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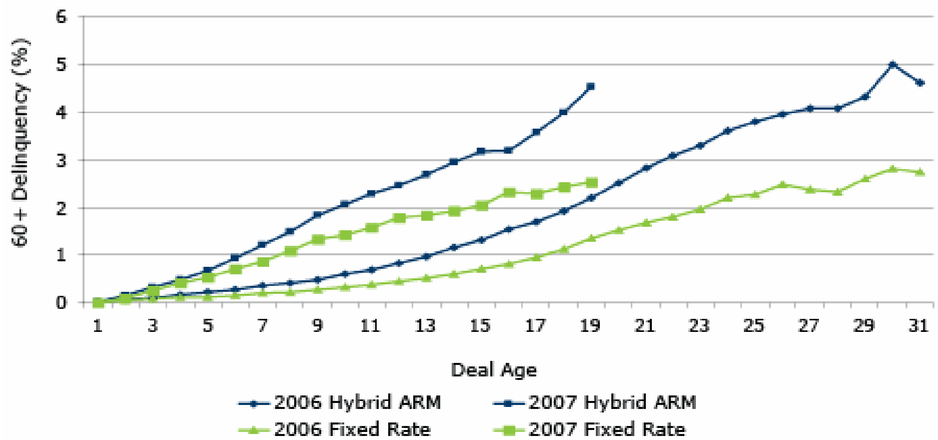
PRIME COLLATERAL, NOT SO PRIME PERFORMANCE

The performance of prime residential mortgage collateral for recent vintages has weakened significantly over the last year. Although prime collateral performance remains better than in other residential mortgage-backed securities (RMBS) sectors, as expected, the thin level of credit support on these transactions makes them very sensitive to even relatively low levels of losses.

Prime RMBS - Performance



Source: Intex & DBRS

DBRS believes that, as in other RMBS sectors, the poor performance of the prime securitizations can be attributed to 1) the current home price environment and 2) weaker underwriting or riskier loan attributes.

The continued decline in home prices has led to further erosion in borrowers' home equity. Though the original loan-to-value ratios (LTVs) for the 2006 and 2007 prime jumbo mortgages were lower (approximately 71% and 72%[1], respectively) than in other RMBS sectors, these transactions did have a high concentration of mortgages in regions that have been severely affected by home price declines. For example, California concentrations in the 2006 and 2007 transactions were approximately 49% (2006 adjustable-rate mortgages (ARMs)), 34% (2006 fixed-rate mortgages (FRMs)), 45% (2007 ARMs) and 35% (2007 FRMs), respectively. In the last 12 months, home prices in various California metropolitan statistical areas such as Los Angeles, San Diego and San Francisco have experienced annual declines of 26.2%, 25.0% and 24.8%, respectively[2].

Another contributing factor to the deteriorating performance is the percentage of loans with riskier attributes that were originated using weaker underwriting standards, particularly with respect to the 2007 vintage. A review of DBRS's rated and/or reviewed prime transactions indicates that simultaneous seconds accounted for 55% (ARM) and 39% (FRM) of the 2007 vintage. In addition, loans originated with less than full documentations were approximately 64% (ARM) and 53% (FRM), respectively.

Although DBRS rated relatively few prime transactions, we have reviewed the delinquency pipelines and current credit support for all outstanding prime transactions available in Intex. DBRS's review projects expected losses of 5.2% and 2.6% for the entire 2007 ARM and FRM populations. These loss expectations, relative to existing credit support, suggest that there will be further rating actions taken on by the latest prime transactions.

DBRS anticipates that given the current performance, certain prime capital structures may be insufficient and, as such, super-senior resecuritizations, which carve out additional credit support for the senior bond, will become increasingly brought to market.

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1. The statistics in this paragraph were sourced from Intex unless otherwise noted.
2. Case-Shiller Home Price Indices as of July 2008.