1 on your touch tone phone. Also today's call is being recorded. If you have any objections you may disconnect at this time.

I would now like to turn the conference over to Chris Atkins. Thank you sir. You may begin.

Chris Atkins: Good morning. I'm Chris Atkins, Vice President of Communications of Standard & Poor's. I'm pleased to welcome you to our teleconference today.

For the next 90 minutes or so we're going to present Standard & Poor's assessment of current situation in the subprime mortgage market. We'll be discussing our outlook on the economy in the housing market, our revised methodology for rating surveillance and resulting rating actions and the impact of these RMBS weighting actions on CDO.

As many of you know this morning we issued a press release announcing that we are placing 612 subprime RMBS classes on Credit Watch Negative. These classes represent a total of $7.3 billion in rated securities which represent less than 2% of the 565.3 billion of U.S. subprime RMBS rated by S&P during the period from the fourth quarter of 2005 through the fourth quarter of 2006. **[Editor's Note: These numbers have been amended]**

In addition we have identified the CDOs with exposure to the RMBS subject of today's rating action.

Today you'll be hearing from David Wyss, Chief Economist of Standard & Poor's, who will discuss the overall trends in the housing market that have had such a significant impact on the subprime market.

Following David, Susan Barnes, Managing Director with Oversight of RMBS, will discuss our revised methodology for rating and surveilling RMBS transactions and the specific actions we are taking on subprime RMBS issued during the period from the fourth quarter 2005 through the end of 2006.

Then Pat Jordan, Managing Director with Oversight at CDOs will discuss the impact of these actions on CDOs.

Following these presentations, David, Susan and Pat joined by Ernestine Warner, Director in our Surveillance Group, and Tom Warrack, Managing Director in the RMBS Group will take your questions.

Our goal today is to give you a better understanding of the macroeconomic trends we see affecting the housing market and the rationale for the actions that we announced today. I should note that a replay of the teleconference will be available at S&P.com about an hour after the end of this call.

And now I'll ask David Wyss to begin our session.

David Wyss: Thanks Chris. I'm going to give you a brief overview of what we expect to see in the home market, the housing market, and then turn it over to Susan and the others to talk more specifically about the impact on ratings.

The housing market is doing (really) -- as obviously as we expected and I think it should be no surprise given the moving interest rate. However we continue to believe that we're nearing the bottom on housing activity and starts. We're not quite there yet. We're expecting about another 10% drop in housing starts. But we do expect to be bottoming out by the fall.

The problem however is not so much activity as prices. The dropping activity we expect to be about 1/3 between 2005 and 2007. That's actually mild by standards of a normal housing recession. Normally the average drop has been about 40%.

What's unique this time is that we anticipate an 8% drop nationally in home prices. That beats the previous record of 6-1/2% for the (Case-Chiller Index). That's back in '91 and '92. So far we've only seen about a 2.1% drop in home prices. We still believe we have another 6% to go and that we should bottom out early next year.

Note that not everything is bottomed at the same time. We expect activity to bottom out this fall. Prices probably won't bottom out until early next year because you're going to have to get rid of that inventory of unsold homes. And losses will probably not peak until late 2008 to possible even early 2009.

Other point - home prices nationally we expect to be down by 8%. That’s going to vary significantly be region. In the early stages of the price downturn the declines were concentrated not in the housing bubble states but in the states in the Midwest which were suffering from poor employment growth. Detroit is already down 9% from where it was a year ago.

The bubble cities are starting to drop, however. San Diego has moved into second place in the loser’s scale down about 6%. But on the other hand places like Portland and Seattle are still bubbling along. And we think that those will eventually come down as well.

The other factor that’s unique this time is a much higher percentage of adjustable rate mortgages, particularly in the subprime category, that we’ve had in the past. It’s really however just a low level of overall mortgage rates which set up this problem.

When mortgage rates were at record lows back in 19 - back in 2001, 2002 people could afford to buy a lot of house. The 5% mortgage rate you could afford the monthly payment on a very expensive house. And being good Americans we all promptly ran out and bought very expensive houses.

The result is that home prices have hit record levels both in absolute terms and more importantly relative to income. The average home reached 3.4 times average household income in 2006. That’s affordable at a 5% mortgage. It’s not clear that it’s affordable at a 7% mortgage. We expect that ratio to return more to normal which is 2.6.

That implies continued drop in home prices assuming we get a continued rise in average incomes that should get us back to a reasonably normal ratio over the course of the next two years.

Obviously there's potential for this to get worse particularly in some of the most affected bubble cities and places where there are high percentages of second homes.

But overall so far it is playing out as expected in terms of activity and sales. It's on the mild side of the average housing downturn. One reason it's a surprise is we haven't had a major housing recession since 1991-92 and we've sort of forgotten what they feel like. This is what they feel like.

I'm going to turn this now over to Susan to discuss the outlook for the changes that we've made in the surveillance.

Susan Barnes: Thank you David. By way of background, Standard & Poor's has been actively monitoring trends in the housing market, the mortgage finance market, consumer credit and the overall economy to insure that it's models, methodologies, criteria and analysis are fully informed.

This process enabled us to identify the trend of deteriorating credit quality of certain subprime mortgage loans in 2006 and adjust our criteria to require increased credit protection at that time.

This process also has helped us to further change our criteria for surveilling and rating RMBS transactions in light of the declining performance of loans issued since October 2005.

We believe that the declining performance is due to a combination of shifting patterns and lost behavior, the more challenging conditions in the housing market that David Wyss just described, concerns about data quality, and the increase in rate of payment adjustments.

These factors are fueling loss rates in excess of historical precedent and our initial expectations. Given the poor collateral performance, our expectation of increasing losses, underlying collateral pools and the consequent erosion of credit support, we are refining our surveillance approach to (unintelligible) transactions issued since October 2005 and our criteria for rating new transactions in order to take these factors into account.

Many of these 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 level of loss continues to exceed historical precedents and our initial expectations.

As a result S & P today placed its ratings on 612 classes on watch as Chris Atkins described earlier today which is totally for 209 transactions and again about $7.3 billion  rated securities or less than 2% of the 560 some odd billion that we rated in that period in the fourth quarter '05, 2006.

While rating actions of this magnitude -- particularly this early in the life of the 2006 vintage -- are unusual, they continue to be concentrated in the non-investive grade and lower investment grade classes.

More highly rated classes, the Single A and Double A, has been effected but to a much lower degree as they have greater levels of credit protection and thus have been less impacted.

Beginning in the next two days we expect that the majority of the ratings on the classes that have been placed on credit watch will be downgraded. We will lower our ratings to Triple C for any class that does not pass our stress scenario. The class that is expected to experience a principle write down with respect to the senior classes of principle shortfall within 12 months regardless of its current rating.

We will lower our ratings to Single (B) for any class that does not pass our stress scenario within 13 to 24 months. Also we will lower our ratings to Double (B) for any class that does not pass that same stress scenario for 25 to 30 months. And then correspondingly anything that will have a principle write down or a shortfall with 31 to 36 months will be taken to Triple (B).

Beginning with deals that close tomorrow, S & P will make several changes to its ratings criteria that will result in increasing levels of credit protection for subprime transactions. Our cash flow modeling will assume a simultaneous combination of faster voluntary and involuntary prepayments that will result in less credit excess spread.

Furthermore, our default expectation for hybrid ARM loans specifically the hybrids that the (2/28 or –5/1 loans) will be increased. These changes will result in more credit support for S & P rated transactions.

As transactions (unintelligible) in 2007 have not had adequate seasoning to establish a payment history that would make the outcomes of the delinquency and loss detailed above capable of meeting full measurement under our new methodology. However the same affect risks that are apparent in the transaction achieved in 2006 may also be present in the 2007 transactions.

However through a two pronged approach we will insure a consistent approach to the outstanding ratings for transactions closed within the first and second quarters of '07.

We will review these transactions under the new rating methodology and may take rating actions as deemed appropriate by the end of 2007. S & P will be reanalyzing these fields using the revised criteria and will immediately take rating actions on any deals we believe are materially under enhanced given our new criteria.

Furthermore as these deals begin to season we will be closely monitoring the performance of these deals and will be applying the new (unintelligible) approach as I just discussed.

Through this approach we believe that the ratings of the deals in the first and second quarters of '07 will be in alignment with those issued in 2006 and deals rated beginning in July with our updated approach.

