



Methodology
U.S. RMBS Surveillance

APRIL 2009

*DBRS has updated its assumptions for monitoring ratings on U.S. RMBS.
[Click here](#) to view the updated assumptions.*



Insight beyond the rating.

CONTACT INFORMATION

U.S. STRUCTURED FINANCE

Claire J. Mezzanotte

Managing Director
U.S. Structured Finance - ABS/RMBS/Covered Bonds
Tel. +1 212 806 3272
cmezzanotte@dbrs.com

Quincy Tang

Senior Vice President
U.S. Structured Finance - RMBS/Covered Bonds
Tel. +1 212 806 3256
qtang@dbrs.com

Sagar Kongettira

Vice President
U.S. Structured Finance - RMBS
Tel. +1 212 806 3266
skongettira@dbrs.com

U.S. STRUCTURED FINANCE - OPERATIONAL RISK

Kathleen Tillwitz

Senior Vice President
U.S. Structured Finance - ABS/RMBS/Covered Bonds
Tel. +1 212 806 3265
ktillwitz@dbrs.com

Stephanie Whited

Vice President
U.S. Structured Finance - ABS/RMBS/Covered Bonds
Tel. +1 347 226 1927
swhited@dbrs.com

U.S. STRUCTURED FINANCE - RESEARCH, MODELING AND SURVEILLANCE

Jan Buckler

Senior Vice President
U.S. Structured Finance - ABS/RMBS/Covered Bonds
Tel. +1 212 806 3925
jbuckler@dbrs.com

DBRS is a full-service credit rating agency established in 1976. Privately owned and operated without affiliation to any financial institution, DBRS is respected for its independent, third-party evaluations of corporate and government issues, spanning North America, Europe and Asia. DBRS's extensive coverage of securitizations and structured finance transactions solidifies our standing as a leading provider of comprehensive, in-depth credit analysis.

All DBRS ratings and research are available in hard-copy format and electronically on Bloomberg and at DBRS.com, our lead delivery tool for organized, Web-based, up-to-the-minute information. We remain committed to continuously refining our expertise in the analysis of credit quality and are dedicated to maintaining objective and credible opinions within the global financial marketplace.



U.S. RMBS Surveillance Methodology

TABLE OF CONTENTS

I. Introduction	4
II. Surveillance Review Process	5
Rating Committee	5
Rating Actions	5
Disclosure	5
III. Surveillance Methodology	6
Retrieving Monthly Remittance Data	7
Deriving Expected Losses on Outstanding Pools	7
1. Calculate Existing Defaults (Defaults that Have Already Occurred)	7
2. Calculate Pipeline Defaults (Defaults that Will Likely Occur Imminently)	7
3. Derive Total Lifetime Defaults	7
4. Apply Loss Severities	8
5. Determine Expected Losses on the Outstanding Pool	8
Cash Flow Analysis	8
Exhibit 1: Sample Performance Analytics Report (PAR)	9
Exhibit 2: Deriving Expected Losses on an Outstanding Pool	13
Exhibit 3: DBRS Baseline Cash Flow Assumptions	14



I. Introduction

The purpose of this report is to impart a comprehensive description of the DBRS U.S. Residential Mortgage-Backed Securities (RMBS) surveillance process. The report provides an update to the commentary *U.S. RMBS Surveillance and DBRS RMBS PAR (Performance Analytics Report)* published in June 2007 and describes the DBRS surveillance review process, which includes rating committee, rating actions and disclosure, as well as the updated surveillance methodology by which DBRS analyzes and monitors RMBS securitizations for potential rating actions.

Since late 2006, delinquency levels across all mortgage sectors have been rising sharply, driven by weak underwriting standards, risky loan attributes (such as simultaneous second liens or low documentation loans) and rapidly declining real estate prices. As industry trends continue to evolve, DBRS has recently adjusted its default and loss severity assumptions based on market data obtained from mortgage servicers and other industry participants. The assumptions will continue to be updated as warranted to account for changes in industry trends. Any future updates to assumptions will be disclosed on the DBRS website prior to implementation.

In addition, DBRS has incorporated a dynamic cash flow analysis (fast and slow prepayment speeds by product type, upward and downward interest rate stresses, loss timing curves by product type, etc.) in its surveillance process. In today's environment, prepayments have slowed dramatically while at the same time current expected losses have far exceeded initial loss expectations and existing credit enhancement. This often results in higher losses eroding the capital structure and credit support much faster than a bond pays down. Combined with other features such as a sequential versus pro-rata structure or the inclusion of non-accelerating seniors (NAS) and accrual bonds, it is increasingly necessary to evaluate ratings with a dynamic cash flow simulation.



