

# CDO Newsletter

Volume 3, Issue 5, May 13, 2008



## Jireh Wong

Senior Vice President  
+1 416 597 7527  
[jwong@dbrs.com](mailto:jwong@dbrs.com)

## Jamie Feehely

Senior Vice President  
– Canadian  
Structured Finance  
+1 416 597 7312  
[jfeehely@dbrs.com](mailto:jfeehely@dbrs.com)

## Sean O'Connor

Senior Vice President  
+1 212 806 3252  
[socconnor@dbrs.com](mailto:socconnor@dbrs.com)

## Andrew Fitzpatrick

Assistant Vice  
President  
+1 416 597 7377  
[afitzpatrick@dbrs.com](mailto:afitzpatrick@dbrs.com)

## Toronto

DBRS Tower  
181 University Avenue  
Suite 700  
Toronto, ON M5H 3M7  
+1 416 593 5577

## New York

140 Broadway, 35th  
Floor  
New York, NY 10005  
+1 212 806 3277

## Chicago

101 North Wacker Drive  
Suite 100  
Chicago, IL 60606  
+1 312 332 3429

## Nickey Edwards

Publisher  
+1 416 597 7332  
[nedwards@dbrs.com](mailto:nedwards@dbrs.com)

## DBRS COMMENTS ON IMPACT OF DOWNGRADE OF RESIDENTIAL CAPITAL, LLC ON CDO TRANSACTIONS

On May 5, 2008, DBRS downgraded the long-term debt ratings of Residential Capital, LLC (ResCap) to CCC from B (low) following ResCap's announcement of its intention to commence an exchange offer for its outstanding notes and its announcement that it is in negotiations with GMAC regarding a \$3.5 billion first-lien senior credit facility. For further information on the downgrade of ResCap, see the DBRS press release listed below. ([DBRS Takes Various Rating Actions on Residential Capital, LLC](#), May 5, 2008)

A number of series of Canadian asset-backed securities rated by DBRS, which may be funded by asset-backed commercial paper (ABCP) or floating-rate notes, are backed by collateralized debt obligation (CDO) transactions that reference ResCap debt obligations. There are 12 such CDO transactions in total.

In analyzing the ratings stability of CDO transactions from a credit perspective, DBRS utilizes the stability cushion concept. A stability cushion represents the buffer of subordination that is available to a CDO tranche in excess of the minimum subordination required to achieve a particular rating for that tranche. Put another way, a stability cushion is equal to a transaction's attachment point minus the required subordination level for a given rating.

To demonstrate the level of ratings stability of the 12 transactions that reference ResCap, DBRS applied a stress scenario that assumed a default by ResCap with a recovery rate of 30%. (Note that this is an assumption applied for modeling purposes. DBRS is not expressing a view on potential recovery.) The results indicated that ten transactions would withstand this scenario and maintain their current rating. While the required subordination level would increase, each of these ten transactions' stability cushions are sufficient to withstand the stress scenario applied.

Two of the 12 CDO transactions would be downgraded from AAA to AA (high) under the stress scenario. However, there would be no impact on DBRS ratings of ABCP or floating-rate notes outstanding. DBRS generally rates ABCP at the level of the lowest-rated transaction funded by that ABCP. One of the two transactions that would be downgraded to AA (high) under the stress scenario is funded by ABCP that is currently rated lower than AA (high). The other CDO transaction that would be downgraded is funded by an Affected Trust under the Montréal Accord and is therefore currently subject to a restructuring process under the Companies' Creditors Arrangement Act.<sup>1</sup>

DBRS will continue to monitor the situation and will release further information as appropriate on [www.dbrs.com](http://www.dbrs.com).

For more information, please contact Andrew Fitzpatrick at +1 416 597 7377 or [afitzpatrick@dbrs.com](mailto:afitzpatrick@dbrs.com); or Jamie Feehely at +1 416 597 7312 or [jfeehely@dbrs.com](mailto:jfeehely@dbrs.com).

1. For more information on the Montréal Accord and developments in the Canadian ABCP market since August 2007, please see [www.dbrs.com](http://www.dbrs.com).