Actions that we are announcing today are part of an overall review of securities backed by residential home loans. And we continue to actively monitor the second lien sector where we have observed that defaults and losses are coming in far in excess of our original expectations.

Currently 29% of our ratings for this same period are on credit watch with negative implications. And we anticipate that further rating actions will be required in the second lien sector shortly.

And I will now turn this over to Pat Jordan who will discuss the impact of the CDO sector. But before I do that I just want to mention quickly -- sorry Pat -- we're getting many requests to have the file of the listing of (charges) made publicly available. We're going to post that on S&P.com in Excel format for people to easily view. So that you could look for that shortly.

Thanks. Now I turn it over to Pat.

Pat Jordan: Okay thanks Susan. Alright for CDOs - in concert with the RMBS press release we just issued a separate press release addressing CDO exposure to their credit watched RMBS.

There are several points I wanted to make about this report. And I'll highlight them now.

First of course only publicly rated CDOs are on the list. We have an internal confidential list for privately rated transactions and are analyzing about the same we offer the public rating but you will of course not see them on the list.

Second the exposure list contains only those CDOs that we currently expect will have rating impacted somewhere in their capital structure once the follow up RMBS actions - rating actions are taken. We're also taking into account any previous actions on RMBS. So we're looking at the whole portfolio not just the newer component. We're compiling and adding them all together.

The key determinants of whether or not we expect a rating impact and therefore have put transactions on the list -- in addition to the percent exposure which you will see on the list -- are things such as the size of the credit support cushion and any structural mitigants that exist in the transactions, as well as any previous actions and kind of the build up in their portfolio prior to the - today's actions.

So based on this approach although we are definitely covering all CDOs globally -- and this is a global press release -- only U.S. originated CDOs are on today's exposure list. And that is because we don't currently expect any CDOs originated in either Europe or anywhere in the Asian Pacific to have significant enough either exposure or overall they have enough cushion to result in our analysis concluding that we don't believe at this point any of them will require an impact because of today's actions.

Okay it's important to note that we relied on the latest trustee reports and the portfolios that are listed in those reports. So now that we have issued this CDO press release, we'll begin contacting CDO managers to confirm current portfolio composition, discuss any changes that they've made or are about to make or any mitigants that might exist that would affect our rating action analysis. We'll get the most up to date information that we possible can from the CDO managers.

Once the follow-up actions on the credit-watched RMBS take place, CDOs will act as quickly as possible to take the actions that we analyze and conclude are appropriate.

For synthetics, meaning any transactions where we do not rely on excess spread in our rating analysis, we expect to be able to issue a release listing all rating actions within about a week.

So cash hybrid in any synthetics where we rely on excess spread in any form, and therefore we'll need to do an updated cash flow analysis in addition to our asset level analysis. We expect that that will take several weeks to complete.

I also wanted to mention that although CDOs with RMBS exposure -- in other words CDO squared that contain some level at least of RMBS exposure in the underlying CDOs -- are not on our list.

We are very much including them in our analysis. They're not on the list because it is not an obvious conclusion to draw that because there is the underlying exposure and then there will be some kind of rating impact.

So we need to first do the first level of analysis and then have that flow through to the second level of analysis. But they are very much part of this full analysis.

And the last thing - the last point I think I just wanted to make was that the press release contained some tables providing overall exposure statistics, for context really. So please see the press release for that information, as well as other details.

And I'll turn this back over to Chris.

Chris Atkins: All right, thanks Pat.

Okay, we're now going to open the call for questions. We will try to do everything we can to accommodate as many questions as possible, but the possibility exists that we will have to end the call before we've answered all of your calls.

Should that happen, you might want to take down this email address. It's subprime@standardandpoors -- that's one word, no apostrophe -- dot com, subprime@standardandpoors.com.

If you email questions to that email address, we will post them with the answers on our web site as soon as we possibly can.

So with that, we will open it up for questions.

Coordinator: Thank you. We will now begin the question and answer session. If you would like to ask a question at this time, please press star-1 on your touch-tone phone. You will be prompted to record your name. Please unmute your line before you record your name. To withdraw your request, press star-2.

One moment please for the first question…

Our first question comes from (Bob Buhall). Please go ahead with your question.

(Bob Buhall): The question that we had at AllianceBernstein is that what - have you reviewed all of 2006? Or how are you processing your time frame for when you say a security has seasoned enough to be reviewed? So is it 2007 is - has to have a certain amount of seasoning? Or what are you looking at there?

Thank you.

Ernestine Warner: Hi. This is Ernestine Warner.

We looked at all of the transactions that were issued since the fourth quarter 2005 through the end of 2006 with the updated surveillance approach. We did not analyze the deals that were closed more recently for the first two quarter of 2007 because there's been very limited seasoning and therefore the delinquency performance is not really - this methodology's really not applicable at this point. It really isn't very indicative of where we think the pools might go. So we put a - kept it at the 2006 and end of 2005.

(Bob Buhall): Just one other question -- you actually talk about in the press release -- I don't believe you addressed it on the call, but you mentioned that hybrid, the resets will be reviewed, refining the surveillance approach for RMBS transactions based on the reset.

Did you - could you expand on what you mean as to what you're doing in the surveillance process?

(Tom Warrack): Hi, this is (Tom Warrack). I just - before we answer that question, I just want to add on if I could a bit more information to Ernestine's answer about the deals that closed in the first and second quarter.

In addition to applying that updated surveillance methodology -- and Ernestine's discussed the challenges due to the lack of seasoning within them -- we are going to also be applying the new criteria that we're going to be using to rate transactions beginning today and forward to those deals that closed within the first and second quarter. And we anticipate being able to do that as quickly as possible sometime between now and the end of the year.

So as a result, you know, we do feel that all the outstanding transactions, transactions rated within those five quarters that we've recently analyzed, the two quarters before us of 2007 and beyond will all be aligned and on equal footing.

(Bob Buhall): Okay.

(Tom Warrick): The second part of your question I think asked about resets?

(Bob Buhall): Right.

In your press release, you say as part of the 2/1 ARM reset information, on the paragraph below that, "We are refining our surveillance approach for subprime RMBS transactions."

Could you expand on that? Is there - or did you - is that something in line with what you said before? But it seems like you're saying something about how you're looking at the resets?

(Tom Warrack): Yeah, I think it's a - the issue of the resets is part of what we're taking into consideration as we project losses going forward. And that is a part of what has caused us to increase our loss expectation going forward. And that has been factored into the surveillance approach and is part of the reason for these credit watch actions at this time.

(Bob Buhall): Okay, thank you…

Chris Atkins: Next question…

Coordinator: Yes, our next question comes from (Michael Schlarman). Please go ahead, sir.

(Michael Schlarman): Go questions really -- any impacts to the (unintelligible) Standard & Poor level software and how do you see this affecting possibly the Alt A market and possibly the prime market?

Thank you.

Ernestine Warner: Well, with respect to the level software, we are going to be updating our levels model to incorporate the current changes to our criteria and we're going to put that out to the marketplace as soon as possible.

As we said, though, the criteria will be effective today. So we will do our best to work with all the levels of clients in getting you the information that you need.

And with respect to Alt A and prime, we are in the process. As we discussed earlier, we're looking at the closed-end seconds. We're looking at all of the sectors and we're - and we are, of course, concerned and closely watching Alt A as a lot of the similar characteristics that we see in the subprime sector that are causing some performance concerns are also prevalent in the Alt A sector. So we are watching those and we would expect to come out with some performance information on those shortly…

Chris Atkins: Next?...

Coordinator: (Steven Eisman), you may ask a question.

(Steven Eisman): Yeah, hi.

I'd like to know why now. I mean, the news has been out on subprime now for many, many months. The delinquencies have been a disaster now for many, many months. (Your) ratings have been called into question now for many, many months. I'd like to understand why you're making this move today when you - and why didn't you do this many, many months ago.

(Tom Warrack): Yes, it's a good question. It takes a period of time for these deals to begin to show their true performance. We have been surveiling these transactions actively on a regular basis beginning in 2005 and 2006. We believe that the performance that we've been able to observe now warrants action. And that…

(Steven Eisman): If I may press that for a moment, I mean, I track this market every single day. The performance has been a disaster now for several months. I mean, it can't be that all of a sudden, the performance has reached a level where you've woken up.

I'd like to understand why now when you could've made this move many, many months ago. I mean, the paper just deteriorates every single month like clockwork. I mean, you need to have a better answer than the one you just gave.