II. Surveillance Review Process

It is DBRS policy to review all outstanding rated RMBS securities on a monthly basis to ensure that ratings are as prospective as possible and reflect all relevant information sourced and received by DBRS.

Each security is reviewed upon the receipt of monthly remittance data or when an exogenous event, such as an issuer or servicer filing for bankruptcy, warrants review. The surveillance process also encompasses a review of transaction parties, including servicers and mortgage insurers and derivative counterparties, as transaction credit dependencies on these entities may exist.

RATING COMMITTEE

As part of the surveillance process, each outstanding rating is reviewed by a rating committee on a monthly basis or more frequently, as circumstances warrant. Analysts complete a rating committee presentation that includes the analysis and recommended rating actions. All recommended rating actions are made in accordance with applicable DBRS methodologies.

RATING ACTIONS

Rating actions taken on securities during a rating committee may include a confirmation, whereby the current rating remains in place, an upgrade or a downgrade. In cases where DBRS does not have sufficient information to make an informed rating decision at the time of a rating committee, the security may be placed Under Review with Positive, Developing or Negative implications. DBRS strives to resolve the Under Review status as expeditiously as possible in accordance with DBRS policy, which sets forth a targeted resolution of three months. A Developing description is typically used when a structured finance security is highly dependent on a corporate entity that has been placed Under Review with Developing Implications.

DISCLOSURE

DBRS publishes all rating decisions made by a rating committee for each public and Rule 144A security as quickly as possible subsequent to the conclusion of each rating committee. The disclosures are made in the form of a press release, which is posted to the DBRS website and sent concurrently to the major newswires.

In addition, each month, a monthly Performance Analytics Report (PAR) for each public and Rule 144A RMBS transaction is also posted to the DBRS website at www.dbrs.com/PAR and is available to all capital market participants (see Exhibit 1). PAR reports summarize the performance for each rated security using tables and graphs, such as Delinquency and Loss Analysis; Excess Spread and Over-collateralization; Pool Statistics; Credit Enhancement Trends; Actual vs. Projected Loss; and Actual vs. Projected Prepayments. New features of the PAR include DBRS default frequency assumptions, loss severity assumptions, total lifetime expected losses and current expected losses for each DBRS-rated transaction.



III. Surveillance Methodology

The DBRS surveillance methodology involves the following steps:

- Retrieve monthly remittance data from Intex Solutions, Inc. (Intex)¹ and trustee reports;
- Derive total expected losses from delinquency pipeline and existing defaults based on the DBRS cumulative default curves and transaction seasoning;
- Perform cash flow analysis on both the underlying bonds and ReREMIC bonds.

DBRS Surveillance Process for U.S. RMBS Transactions



The Pool Loss Analytics Model is a substantial component of the DBRS surveillance process. A material deviation from the rating implied by the Pool Loss Analytics Model would be a three-notch or greater rating difference. The quantitative and qualitative factors that could result in a material deviation are included in this methodology.

It should be noted that a planned future enhancement to the surveillance methodology described below will include a loan-level analysis to derive expected losses using the DBRS RMBS model (www.dbrs.com/rmbsmodel). The loan-level analysis will be based on the initial credit attributes from the closing date data tapes, the updated property values² indexed from the origination dates, as well as current monthly delinquency status from Intex (or trustee websites), to the extent DBRS can match the loan numbers from the closing tapes and Intex.

1. Intex is a provider of structured fixed-income cash flow models and related analytical software.

2. DBRS derives the updated property values based on the Case-Shiller index and National Association of Realtors (NAR) home price data.



RETRIEVING MONTHLY REMITTANCE DATA

DBRS uses Intex as its main data source for the retrieval of monthly remittance data, supplemented by trustee reports when the data in Intex is incomplete. Critical analytical data fields include loan age, pool factor, cumulative write-downs, original and current credit support and, most importantly, current delinquency status. For securitizations with multiple collateral groups, delinquency statistics are usually retrieved on a group level instead of the transaction level.

