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DBRS RMBS SURVEILLANCE: PUTTING SUBPRIME FIRST-LIEN RMBS PERFORMANCE IN PERSPECTIVE

As of December 15, 2007, DBRS has taken 522 rating actions (457 downgrades, 22 upgrades and 43 under review with negative implications) across 417 classes within 103 subprime first-lien residential mortgage-backed securities (RMBS) transactions issued from 2005 through 2007. Table 1 shows the breakdown of rating actions by vintage and by the type of rating action.

Table 1: Rating Action Summary

Rating Action	2005	2006	2007	Total
Downgraded	134	306	17	457
Under Review with Negative Implications	18	25	-	43
Upgraded	22	-	-	22
Total	174	331	17	522

[Graph 1](#) and [Graph 2](#) demonstrate the rapid increase in total 90+ days delinquencies and cumulative losses, respectively, by vintage. [Graph 3](#) illustrates the prepayment speeds by vintage. Although [Graph 1](#) and [Graph 2](#) indicate that the 2007 vintage is performing worse than the two previous vintages, only 17 classes (or 4% of all DBRS downgraded classes) were from the 2007 vintage due to the lack of seasoning as well as slower prepayment speeds. Lower prepayments for the 2007 vintage have led to relatively more excess spread available to cover losses. Furthermore, the increase in 2007 credit enhancement levels (ranging from approximately 10% to 35% for the early 2007 transactions) compared with previous vintages provided additional credit protection.

DBRS continues to evaluate the creditworthiness of transactions monthly, utilizing, among the various credit metrics, DCR (delinquency coverage ratio) (see [U.S. RMBS Surveillance and DBRS RMBS Performance Analytics Report](#), a June 2007 commentary that offers a detailed discussion of DBRS surveillance analytics). This ratio captures the adequacy of excess spread and overcollateralization (OC) in a transaction relative to anticipated losses as estimated from the current total 90+ days delinquency pipeline. DCR can quickly identify transactions that are experiencing deterioration in credit enhancement. For example, as of the November 2007 distribution date, the average DCR for DBRS originally rated BBB classes for the 2005, 2006 and 2007 vintages were 1.20, 0.91 and 2.04, respectively. When DCR is less than 1.0, the likelihood of that class incurring writedowns increases as current excess spread and OC may not be sufficient to cover future losses realized from the current delinquency pipeline.

DBRS expects to see further deterioration in performance of the 2005 through 2007 vintages of subprime first-lien RMBS collateral as the remaining hybrid adjustable-rate mortgages (ARMs) reset and home price appreciation continues to decline. The timing and the scale of any rating actions, however, remain unclear as efforts by servicers as well as legislation may help borrowers avoid defaults on their mortgage obligations. DBRS will continue to monitor closely the performance of DBRS-rated subprime RMBS transactions.

For questions or comments, contact Mark Zelmanovich at mzelmanovich@dbrs.com or Quincy Tang at qtang@dbrs.com.

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