(Tom Warrick): So our answer remains that we took action as soon as possible given the information at hand. And…

(Steven Eisman): So you think that only up till now with the credit where it is today that you feel capable making this rating change? That you could not have done this a couple of months ago when - given the performance and where it was. Is that what you're saying?

(Tom Warrack): What we're saying is we felt at this time there was an appropriate level of seasoning where the actual performance showed itself as opposed to speculating where the performance would go, which caused us to take action at this time.

(Steven Eisman): So you think two or three months ago, the delinquency levels on the '06 paper was merely speculative? Is that what you're saying?

Ernestine Warner: Well, we were trying to look at the delinquency rates in conjunction with the EPD dynamics and determining how many of those delinquencies would be sustainable on a future basis as opposed to being worked through on…

(Steven Eisman): I press my point again. Are you saying that two, three months ago, you couldn't make - you didn't see enough information to make this move when the rest of the world was yelling and screaming about your ratings?

(Tom Warrack): We've been actively monitoring the transactions and have gotten this action out as fast as we can given the information that we have.

Chris Atkins: Okay, thanks. Let's have the next question, please.

Coordinator: Thank you. (Latish Boulet), your line is open.

(Satish Boulet): Hi. This is (Satish Boulet) speaking for (unintelligible) Finance in London. I had a quick question actually.

Considering that you accept, of course, that delinquency levels are much higher than you had expected, how come your expected default level on transactions already in place are not sort of being adjusted up? Why is it that your expected default rates are only changing for future transactions?

Thank you.

(Tom Warrack): Well, we increased significantly the default and loss expectation of the transactions affected by this action and have incorporated that into our surveillance analysis. And it is a significant reason for the rating actions taken at this time.

Chris Atkins: Next question.

Coordinator: (Steve Moyer), your line is open.

(Steve Moyer): Hi, two questions -- one, can you give us any more detail on how you're approaching certain loan-specific credit characteristics in your rating process, you know, no docs or high LTVs, et cetera?

And second, are you also looking at servicer behavior? And how are you weighing in the whole debate on to what extent servicers can modify contracts to ameliorate apparent defaults, et cetera?

Ernestine Warner: Well, as you know, our levels model and our ratings process takes into account individual loan characteristics and the dynamic and the interrelation of those characteristics.

And as we cited, the performance of these loans of recent is anomalous to historical performance. So we are looking at the recent performance of these loans in determining what we think are really driving the defaults. That's what drove some of (Tom)'s comments earlier that we needed some seasoning to make that determination and to make those correlations.

So we are specifically looking at those characteristics. The no doc, everyone in the marketplace is concerned about, as well as the - where the FICO scores are coming from and the validity of those scores, as well as the appraisal variances we're seeing in the marketplace. Those are all big factors that you mentioned that we are focusing on.

(Steve Moyer): But could expand a little bit on what you're finding when you look at those characteristics?

Ernestine Warner: Well, really, what we're looking at now is the - how those combination of characteristics are translating into the higher level of EPDs that we're seeing. And that's really the anomalous behavior.

And then as time will tell, we'll see how that pans out with the ultimate default rates and whether or not after these EPDs move through if it goes back to the historical norms that we've experienced.

(Tom Warrack): Our criteria changes, continued to be focused on the types of loans that have been most highly correlated to the default performance that we've observed over the last year and a half or so.

So the risk layered loans that combine high (CLTV) piggyback loans along with stated income and in certain instances, first-time homebuyers with slightly lower FICO scores, in addition to and anticipating an - a continued up-tick in defaults based upon the amount of reset ARMs that are going - that the borrowers are going to be affected by over the course of the next year or two.

Ernestine Warner: And the last thing you wanted to talk about was loan loss. We actually have put something out in the marketplace, a request for comment on loss occasions and this issue in the marketplace. So we would love to hear your thoughts.

But we have been engaging many parties in the marketplace and discussing their current practices, as well as what's in the documents (unintelligible) in the documents and their actual experience now.

But I wasn't sure exactly what you were - what your question was with respect to the loan loss.

(Steve Moyer): Well, it was more are transactions being rated on a servicer-specific basis with some view as to the likely behavior of one servicer and making modifications versus another.

Ernestine Warner: For - well, we've always felt that the servicer's performance was paramount and integral to the ultimate performance of a transaction . We have a separate group of industry professionals in our servicer evaluation group that perform operational reviews of the servicers and we do take into account their individual operational capabilities into our overall assessment of the performance of a transaction.

(Tom Warrack): And the rate that an individual servicer is using loan modification process is part of a massive data set that our surveillance group receives in from the rated servicers on a intermittent basis. So we can track the rate of loan (mods). We can track the rate of (recidivism) rates or how successful have the servicers been when they've incorporated loan (mods). And that information we will have at our disposal when we're surveilling transactions going forward.

(Steve Moyer): One last one – does the surveillance model also take into account home price activity on a local market basis?

(Tom Warrack): It – it's part of what we're using to predict future defaults and losses. So you hear David Wyss's expectations of national declines. He also gave you some information on a regional level. That information in addition to the housing volatility index that is incorporated into the levels model is part of a mix of information that we've used on a – within our surveillance approach.

(Steve Moyer): Thank you.

Chris Atkins: Next question please.

Coordinator: (Ingus McCallister), your line is open.

(Ingus McCallister): Hi, this is (Ingus McCallister), (Rowe) Bank of Canada in London. I'm just reading through changes to criteria. You say there's going to be a higher degree of correlation between senior ratings and transactions where subordinate ratings have been downgraded. Just how sharp is this going to be and should we be concerned about Triple A Bonds? And also does this follow through for the CDOs as well as the RMBS?

Pat Jordan: Based on the analysis that we just completed, none of the Triple A Bonds were brought into question. So I would say that the greatest impact would be the sort of higher Triple B levels, the Triple B+ and going into single A, single A-.

Ernestine Warner: And those rating actions are incorporated into this action. So those are already incorporated into the 612 watches that are on this list.

(Ingus McCallister): Okay that's RMBS - does it follow through for CDOs as well, same methodology change?

Pat Jordan: No. The – what follows through is any actions on the RMBS that are in CDOs of course…

(Ingus McCallister): Okay.

Pat Jordan: As far as correlations in CDOs within our stress models, you know, we do have an assumption for correlations. We aren't studying the actual experience now and over time it will determine whether that should result in any kind of change to either the correlation or any other component of our stress models for CDOs.

(Ingus McCallister): Great, thanks.

Chris Atkins: Your next question please.

Coordinator: (Matthew Long), your line is open.

(Matthew Long): Hi, it's (Matthew Long) from JP Morgan. I have a question on timing. So if we have deals that were, you know, ready to market now except they've been put on hold only because of this change, what should our expectations be in terms of timing? Is there any way to – to get feedback that's going to be good enough for marketing prior to the published criteria? Are we going to have to wait for the published criteria before we first see that criteria or feedback? How's that going to work?

Susan Barnes: We – we've actually begun last night running the current production through our revised criteria. So you should be getting those answers shortly today or tomorrow. If you have submitted (pools) or cash flow requests into us.

Tom Warrack: And for any deals that have not closed we're going to be re-analyzing those deals to measure the significance of credit support based upon the new methodology and if we feel it's sufficient we will be using that new methodology immediately.

(Matthew Long): Okay and just one other follow up on that, in terms of the software is that something that you expect to be around the same timeline or is that – or is there going to be a period where things will have to basically be all going through you in order to get the new criteria feedback before the software's available?

Susan Barnes: In just in the interest of getting the criteria out as fast as possible there is going to be a period where you will not have the same criteria in your levels model so you'll have to come to us.

Tom Warrack: We believe – we appreciate the sensitivity of it and we'll be working as quickly as we can to get that out.

(Matthew Long): Okay, and for deals that have already priced that are closing imminently, is this going to be sort of a retroactive – I assume this is, when you say anything after July 10, do you mean even if it's already priced based on preliminary feedback from S&P?

Tom Warrack: Yes – yeah, we're going to be re-analyzing every transaction that has not closed and even for the transactions that did close I spoke earlier as to how we're going to re-analyze them. But yeah, every transaction we're in the process of re-analyzing using the new criteria and we'll be making a judgment as to whether or not the capital structures would need to change.

(Matthew Long): Okay, thank you.

Chris Atkins: Okay next question please.

Coordinator: (Odetta Nuana), your line is open. Hello (Odetta Nuana), your line is open.