DERIVING EXPECTED LOSSES ON OUTSTANDING POOLS

Once the monthly remittance data for each transaction is downloaded and validated, the analysis of the data is conducted. The calculation of expected losses for outstanding pools consists of the following steps:

1. Calculate Existing Defaults (*Defaults that Have Already Occurred*)

Existing defaults are calculated by dividing cumulative net losses by DBRS loss severity assumptions (described in Table 2 on page 7). While actual losses observed at the loan-level would ideally provide the most specific loss severity, such data is not widely available. Therefore, DBRS resorts to its vintage- and asset-specific loss severity assumptions to derive existing defaults from the cumulative net losses in each deal.

2. Calculate Pipeline Defaults (*Defaults that Will Likely Occur Imminently*)

DBRS estimates a default rate for each delinquency bucket, including bankruptcy, foreclosure and Real Estate Owned (REO), as indicated below in Table 1. The outstanding amounts in each delinquency bucket are multiplied by the respective default rate assumption to determine the expected pipeline defaults. These default assumptions are based on current industry experience and reflect the percentage of the delinquency bucket that DBRS believes will eventually be liquidated.

Table 1: Default Frequency Assumptions

Delinquency Status	Subprime	Alt-A	Prime	Second Lien
30-59 Days	60%	50%	40%	60%
60-89 Days	75%	70%	60%	90%
90+ Days	90%	80%	70%	100%
Bankruptcy	90%	90%	90%	100%
Foreclosure	95%	95%	90%	100%
REO	100%	100%	100%	100%

3. Derive Total Lifetime Defaults

Once the pipeline defaults are determined, the figure is added to existing defaults derived in Step 1. The result is then mapped to DBRS cumulative default curves based on the transaction's respective loan age. DBRS default curves are derived by front-loading its standard cumulative loss curves by product type (see Exhibit 3, Graph 2) by an average of 12 to 18 months (six months for second liens) to allow defaults to migrate to losses. This has been validated against actual default experience observed in recent industry performance. However, in stressing certain very seasoned transactions that would have normally reached the end of their default curves but have exhibited recent increases in delinquencies (e.g., some pre-2005 RMBS securitizations), DBRS will adjust (or back-load) the default curves to necessitate more defaults to occur in the future. In other words, DBRS will continue to project defaults for these transactions even if the standard default curve has ended.

Depending on the degree of loan seasoning, DBRS projects total lifetime defaults for each pool based on existing and pipeline defaults according to the DBRS cumulative default curves. For example, if total defaults to date (including existing cumulative defaults and pipeline defaults) equal \$100,000 at Month 10 and the DBRS default curve assumes that 20% of the total lifetime defaults has occurred by Month 10, then the total lifetime defaults equal \$100,000 divided by 20% or \$500,000.



4. Apply Loss Severities

DBRS varies loss severities by vintage and asset type based on overall industry experience and home price trends. As indicated in Table 2 below, DBRS assumes higher loss severities for the 2006 and 2007 vintages because these two vintages have experienced a larger degree of home price declines than any other recent vintages. In addition, transactions backed by prime and Alt-A mortgages have typically experienced lower loss severities than those backed by subprime loans.

Table 2: Loss Severity Assumptions¹

Vintage	Subprime	Alt-A	Prime	Second Lien
2008	55%	50%	45%	100%
2007	60%	55%	50%	100%
2006	55%	50%	45%	100%
2005	45%	45%	35%	100%
2004	45%	45%	30%	100%
2003 and earlier	40%	40%	25%	100%

1. Loss severity assumptions are adjusted lower for pools with mortgage insurance.

5. Determine Expected Losses on the Outstanding Pool

DBRS derives the total lifetime expected losses for a pool by multiplying total lifetime defaults by the assumed loss severities. The expected losses on the outstanding pool are then calculated by deducting the existing cumulative net losses (losses that have occurred) from the total lifetime expected losses. The expected losses are converted to percentages of the current pool balance.

The expected losses may be adjusted based on the servicers' practices, as well as concentrations of certain adverse collateral characteristics such as low documentation, interest-only mortgages or investor properties.

Once the base case expected losses are determined, DBRS derives expected losses for all rating categories using functions and multiples that are consistent with those used in the DBRS RMBS model.

All calculations described above are outlined in Exhibit 2 (see page 13). Please note that several key performance measures, including the total lifetime expected losses and current expected losses, are also available in the DBRS Performance Analytics Report (PAR), which is published monthly for all DBRS-rated public and Rule 144A RMBS securitizations.

