

# U.S. Structured Finance Newsletter

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## BETTER THAN EXPECTED PERFORMANCE OF 2008 LIQUIDATING TRUST SECURITIZATIONS

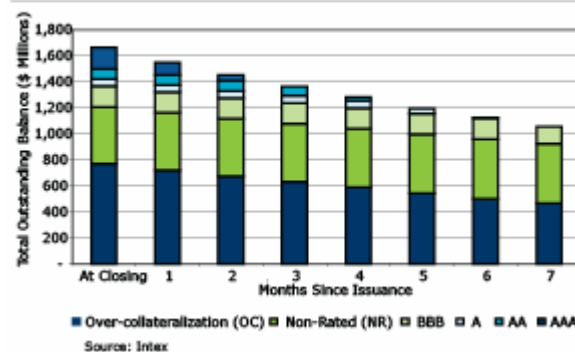
In two previous newsletters (on [January 22, 2008](#) and [June 9, 2008](#)), DBRS discussed the practicality and analytics of liquidating trust securitizations backed by non-performing residential mortgages. A recent review of the two liquidating trust transactions issued in 2008, which were both rated by DBRS, indicated that they have performed considerably better than our expectation. In this newsletter, we provide a closer look at the performance of these securitizations.

In a liquidating trust transaction, the primary source of cash flow is the liquidation proceeds from the sale of the mortgaged properties. The DBRS rating process includes a default frequency and loss severity assessment, cash flow analysis and an operational risk review. Loss severity, being the most critical part of the analysis, incorporates market losses on properties, state-level foreclosure timelines, calculation of carrying costs, liquidation costs and the recouping of servicing advances, if any. DBRS then employs conservative transaction-specific cash flow assumptions to derive the expected timing of the liquidation proceeds and may adjust these timelines based on the capability and experience of the servicer.

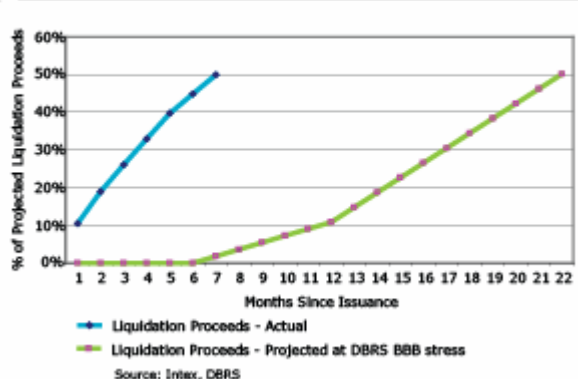
For this newsletter, DBRS uses as an example Residential Loan Trust 2008-2 issued in May 2008. The delinquency status of the mortgages at closing was 10%, 4%, 42% and 33% for 60+-day delinquency, bankruptcy, foreclosure and REO respectively. At issuance, DBRS credit enhancement levels for each class, provided by subordination and overcollateralization, equaled 90% (AAA), 85% (AA), 82% ("A") and 73% (BBB). As of December 25, 2008, the classes were paying down much faster than initially anticipated due to a timely liquidation of properties. Graph 1 indicates that the AAA, AA and "A"-rated bonds paid off in three, five and seven months respectively. As losses from the sale of properties pass through the structure, it is crucial that the rated bonds pay down before the subordination is eroded. DBRS is of the opinion that currently there is substantial credit support for the remaining BBB bond.

DBRS further examines the timing of liquidation proceeds by comparing the actual versus projected proceeds under the BBB stress. As seen in Graph 2, when rating this transaction, DBRS used a more back-loaded timing curve, which assumed no receipt of liquidation proceeds in the first six months. In reality, 50% of the anticipated proceeds were received in the first seven months, 15 months ahead of our initial projection.

Graph 1 - Class Paydown



Graph 2 - Timing of Liquidation Proceeds (Actual vs. Projected)



The other liquidating trust securitization (Residential Loan Trust 2008-AH1) DBRS rated also outperformed our initial expectations, although not as dramatically. The AA bond<sup>1</sup> paid down 25% in eight months, 12 months ahead of DBRS's projected timeline at issuance. As the market is saturated with non-performing mortgages, DBRS believes that liquidating trust securitizations provide an alternative financing option. With a conservative structure, an experienced servicer and a sound liquidation strategy, DBRS expects liquidating trust transactions to continue to perform well.

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<sup>1</sup> The AA bond is the most senior class in this transaction. There was no AAA issued