(Don Paradisi), your line is open.

(Don Paradisi): Yes, hi. I'm trying to find out how you're going to normalize your findings on the '06 performance and impact to the levels model for the changes that originators have made to their guidelines and product set in 2007? Is it just a function of seasoning and looking at the performance as our collateral or is there some kind of methodology that you'll apply to take that into account?

Ernestine Warner: Well as the originators change their criteria – that would be evident in the characteristics that are submitted to us for analysis - so we would see that and take that into account in our assumptions going forward as deals are presented to us for investment.

Tom Warrack: And as we're – and as we are re-analyzing all of the transactions that previously closed in 2007, you know, we feel that they'll be (aligned).

(Don Paradisi): Okay, thank you.

Chris Atkins: Next question please.

Coordinator: (Sandy Goldstein), your line is open.

(Sandy Goldstein): Yes, hi. My focus is on the reset risk on the hybrid arms and I heard you reference the fact that you're going to be modifying your loss expectations for hybrid arms and that you're also going to stress prepayment fees to stretch the spread in these deals.

`So I kind of have a two-part question. The first is related to whether you believe that you've already embedded in this – in these modifications whether you've already factored in the proposed underwriting standard tightening, that if banks and other lenders are required to underwrite the borrower at the fully indexed payments but if that's already been embedded in your analysis or whether that leaves you for potential further downgrade (unintelligible) to the extent that those guidelines are adopted.

Tom Warrack: (Sandy), I'm not clear if you're asking for transactions that have closed already and are now either being surveilled or re-analyzed or if you're talking about how new deals going forward might be impacted by any, you know, regulatory or legislative action.

(Sandy Goldstein): Yeah (Tom), it's actually both. I guess my bigger picture question, forget downgrades, my bigger picture question is whether or not you've already presumed that going forward it will be harder for the hybrid arm borrower to re-qualify based on tightening standards or whether you're basing it on current lending criteria and to the extent that those standards are fully adopted by your outlook could become worse for that type of loan.

Tom Warrack: Yes, yes, that's incorporated into our analysis .

(Sandy Goldstein): Okay, it is incorporated and then, okay thank you. And then my second question part of that question is I hear you that you are stressing the, you know, I hear the two points as far as how you're stressing the hybrid arm. By running at a faster prepayment speed are you necessarily stressing that loan more?

Tom Warrack: Yeah, there'll be a quick – there'll be a quicker pay down of the collateral pool and less excess interest generated. Simultaneously with that collateral pool paying down in a much more quickly manner we're also going to be increasing the involuntary component of prepayment or the default. So in that way that simultaneous change is going to be quite (unintelligible).

(Sandy Goldstein): Yeah but what I'm saying is you'll be forcing those losses - effectively you'll be frontloading the loss curve on those types of loans then so that you actually experience those losses before they prepay?

Tom Warrack: Well, we'll be insuring that all of the defaults that are required getting incorporated through the cashflow modeling.

(Sandy Goldstein): Okay, good. Thank you (Tom).

Chris Atkins: Thanks, next question please.

Coordinator: (Rod) with Credit Suisse, your line is open.

(Rod): Yes hi, I just wanted to get a quick clarification and then a question. The – the actions you're taking range from Q'04-'05 to all of '06. Can we – is it fair to say that for those vintages that the actions you've announced today are the end of it? In other words you've gone through all the deals from those vintages. I think you alluded to it earlier. I just wanted to clarify that we're kind of done for now. In other words, you haven't gone through only half the deals and you still have another half? You've gone through 100% of the deals from those vintages and this is what you've found?

Pat Jordan: We did evaluate the entire 2006 and the fourth quarter – I'm sorry – I believe that this results and I guess larger actions or greater actions in terms of the actual ratings and I expect that there would be less volatility at this point. For these particular transactions I cannot say that this is absolute end but there should be less volatility around these ratings if they (are lower).

(Rod): So you're not going to come out in two days and say, "oh we've got another 200 deals or something"? This is – are these…

((Crosstalk))

(Rod): …until we see more data there might be more deals but for the time being you've evaluated…

Ernestine Warner: There may be other deals in other products. As we said this isn't specifically related to…

(Rod): Right, (unintelligible) - understood. And then your assumptions for severity – you had mentioned you'd increase the severity assumption and is that – will that be applied to all deals or will it be customized for certain deals like deals with mortgage insurance and other attributes that might result in lower severities?

Tom Warrack: To first clarify, again when we say sub-prime we want to make it clear that we're talking about the primarily first lien sub-prime market.

(Rod): Yeah.

Ernestine Warner: Closed end seconds we'll be following up with.

Tom Warrack: Closed end seconds has not been included in this statement that we're making today.

Ernestine Warner: Right.

Tom Warrack: You – could you – I'm sorry, could you repeat that question?

(Rod): Yeah. The severity assumptions that you had mentioned in your report – your increase of severity assumptions - will they be applied universally across the deals or will some deals warrant lower severities, like deals with mortgage insurance or other attributes that might warrant lower severities?

Tom Warrack): The starting point for all of the loss severity calculations would be increased across the board. However we'll also take into consideration any offsetting factors that would have a role – an adjusting role – in that loss severity, like mortgage insurance. So I mean, the answer is yes to both of them. It's going up across the board but then as a second step we'll take into consideration the mortgage insurance to limit the loss severity to the extent that we're comfortable with the policy.

(Rod): And deals with higher percent of second liens will presumably have higher severities on the second lien component of that deal?

Tom Warrack: Well, the second liens are already running for the most part at 100%...

(Rod): Okay so you're running them already separately, okay.

Tom Warrack: Yes.

Ernestine Warner: Yes.

(Rod): All right, thanks.

Chris Atkins: Thank you, next question please.

Coordinator: (Julian Mann), your line is open.

(Julian Mann): Yes, a little bit on the expectation for a modest eight percent property value decline between '06 and 2008, I'm calling you from California where almost half of this sub—prime paper originates and much of it is centered along the (I-5) corridor which is a – primarily a farming area so it has a fairly static economy from year over year yet starting in 2000 home prices were about $150,000 and then they peaked at about $250,000 in 2005 on the back of the NINJA loans – the No Income No Job No Asset loans. So if those are gone and we're going to try to get those houses that are foreclosed sold, how would you expect eight percent to clear a market that may need to decline in 20, 30, maybe 35%.

David Wyss: Yeah, this is David Wyss. You're right. Eight percent is the national average and we are expecting significantly more severity in the areas particularly where there have been severe job loss like Michigan or in areas where the housing bubble has bubbled higher than it has elsewhere, like for example Florida and California. So…

(Julian Mann): Okay, so if you're…

David Wyss: …can be higher than that in a lot of the most impacted regions.

(Julian Mann): Okay so what does eight percent have to do with sub-prime then?

Susan Barnes: Okay, but I think what's important (Charlie) what David's forecasting is our expectation. When we're incorporating in a market value declined assumption in our ratings as well as our surveillance process as the speculative ratings. We're assuming a 22% market value decline from a stress perspective.

Tom Warrack: Regional – and then regional…

Susan Barnes: …across the board…

Tom Warrack: …and then regional adjustments to that…

Susan Barnes: Right.

Tom Warrack: …that base market value decline.

Susan Barnes: Okay, right.

Tom Warrack: So the eight percent is not relevant…

(Julian Mann): Okay.

Tom Warrack: …on its own in our surveillance or new ratings approach as we operate at a much more local level.

(Julian Mann): Very good. I noticed in the list that there's neither and CDO squared or Euro or Asian deals. Is that because you can't analyze the CDO squared or is it also that you don't think that there's any U.S. collateral in the Euro and Asian deals.

Ernestine Warner: All right, for the European and Asia Pacific originated transactions we don't believe that there's significant exposure to warrant anything because we don't believe there'll be any rating actions required as a result of the RMBS actions that we're talking about.

For CDO squared the – we are very much analyzing those. The difficulty with having – trying to include them on an exposure list is that they're more opaque and not as linear to analyze.

So adding them to exposure lists would be – we'd have a greater risk of having a list of transactions that at the end of the day are not going to be affected negatively by the RMBS actions.

But as soon as we have completed the CDO squared analysis, you know, we'll include those in our press release.

(Julian Mann): Do you have any estimate of when you might arrive at that?

Ernestine Warner: Within the next several weeks most likely.

(Julian Mann): And will you be having a call on that because that is obviously a big, big component, especially for CDOs.