CASH FLOW ANALYSIS

DBRS performs cash flow analysis on all rated securitizations using Intex, including prime and certain Alt-A transactions that do not rely on excess spread for credit enhancement. The traditional technique of disregarding cash flow analysis in prime and Alt-A surveillance has become exceedingly inadequate. In today's slow prepayment environment, higher loss expectations often erode the credit support faster than a bond pays down. As a result, DBRS runs cash flow scenarios as part of the RMBS surveillance process.

To determine the appropriate rating for each bond, DBRS applies to each class the specific expected losses as described in the previous sections, as well as additional cash flow assumptions, such as loss timing, prepayment speeds and interest rate stresses.

The DBRS baseline cash flow assumptions, as detailed in Exhibit 3, were validated in March 2009. In addition to the baseline assumptions, DBRS frequently applies dynamic cash flow stresses such as fast (currently equals the baseline) and slow (50% of the baseline) prepayment speeds and upward and downward interest rate curves to test the resilience of a bond. An appropriate rating is one that can withstand all the DBRS-modeled cash flow stresses without the rated class incurring any interest shortfall or principal write-downs.

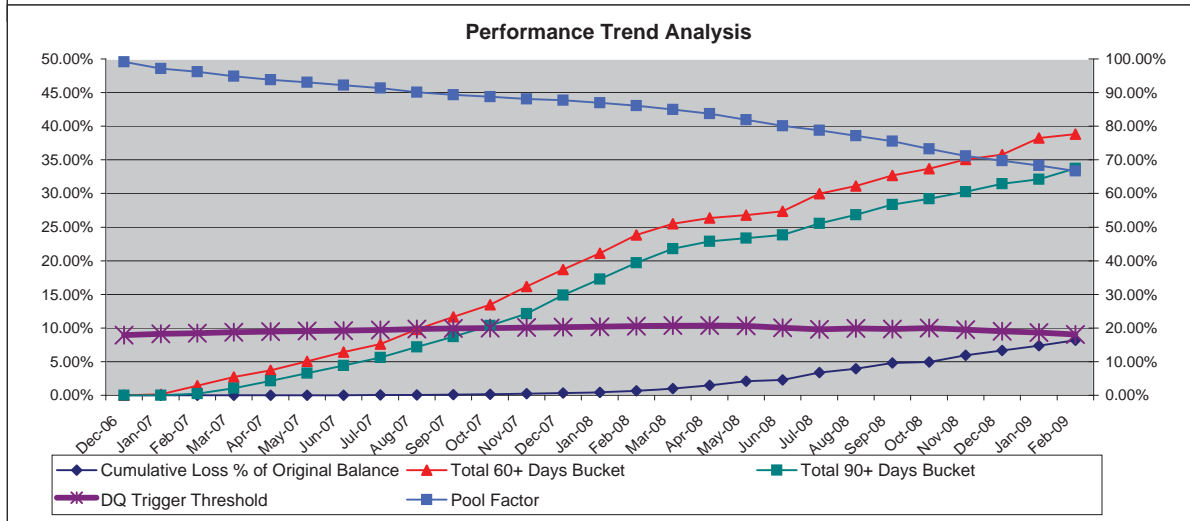
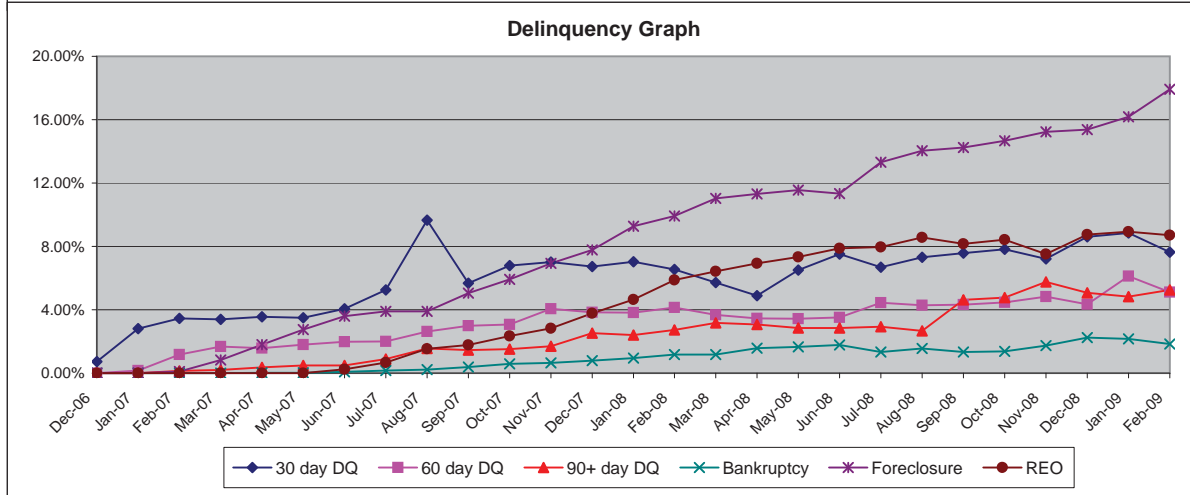
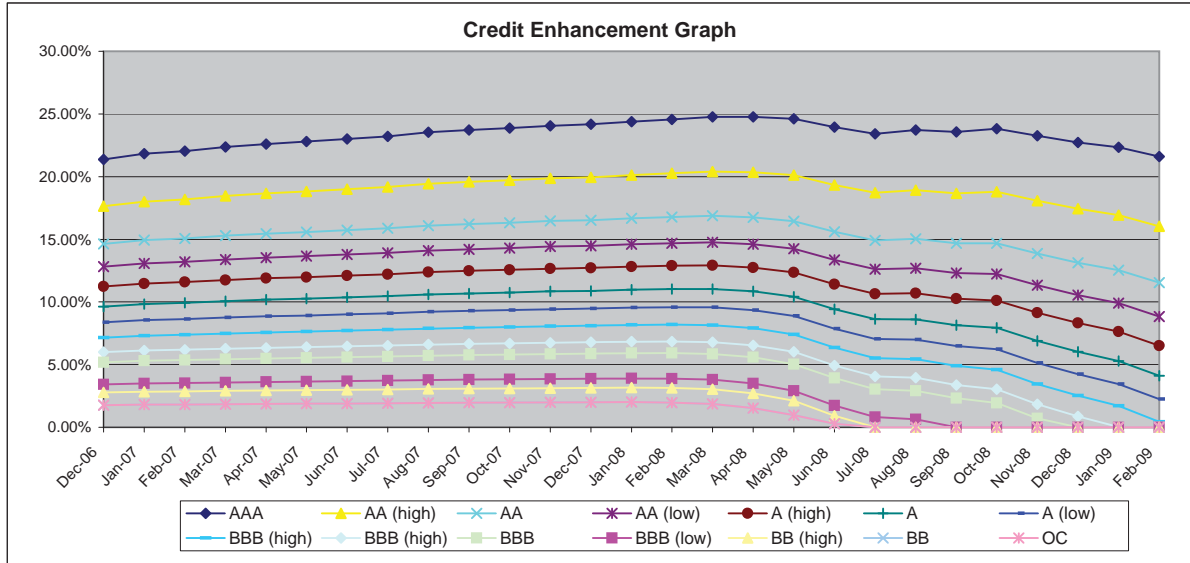


Exhibit 1: Sample Performance Analytics Report (PAR)

C-BASS Mortgage Loan Asset-Backed Certificates, Series 2006-CB9					February-09				
Pool Summary									
Current	53.54%				\$272,883,032				
30 Day DQ	7.63%				\$38,888,635				
60 Day DQ	5.12%				\$26,095,650				
90+ Day DQ	5.26%				\$26,809,203				
Bankruptcy	1.84%				\$9,378,124				
Foreclosure	17.91%				\$91,283,809				
Real Estate Owned (REO)	8.70%				\$44,342,219				
Total 90+ Days Bucket	33.71%				\$171,813,355				
Total	100.00%				\$509,680,673				
Cumulative Loss	8.20%				\$62,710,779				
Delinquency and Loss Analysis									
Default Frequency Assumptions:					Loss Severity Assumptions:				
Default Freq:	Subprime	ALT_A	Prime	2nd Lien	Vintage	Subprime	ALT_A	Prime	2nd Lien
Delinq 30-59	60%	50%	40%	60.00%	2008	55%	50%	45%	100%
Delinq 60-89	75%	70%	60%	90.00%	2007	60%	55%	50%	100%
Delinq 90+	90%	80%	70%	100.00%	2006	55%	50%	45%	100%
Bankruptcies	90%	90%	90%	100.00%	2005	45%	45%	35%	100%
Foreclosures	95%	95%	90%	100.00%	2004	45%	45%	30%	100%
REO	100%	100%	100%	100.00%	2003	40%	40%	25%	100%
DBRS Expected Losses on Outstanding Pool (\$):					\$	143,831,886			
DBRS Expected Losses on Outstanding Pool (% of Current Outstanding Balance):						28.22%			
DBRS Expected Total Lifetime Losses (% of Original Pool Balance):						27.02%			
Pool Statistics:									
Current:					Original				
Mortgage Originator	New Century 29.45%, AMC 28.43%, Ownit 24.16%				Balance	764,343,322			
Servicer	Litton Loan Servicing LP				Mortgage Insurer	NA			
Provider of Reps and Warranties	C-BASS LLC				% of loans with MI	0.00%			
Trustee	LaSalle Bank N. A.				DT LTV Coverage	0.00%			
Repurchase/EPDs	NA				LTV	81.90%			
% of original balance with modifications	NA				Combined LTV	85.55%			
% repayment plan/forebearance	NA				FICO	628			
Current balance	\$509,680,673				RWFICO	608			
Pool Factor	0.00%				WAM	397			
Current OC as % of current Balance	0.00%				WAC	8.19%			
Months of seasoning	27				OC (At Issuance)	1.75%			
Pricing CPR	41.59%				OC Target	1.75%			
Current CPR	4.36%				Fixed	31.15%			
WAM	397				ARM	68.85%			
WAC	8.20%				average months to reset	29			
Trigger & Step-down Analysis:					Cash-out	60.02%			
DQ Trigger	FAIL				Purchase	35.50%			
Total 60+ days Bucket	38.83%				1st lien with piggy back	21.75%			
DQ Trigger Threshold	9.04%				Second Liens	2.79%			
Cum Loss Trigger	FAIL				Fully Amortizing	34.57%			
Cumulative Losses to date as a percent of original balance	8.20%				Balloons	48.95%			
Cum Loss Trigger Threshold	1.25%				Interest Only	16.48%			
Step-down Date	No				average I/O period	62			
					Investor Owned	5.80%			
					Single Family	89.84%			
					Full Doc	0.00%			
					Limited Doc	85.10%			
					Stated Doc	14.90%			
					PARsurveillance@dbrs.com				



Class Information									
Class Name	Original Rating	Current Rating	Original CE %	Current CE %	Gross Loss %	Current Bond Balance \$	Current Period Writedown \$	Class Factor %	Curr CE / Orig. CE
A-1	AAA	AAA	21.20%	21.59%	25.75%	128,180,844	-	38.74%	1.02
A-2	AAA	A	21.20%	21.59%	25.75%	72,092,000	-	100.00%	1.02
A-3	AAA	BB (high)	21.20%	21.59%	25.75%	116,880,000	-	100.00%	1.02
A-4	AAA	BB	21.20%	21.59%	25.75%	82,496,000	-	100.00%	1.02
M-1	AA (high)	C	17.50%	16.04%	20.92%	28,281,000	-	100.00%	0.92
M-2	AA	C	14.50%	11.54%	18.50%	22,930,000	-	100.00%	0.80
M-3	AA (low)	C	12.70%	8.84%	16.67%	13,758,000	-	100.00%	0.70
M-4	A (high)	C	11.15%	6.52%	14.83%	11,848,000	-	100.00%	0.58
M-5	A	C	9.55%	4.12%	13.00%	12,229,000	-	100.00%	0.43
M-6	A (low)	C	8.30%	2.24%	11.58%	9,554,000	-	100.00%	0.27
M-7	BBB (high)	C	7.10%	0.44%	10.17%	9,172,000	-	100.00%	0.06
M-8	BBB (high)	C	5.95%	0.00%	10.17%	2,259,828	6,530,172	25.71%	0.00
M-9	BBB	C	5.15%	0.00%	8.75%	-	89,041	0.00%	0.00
B-1	BBB (low)	C	3.40%	0.00%	8.00%	-	-	0.00%	0.00
B-2	BB (high)	C	2.75%	0.00%	7.25%	-	-	0.00%	0.00
B-3	BB	C	1.75%	0.00%	6.50%	-	-	0.00%	0.00
OC	NR	NR	1.75%	0.00%	-	-	-	0.00%	0.00
P	NR	NR	1.75%	0.00%	-	-	-	0.00%	0.00