Ernestine Warner: I think we'll have calls on whatever the market is, you know, asking us to have calls on. So we certainly consider your request.

(Julian Mann): Thank you.

Chris Atkins: Thanks. Next question please.

Coordinator: (David Petrie) your line is open.

(Julia Jones): I think that was me. This is (Julia Jones) actually at (Barclays) Capital. Just wondering – when the data's released on the twenty-fifth of the month, performance data, how detailed of data do you get at S&P? Do you actually get loan level data? And if you don't get it, you know, what's the lifetime that you do obtain that information?

And considering the volumes deals that were rated over the past year and a half or so are you still challenged – have you been challenged with a number of people or staff that you have to review all these deals or are you pretty much caught up with that?

Ernestine Warner: (Julia) we get the data in on a monthly basis immediately after the distribution starts to come in from (unintelligible) and it's the standard performance information: updated bond balances, credit enhancement, that type of thing. We are also receiving low level information but sporadically; not in any very wide range. But we do get information on some of the deals from time to time.

The staff has grown over I would say the years as the volume in transactions has grown and I think that we are comfortably sized at this point.

Chris Atkins: Thanks. Next question please.

Coordinator: (Bob Derapeck) your line is open.

(Bob Derapeck): Yes. One thing I have – I'm kind of scratching my head about is how did you declare the timeframe? I know you said October of 2005 to December '06. How did you come to December '06? Is there a seasoning component here that has to hit a minimum seasoning in the deal? Why not, you know, first quarter '07 because a lot of those deals aren't much different from late '06.

Ernestine Warner: I think – yeah we absolutely agree with what you're saying and we did evaluate the pool for the first quarter 2007. And again based on the lack of seasoning there wasn't a material result from this analysis.

(Bob Derapeck): So there's a minimum seasoning requirement?

Tom Warrack: Well there's not a minimum seasoning requirement but enough time has to pass for delinquency behavior to become apparent. But in addition we're also running all of those transactions that closed in the first and second quarter through the new ratings methodology that we're going to be using beginning tomorrow.

(Bob Derapeck): And so I can see the writing on the wall that you'll probably be doing something late this year then with BPOs that came on early this year.

Tom Warrack: The analysis will determine that.

Ernestine Warner: Yep.

(Bob Derapeck): Okay. One more question real quick. Do you have an estimate – just a generic estimate on what you think (unintelligible) to 60 plus days for the '06 vintage will top out at? Do you have a forecast for that?

Ernestine Warner: (Unintelligible).

Tom Warrack: Yeah I don't…

Ernestine Warner: Back of the envelope I would say 20, 25%. I really have no way of knowing exactly where it's going to top out given the unusual patterns which have been increasing.

We haven't seen any pattern showing that the accelerating pace of the (unintelligible) coming in is abating at all.

(Bob Derapeck): Right.

Ernestine Warner: It's still heading north.

Tom Warrack: And then again incorporated into our expectation is the challenges that farmers are going to face when they hit reset rates in any significant way.

(Bob Derapeck): Right. Okay thank you.

Chris Atkins: Thanks. Next question please.

Coordinator: (Lee Miller) your line is open.

(Lee Miller): Yeah hi, thank you. I wanted to ask about the voluntary prepay increase that you were referring to. Is that also for fixed rate or just for adjustable rate?

Woman: Fixed rate is unchanged.

Tom Warrack: Yeah we – the performance has been relatively good in the fixed rate. We're going to be changing that but nowhere near as much as the impact on the hybrid ARMs.

(Lee Miller): Thank you.

Chris Atkins: Next question.

Coordinator: Thank you. Our next question comes from (Michael Unello). Please go ahead.

(Michael Unello): Yes hi. I had a question about your default modeling. How much is related to directly HPA modeling? And I think someone asked it before. Do you go down to the local level when you're assessing HPA numbers across the nation?

Susan Barnes: We incorporate in our model we just have a (unintelligible) volatility index that is at MSA level. So we do have – as we said our base market value decline assumptions that are broad for the country and then we adjust those up or down based on those specific MSAs.

(Michael Unello): Thank you.

Susan Barnes: (Unintelligible) appreciating or depreciating.

Chris Atkins: Thank you. Next question.

Coordinator: Thank you. Our next question comes from (Peter Kaplan). Please go ahead.

(Peter Kaplan): Hi I just need some clarification on a few things. One, the deals that you've listed here, are they mostly adjustable rate products backed by adjustable rate products versus fixed rate?

Woman: Yes.

Tom Warrack: Yes. The prototypical transaction that we've been rating in the sub-prime market has been maybe 2/3 to 3/4 adjustable rates and generally speaking the liabilities are indexed to LIBOR.

(Peter Kaplan): Have you looked at the fixed rate space at all in terms of this kind of review that you've just conducted?

Tom Warrack: Yeah we've reviewed for sub-prime transactions all of the – through the time period that we've been talking about.

(Peter Kaplan): Okay so (unintelligible) identified. Do you have any sense of what the level of fraud was in the underwriting that went on in like late '05 and '06? And do you have it down to like deal specific kind of levels?

Susan Barnes: We don't have the specific fraud reports that – (unintelligible) report into the FBI. What we have are concerns about the data quality which is evidenced in the early payment default levels.

(Peter Kaplan): Right.

Susan Barnes: So while people will say that's suspected fraud we don't know for sure. I guess only the FBI would know if the services are reporting it in. But anecdotally what people feel is that's what's driving all of the EPDs and if that is the case it should work its way through in the life of the transaction.

Tom Warrack: And going focused – going forward operational risk, particularly lender's ability to realize fraud tools and ensure transactions are as free as possible from fraud certainly there's going to be an increased focus to our rating approach going forward.

(Peter Kaplan): With respect to monoline insurance wraps have you looked at the potential for kind of a call on the capital at the monoline such that they may have some impairment with respect to being able to make timely payments of principle and interest on all the stuff that they've guaranteed? And how does that factor into your assessment of the deal?

Tom Warrack: Well our insurance ratings group will be taking everything that we're doing today and have been doing into consideration when they analyze the financial capacity and the claims paying ability of the monoline insurers.

We do analyze even on insured transactions we do use the same analytical approach and relay to our insurance group the liability risk that we think the insurers are taking on not only at a deal level but on a portfolio level.

So in that manner, you know, we think that the, you know, analysis will transcend and the financial institutions ratings group will be making judgments on that.

(Peter Kaplan): So when there's a wrap on a deal you evaluate the collateral down to a certain level. Is that right?

Tom Warrack: Yes. We use the same loan level, credit, and cash flow approach for insured deals as we do for non-insured deals.

(Peter Kaplan): Okay. Thank you. One last question. Do you have any sense of, you know, with all that's gone on in the sub-prime space I've never seen any information about who some of the originators were that kind of had problems. You know, they're servicing obviously now but, you know, there were thousands of originators.

Did you get a sense or do you have any data from the deals that you look at as to which of those mom and pop shops were kind of the most egregious in originating bad loans? And is there any research out there that, you know, you could go back and kind of link it to deals if you will?

Tom Warrack: You know, we have limited ability to do that internally. You know, we're not prepared necessarily to publicly talk about our findings with an originator level. But, you know, certainly there's been 60 or 70 smaller and larger lenders that are no longer in business.

(Peter Kaplan): Yep.

Tom Warrack: You know, so certainly, you know, that is, you know, indicative of business models or performance or funding challenges that those institutions have occurred.

Chris Atkins: Thank you. Next question please.

Coordinator: Thank you. Our next question comes from (Josh Adler). Please go ahead.

(Josh Adler): Yeah hey (Tom). I was curious if you guys have been looking or seeing a similar trend in Alt A and are you re-reviewing your ratings methodology for Alt A transactions?

Tom Warrack: We can see levels of certainly up versus previous (unintelligible) in Alt A as well. And we are and have been monitoring Alt A transactions in a significant way. There is some crossover in similar transactions, particularly in sort of the lower quality spectrum of Alt A. Some refer to it as Alt B or even Alt C.

So, you know, those transactions that share similar characteristics have been performing, you know, worse than historical averages. And we continue to monitor those transactions and when we think warranted – if we think warranted we'd be taking suitable actions at the time.

(Josh Adler): Thank you.

Chris Atkins: Thank you. Next question please.

Coordinator: Thank you. Our next question comes from Mr. (Kahn). Please go ahead.

(Kahn): Hi. Sorry my voice is down a little bit. But I just wanted to check something with respect to the (unintelligible) deal you mentioned earlier that moving interest rates are one of the key factors, you know, for basically decline in housing market, delinquency in default rates.

Is there any correlation for that every one person (unintelligible) increases their delinquency or default rates what is that level if there is something like that?

Susan Barnes: We have not done that.

(Kahn): (Unintelligible)?

Susan Barnes: I think it's arguably – I mean as interest rates rise we do have assumptions in our initial ratings of reset risk that we do assume interest rates going up and then we forecast (unintelligible) people's income levels as well as debt levels to stress the payment shock upon a reset.

So that factor is taking into account in our ratings analysis.

(Kahn): (Unintelligible) historical evidence that the rates rising delinquency levels increase by, you know, 50 bps or something like that? Is there nothing to that effect in your historical data?

Susan Barnes: Not as recent. If anything the rates have been going the other way.

(Kahn): I appreciate that. I'm just saying that maybe in the 80s or the 70s or something like that (unintelligible) basically what would the reset levels will be especially for Alt A and then even subsequently for prime mortgages, you know?

Tom Warrack: We don't have the specific number to share with you but I mean we're aware of the effect and it's incorporated into our analysis.

(Kahn): Okay. Thank you.

Chris Atkins: Next question please.

Coordinator: Thank you. Our next question comes from (Sumit Kupur). Please go ahead with your question.

(Sumit Kupur): Yeah hi. I was wondering do you know what percentage of the transactions from the fourth quarter of 2005 through 2006 were affected by this downgrade?

Ernestine Warner: I'm sorry, go ahead.

Pat Jordan: Based on the number of transactions there were 34% affected. At least (unintelligible) one transaction that was – one traunch that was placed on credit watch.

(Sumit Kupur): Okay, thank you.

Tom Warrack: With the vast majority of those being at the triple B and double B level. Over 80% of the credit watch actions that we've taken today were on classes that were rated triple B or below.

Chris Atkins: Thank you. Next question please.

Coordinator: Yes, thank you. Our next question comes from (Davis Warren). Please go ahead with your question.

(Davis Warren), your line is open. Please check your mute button. Thank you. One moment.

(Rod) with Credit Suisse, your line is open.

(Rod): Yes, hi. A couple of quick questions. The – how did you incorporate triggers in your analysis? I know when you're rating the deals, you assume they fail but I'm wondering how the increase in losses impact the triggers and the effect on any prospective rating actions?

And second on prepayments. Again, now we're actually seeing slower prepayments now. It's the one positive that some of these older deals are experiencing.

What drove the increase in prepayment assumptions for some of these older deals? Thanks.

Tom Warrack: Well in the surveillance cash flow methodology, (Rod), depending upon what the delinquency pipeline looks like and how the deals are structured will run the deal as we expect it to play out given the triggers and the delinquency pipeline. So that is incorporated into the surveillance analysis.

In terms of the voluntary prepayment speeds, you know, in looking at the data – the data still shows us that, you know, transactions are being affected by fairly high voluntary …

Woman: Is your call still going on? I'm not sure.

Woman: I'm sorry. In terms of the way the deals are being stressed, we're using the actual CPRs for the transactions.

Tom Warrack: …from a surveillance approach.

(Brad): Okay.

Chris Atkins: Thank you. Next question, please.

Coordinator: Thank you. (Arwan Mulzing), you may ask your question. (Arwan), you may ask your question.

(Arwan Mulzing): Hello?

Coordinator: Sir, your line is open.

(Arwan Mulzing): Hi. Just going back to the evaluating and CDO – and CDO (square) – let's go back to CDO (square) where the underlying is (the number) CDO. I just wanted to go through your – briefly your (mythology) and how do you value those securities?

Woman: All right. Okay. I mean we – look, we drill down to the underlying asset level in the underlying – or baby CDOs as they're somehow – sometimes referred to – and do the analysis at that level. And then roll that up into the CDO that is the repackaging of the CDOs.

(Arwan Mulzing): Oh, thank you.

Woman: (Steve), you might want to add something. This is (Steve Vanderberg), who's the head of CDO surveillance.

(Steve Anderberg): Hi. It's relatively – in fact very straightforward for us to drill down to the first or second level and see what the raw exposures are in the underlying CDO collateral pools.

But for (capital) reason, I didn't include that in the exposure lists that we published and the CDO press release that went out this morning – is because you need to take that in the context of a number of things including – of course – which CDO charge is being held in the parent CDO.

You got a very different impact if you're holding a Triple A rated senior CDO tranche with a given collateral pool versus holding a Double B or Triple B CDO tranche with that same collateral pool.

So it all needs to be taken into context and if you just look at the raw numbers, it doesn't provide a lot of information.

So for this release, we just stuck to the first level exposures. But we do analyze it whenever taking a transaction to committee or reviewing it.

Chris Atkins: Thank you. Next question, please.

Coordinator: (Reed Joe), your line is open. (Reed Joe), your line is open.

Thank you. Our next question comes from (Chris Pemchek). Please go ahead.

(Chris Pemchek): Hi guys. Thanks for doing the call. I just had a question around roll rates. In the press release, you guys are pretty explicit about how you're handling 90 plus in RAL loans.

Just wondering if you can give us clarification on the roll rates you guys are now using for current to 30 and 30 to 60 along the lines with kind of the detailed analytics you guys laid out in the press release for 90 plus in RAL?

Pat Jordan: On (unintelligible) gets a little tricky and I will try to describe it as coolly as possible. Once we factor in all of the loans that are currently 90 plus delinquent – and based on the number of months that we're sort of liquidating these loans – when we come to month 12, we take the loss that's calculated for that month, you know, based on the loans that are 90 plus.

And we continue to use that loss based on an amortizing balance for the remaining 24 months of the stress run. So that in effect brings in loans that are early around in the pipeline – your thirt- consideration at least to those loans that are 30 and 60 – and also loans that are current in the pool.

Tom Warrack: Right, s it's an extrapolation process that considers certainly going forward with a significant percentage of loans that are current today – and 30 today rolling forward in future periods to default the loss.

(Chris Pemchek): Okay, thank you.

Chris Atkins: Thank you. Next question, please.

Coordinator: Thank you. Our next question comes from (Frank Skippo). Please go ahead.

(Frank Skippo): My question was answered already, thanks.

Coordinator: Thank you. Our next question comes from (Brice Doty). Please go ahead.

(Brice Doty): Hi there. It's (Brice Doty). The – you said that for tranches that take a loss under your stress test between 30 and 36 months would be Triple B and ones taking loss between 25 and 30 months would be Double B.

So as an example, if you had a Triple B rated security today, is it conceivable that six, eight months from now -- if the pattern persists in terms of loss and what not – that that same tranche would then qualify as a Double B rated security?

Ernestine Warner: I think – if I understand what you're describing – the Triple B, if it's going to default within the first 12 months, would go to Triple C today.

(Brice Doty): Right. But let's say a Triple B today would be – or last month – would not be rated Double B because let's say it would experience a loss in month 25 to 30.

Well fast forward six months from now. Would that same tranche then be downgraded to Single B because now – because six months from now it would be taking the loss within that 13 to 24 month range that Single B's would?

You know, there's a similar pattern that we saw (MH Securities) go through back in the day.

Ernestine Warner: Right. I understand your question and given that scenario, it would be lowered again. But that's provided performance continues to decline.

(Brice Doty): Yes. Just trying to follow the math. Thank you.

Chris Atkins: Thank you. Next question, please.

Coordinator: Yes, our next question comes from (Ryan Stark). Please go ahead.

(Brian Happas): Yes, we have two questions. This is (Brian Happas) from (George Bank). The first question involves the list of negative watch that you have put out today.

Does that encompass strictly the deteriorating performance you have already mentioned? Or does it also layer in the new criteria that you're going to incorporate into the levels model?

Woman: That is just separate with the surveillance criteria only.

Tom Warrack): And going forward first and second quarter, we'll include a re-analysis given the new criteria.

Chris Atkins: Thank you. Next question, please.

Coordinator: Thank you. Our next question comes from (Serif Houston). Please go ahead.

(Serif Houston): Hi. Hello?

Coordinator: Sir, your line is open. Please go ahead with your question.

(Serif Houston): Hi this is (unintelligible). I have two quick questions. First one is that you quoted less than 2.00% - I guess that's a percentage of the – all the subprime mortgages. Do you have the numbers by (ratings sake) as percentage of a Triple B deck or Double B deck? Do you have these numbers handy?