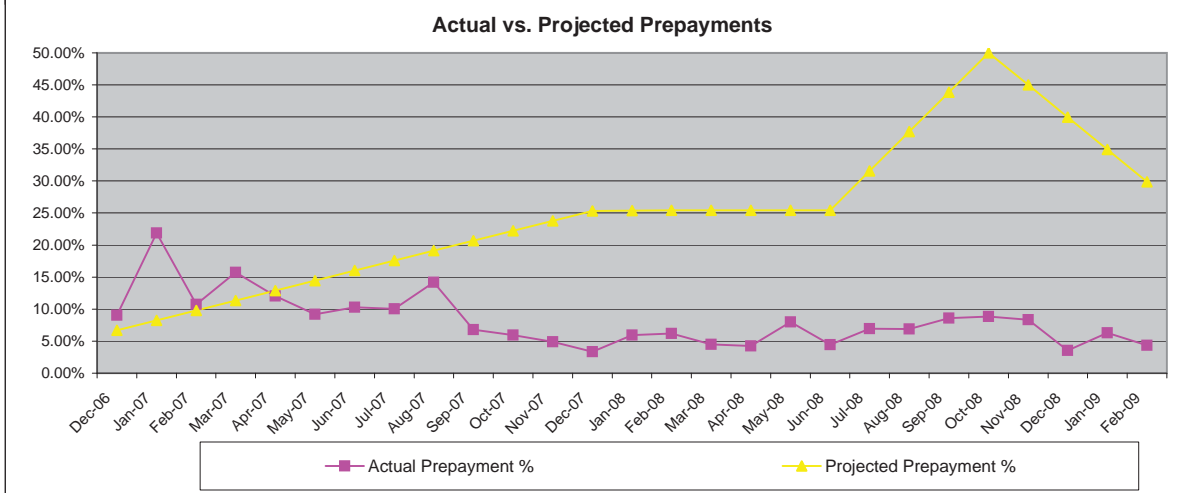
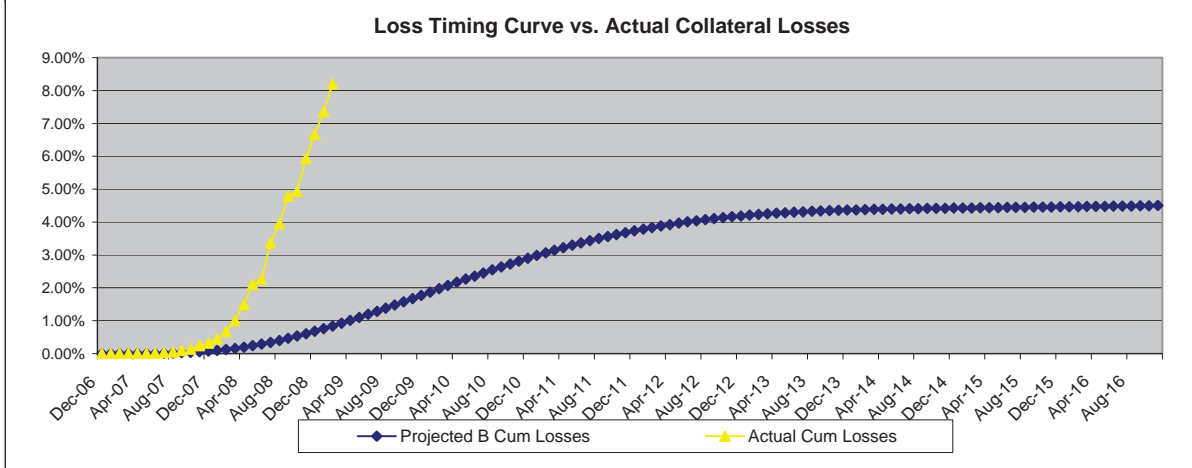
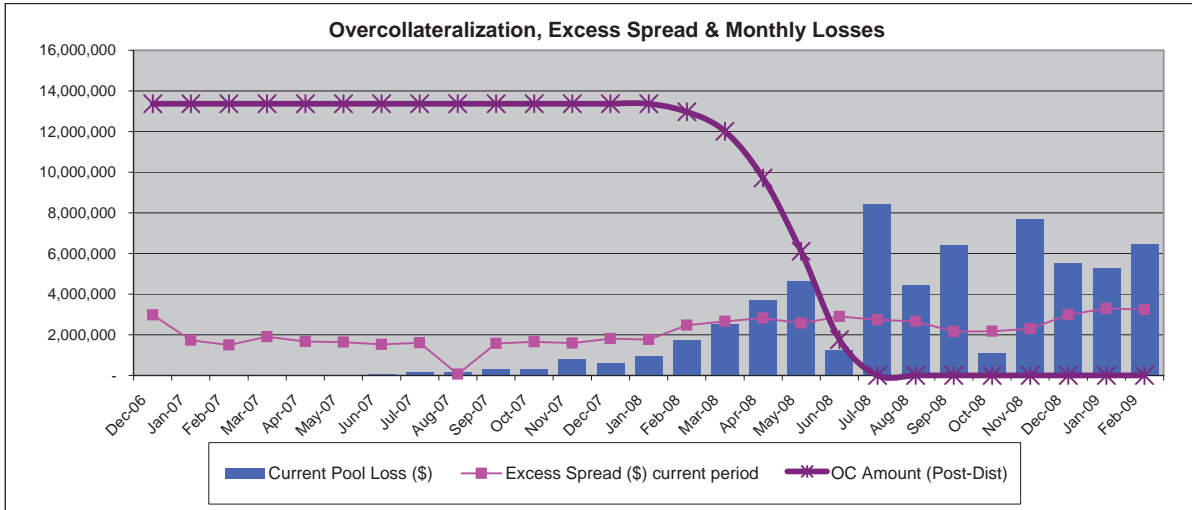