Ernestine Warner: Yes we have. And that is (unintelligible) numbers – or the ones that you just said. The less than 2.00 is based on the dollar amounts of securities that were issued during the time period that we're evaluating.

With regard to the ratings, 0.15% of Double A is impacted, 5.52% of Single A, 25.18% of Triple B, and 64.44% of…

((Crosstalk))

Ernestine Warner: 46, I'm sorry. Thanks. 46.4% of Double B.

(Serif Houston): All right. Thank you. Second quick question – do you have a sense of how many of these loans you put on active watch are either non-rated or have a (unintelligible) rating regarding other (unintelligible)?

I have a feeling that probably more than 50 (unintelligible).

Tom Warrack: Yeah. No, we're not aware of the outstanding ratings from any of the other rating agencies.

(Serif Houston): Okay, thank you.

Chris Atkins: Thank you. Next question, please.

Coordinator: (Karen Setta), you may ask your question.

(Roland Margof): Hi, this is (Roland Margof) from Washington Square. I was wondering if at this point you were considering reassessing you methodology and other CDOS classes?

Ernestine Warner: For example?

(Roland Margof): CLOs, synthetic CDOs – that kind…

Ernestine Warner: We issued those in our – well, kind of an article generally on (Covenant Life) a couple of weeks ago. And then our (That Too) issue. And our – oh already issued yesterday in RFC on the definition of (Cov Life).

So that all relates to CLOs and our questions as well as, you know, those that the market has about whether there's any additional risk and (Covenant Life) loans being included in CLOs.

But that's completely separate from this exercise, of course. And that's all that we've done recently or have planned at least.

(Roland Margof): Okay. Thank you.

Chris Atkins: Thank you. Next question, please.

Coordinator: (Robert Rodriguez), your line is open.

(Robert Rodriguez): Thank you very much for taking the call. I was wondering, have you done any – can you give us a sense on your newer modeling -- given the house price assumptions as you're using – what it would take to force you to adjust ratings on Double A and Triple A securitizations?

The reason why I'm asking this – another ratings agency had commented that if they had home price depreciation of approximately 2% for a sustained period of time, that that could affect the ratings upward into the Double A and Triple A areas.

And I am just wondering how yours might compare?

Tom Warrack: Yeah, we have not specifically run that out and have done that analysis.

Ernestine Warner: We had done in the past one – (unintelligible) the 30% market value decline on the coast and 10% on the interior and look at the sensitivity of the ratings and found at that time that the higher rated classes would sustain that type of a market value decline.

But we haven't updated that. But I don't see any reason why that forecast should change.

(Robert Rodriguez): Can I clarify that? You say you did a 30% on the coast and a 10% on the balance of the country? And then therefore that would have impacted the higher rated tranches. Am I understanding you correctly?

Ernestine Warner: We're saying in doing that, we did not find that the higher rated tranches would default.

(Robert Rodriguez): No impact. Okay.

Tom Warrack: In any significant way.

(Robert Rodriguez): Okay. Thank you very much.

Chris Atkins: Thank you. Next question, please.

Coordinator: Thank you. Our next question comes from (Bill Burlemer). Please go ahead with your question.

(Bill Burlemer): Yes, thank you. I have two questions. One is the deals that are – that you specify with the July 10 cutoff – does that – do you expect that to impact only subprime or primarily subprime? Or do you expect it to impact other asset classes, too?

And the other question is regards your assumption for the revised ratings methodology of the higher – the faster level of the involuntary prepayments. Is that strictly to reduce the excess spread? Or is that also to bump up the assumption of losses for the deal as a whole?

Ernestine Warner: Well, when we do expect that -- in addition to subprime -- that our ratings changes may impact other sectors as they were designed based upon the characteristics of the loans.

So it will impact other transactions where we are utilizing (unintelligible) – excess spread is utilized in the deal so that they will be stretched – for example – all day and close end seconds will be impacted.

(Bill Burlemer): Okay. And the other question regarding your revised ratings methodology? Do you want me to repeat the question?

Tom Warrack: Yes please.

Ernestine Warner: Oh yeah. Was it to increase the losses? Is that what you were…

(Bill Burlemer): Yes, or is it strictly to affect the excess spread flowing through and assumed in the deal?

Ernestine Warner: Well we had a two-prong change. I mean, one is to increase the portfolio frequency or the default expectation for the hybrid ARM. The second is to increase the voluntary to reduce the excess spread. Two separate things.

(Bill Burlemer): Right. But you also are increasing the level of involuntary prepayments, too?

Ernestine Warner: Yes.

(Bill Burlemer): And is that strictly to impact the excess spread?

Ernestine Warner: Yes. Correct.

(Bill Burlemer): Okay. Thank you very much.

Tom Warrack: No, that would not have an effect in decreasing the expected losses going forward.

(Bill Burlemer): Thank you.

Chris Atkins: Next question, please.

Coordinator: Thank you. Our next question comes from (Davis Warren). Please go ahead.

(Davis Warren): Yeah, can you guys hear me now?

Tom Warrack: Yes.

Ernestine Warner: Yes.

(Davis Warren): Okay, great. I tried this before. So I have two questions. One of which – under your new methodology, do you guys have any new (team) loss projections going forward? If – maybe a range or something like that for Q4 2005, first half 2006, and second half 2006?

Tom Warrack: Yeah. We're - we have incorporated much of that into the surveillance methodologies. We do believe that that range is going to be far in excess of what we had originally predicted and what - even what a lot of the street research is telling us.

What we've observed to date is that, you know, when we looked at the 2000 vintage at a similar seasoning rate, losses were still significantly below where the 2006 vintage is today at a similar rate. And purely extrapolating out based upon that differential could bring us to an expected loss range as high as 11 to 14%.

(Davis Warren): Okay. And there's no - that's for 2005 Q4 and all of 2006?

Tom Warrack: Yes.

(Davis Warren): Okay. Thank you for that answer. And the second part was I was curious if you guys had a view on what percentage of, you know, the 30-day bucket, 60-day bucket and 90-day bucket and foreclosure will eventually turn into default?

Woman: Well I - the way that we…

Woman: (Unintelligible).

Woman: Something that we'd use…

Woman:

Ernestine Warner: Would be 100% of 90 plus which may not be, you know, the actual reality with regard to reinstatement rates, that kind of thing. And just for the purpose of our stresses that use 25% of 30 and 50% of 60.

(Davis Warren): Okay. And I would guess if you're doing 100% of 90 then you'd be doing 100% of foreclosure as well, correct?

Ernestine Warner: Absolutely.

(Davis Warren): Okay. Thank you very much for your time.

Chris Atkins: Thank you. Next question please.

Coordinator: Yes. Our next question comes from (Win Zung). Please go ahead.

(Win Zung): Hi. My question is regarding the roll rates. Do you address roll rates to account for the payment shock?

Tom Warrack: Yeah. In our analysis would be taken into consideration, you know, any factors that we think are going to influence default going forward.

And these are, you know, roll rates that have, you know, proven to be indicative in the past. And certainly we're ramping up our expectation of future default even on the percentage of the loans that are current and incorporating that into the surveillance analysis.

(Win Zung): So the roll rates you mention in the report, that's not adjusted for the payment shock specifically? It's more based on historical levels or inclusive?

Tom Warrack: Well they're historical averages with a nod towards future behavior given circumstances in the market and what the loans look like today.

(Win Zung): Okay. Thank you.

Chris Atkins: Thank you. Next question.

Coordinator: (Goin Tun), your line is open.

(Goin Tun): Hello. Hi. Yeah. Thanks for the call and a quick question. On your cum. loss expectation you mentioned was 11 to 14%. So of the bonds that are affected today how many - what was the percentage that formed with every inch of cum. loss of 11 to 14%.

Tom Warrack: Well the 11 to 14% is not an estimate that we'd done on a deal-by-deal basis. The 11 to 14% was an extrapolation out based upon the ratio of losses to date at similar seasoning points between 2000 and 2006 vintage. That's where that - if that relationship holds on average and defaults and losses continue at the same rate at - as this book would run out as the 2000 did that's the range of losses that we would expect on average.

(Goin Tung): Yeah, another quick question on your CDOs. I mean certainly you have a PD default, probably default (H) rating. So do you foresee adjusting that sort of PD for the same rating going forward when you're rating your CDOs?

Pat Jordan: We don't currently anticipate changing any of the assumptions on our CDO model.

(Goin Tung): All right. Thanks.

Chris Atkins: Next question please.

Coordinator: (Paul Matterbury), your line is open.

(Paul Matterbury): Two questions on a follow-up. Someone earlier had asked about losses that would get up into the higher As, the AAs and the AAAs. And you said you had run a stress scenario of down 30% on the coast and down sort of 10% in the rest of the country and that the AAs and AAAs were okay. I assume that was for the RMBS.

But my question is twofold. One, would that require those AAA and AA's to be downgraded? And then the second one is if you applied that same sort of severity and then looked at the CDOs, what would happen to the CDOs if we applied this kind of house price depreciation? And would their AAAs and AAs be impacted?

Susan Barnes: Well from the RMBS side when we looked at it we didn't look at it that way. We looked at the ratings at that point in time and were they safe. So they - we would not anticipate them having to be taken down.

Ernestine Warner: Right, and so in CDOs we don't perform any independent RMBS stress analysis at all. We rely on the results from the analysis that's being done by the RMBS new deal and surveillance areas.

Man: It's the one concern, just quickly to add on to that, we would have. If we were to see RMBS rating actions occurring more at the AAA and AA level that would take it more into the high-grade SF CDOs which right now is showing somewhat more stability than the Mezzanine deals.

Chris Atkins: Thank you. Next question please.

Coordinator: (Nadia DiMicastro), your line is open.

(Nadia DiMicastro): Oh thank you. I have a question regarding the roll rates. You went through the methodology of applying it for first lien deals but a lot of the deals put on watch actually late '05 and '06 had a good deal of second lien loans and also balance seconds.

So how do you… Do you have a way of combining those two roll rates because I'm assuming for second rates it's a much faster transition to loss?

Ernestine Warner: Yes. We would take a look at the composition of the pool. And to the extent that there are closed-in second liens in that pool for that portion we would assume a 100% severity. On the remaining part of the deal the severity would be at our adjusted 40%.

Tom Warrack: And a very quick roll-through to that 100% loss severity of any second liens that are in the delinquency plank line.

Ernestine Warner: Right. They're…

Tom Warrack: They've been rolling through to losses very quickly.

(Nadia DiMicastro): So there - you - it really matters to me that anything that's 60 plus and a second lien, it will be rolling to losses over… I don't know.

Ernestine Warner: The way that we've been looking at it, anything that's 90 plus we would expect to see liquidations out four months. But…

(Nadia DiMicastro): Okay.

Chris Atkins: Thank you. Next question please.

Coordinator: (Tami Capor), your line is open.

(Tami Capor): Hi. Can you open up cumulative loss predictions by quarter? Like you gave 11 to 14% for 2006 as a whole, do you have, for example, 2005 quarter four onwards to 2006 quarter four?

Tom Warrack: No. We have - we've not done that.

(Tami Capor): All right. Thanks.

Chris Atkins: Thanks. Next question please.

Coordinator: Our next question comes from (Warren Wells). Please go ahead.

(Warren Wells): Yeah. Hi. Thanks. I have a question on CDO implications, just a couple points of clarification.

Your CDO rating, would you actually adjust your CDO level rating based on the rating watch negative status of the underlying bonds in the portfolio? Or would you actually wait for an actual downgrade to occur?

Susan Barnes: In this case we expect - because we expect the rating actually following the credit watches for the RMBS to happen relatively quickly we are going to wait. In - often our practice however is to first assume a one notch downgrade on a credit-watched asset and run our CDOs with that assumption and potentially take action based on that. But when - because we expect a quick follow-through we're not going to take that interim step this time.

(Warren Wells): And is it fair to say this is - given that it's mostly a big… One of the presenters said that there was approximately or over 80% of the actions were at the BBB or below. So is it fair to say that this is mostly affecting Mezz CDO?

Pat Jordan: Well, I mean the exposure list… (Dave), you can answer this.

Steve Anderberg: Yeah.

Pat Jordan: The exposure list is closed.

Steve Anderberg: That is definitely fair to say. On the synthetic CDO side 100% of the transactions there, you know, potentially will see an impact. As a result of this our (unintelligible) has been Mezzanine. And on the cash side I don't have the list exactly in front of me but…

Pat Jordan: There are some high grades listed.

Steve Anderberg: Maybe eight.

Pat Jordan: A small number.

Steve Anderberg: A relatively small number, 8 or 10 out of the list of 60.

Susan Barnes: Right. So…

Steve Anderberg: So it is a fair statement.

(Warren Wells): Right. And how far up the CDO liability structure would you project that this could affect CDO ratings?

Steve Anderberg: Good question. It depends upon a number of factors including the cushion in the rating. At this time it's not necessarily going to be a linear impact. That said, on the whole we expect it to impact - be much more likely to impact that lower tranches of the CDO, so the BBs and BBBs first, later to As before you got to the AAAs and AAs on the whole.

(Warren Wells): And the last question: what - to what degree does structure give the manager the ability to preserve the rating at the CDO level? So in other words if you have let's say a deal that has a long-short strategy, that has all settings short so that some of the bonds that are better on watch or a managed deal where the manager can do a credit impair tree to sort of improve the position. How does - what tools are available to add, manage, preserve the ratings of their CDO?

Pat Jordan: That - I mean that's exactly why we now have - will follow the press release with direct calls to the CDO managers to understand exactly what if anything they're taking, you know, actions they're taking to mitigate.

Some of them, as you referenced, are structural so they're in the documents of the transactions. Others are things that they can do as managers to help mitigate, that they may have already done or they can still do. So that's why we have the updated conversations.

Steve Anderberg: And just to quickly add on to that, between any given - within any given group of CDOs, managers can have a very significant impact on the performance of the CDO because the - one of the top factors, the (unintelligible) top factor don't determine the rating performance because they select the initial collateral pool, they select what gets traded in or out of the pool.

So you could have a wide - large number of pools collateralized by Mezzanine SF - Mezzanine, you know, sub-prime and see a wide disparity in the performance even with the same structures.

Chris Atkins: Thank you. We'll take our last question now.

Coordinator: Thank you. Our last question comes from (Lee Miller). Please go ahead.

(Lee Miller): Thank you. Just one follow up to something that was mentioned before and I wasn't sure I was clear on it was I think I heard you guys say that you were going to take the new methodology that you're putting in place for new deals and going to run through the beginning 2007 deals through that new methodology.

If that is the case I would then assume that there would be a lot of rating actions being taken on the beginning 2007 securitizations. I wasn't clear if you guys were going to be taking rating actions depending on the new methodology or whether you were going to be waiting to see how performance occurs on those deals and then do a similar analysis as you did on the 2006 vintage.

Tom Warrack: We're going to employ both methodologies simultaneously. And, you know, to the extent that the results of either methodologies, you know, show that deals are materially under-enhanced we'll take rating action at that appropriate time.

(Lee Miller): Will you agree though that the rating methodology that you're putting on new deals is going to be worse? Agreed?

Tom Warrack: It increases our expectation of default and it lowers the ability for the transactions to generate excess spread if that's what you mean.

Susan Barnes: That's what…

(Lee Miller): Right. So wouldn't that imply then that every 2007 beginning of the year deal would be downgraded based on putting in that new methodology?

Susan Barnes: No. It's that two-pronged approach that (Tom) just discussed. We would look at that and then look at the performance.

And that's where we're toggling in a little seasoning as well and see what's happening with the deals because just as in 2006 not all of the deals are performing poorly and not all of them need to be put on watch. So we need to take a more analytically rigorous approach in looking at the surveillance process in conjunction with combining that with the criteria that's being applied currently with performance.

(Lee Miller): Okay. I'm sorry. I misunderstood. I thought (Tom) said if either one of them showed the potential that you would potentially downgrade. And Susan, it sounded like you said only if both of them implied a worse performance would you then consider downgrading.

Susan Barnes: Right. We'll take them all into consideration, right? It's not going to be a strict test that way.

Lee Miller): Fine. Okay. Thank you very much.

Chris Atkins: Thank you all for participating in the call. I want to remind you that if you have questions that you would like us to answer please email them to the following email address: subprime@standardandpoors.com. We will make every effort to answer them in as timely a fashion as we can.

Again thank you very much. And that's the end.

Susan Barnes: Thank you.

Coordinator: Thank you. That does conclude today's conference. You may disconnect at this time.

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