Exhibit 2: Deriving Expected Losses on an Outstanding Pool

Existing Defaults (\$) = Existing cumulative net losses/DBRS loss severity assumptions

*Pipeline Defaults (\$) = Sum of (delinquency \$ in each bucket * their respective default frequency assumptions)*

Defaults to-date (\$) = Existing Defaults + Pipeline Defaults

Total Lifetime Defaults (\$) = Defaults to-date / Cumulative Defaults % on DBRS default curves

*Total Lifetime Expected Losses (\$) = Total Lifetime Defaults * DBRS loss severity assumptions*

Total Lifetime Expected Losses (%) = Total Lifetime Expected Losses (\$) / Original Pool Balance

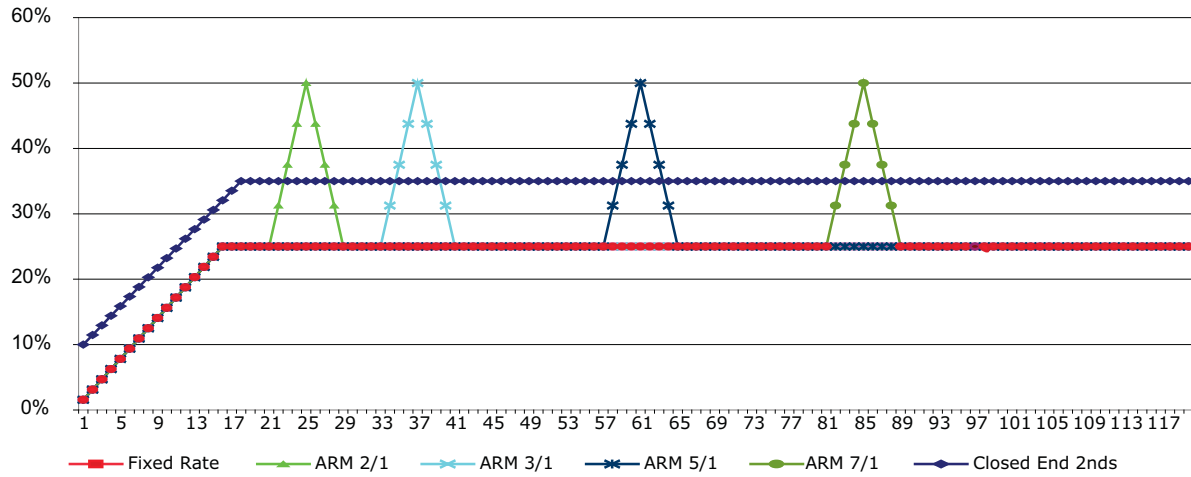
Current Expected Losses (\$) = Total Lifetime Expected Losses - (Existing cumulative net losses)

Current Expected Losses (%) = Current Expected Losses (\$) / Current Pool Balance

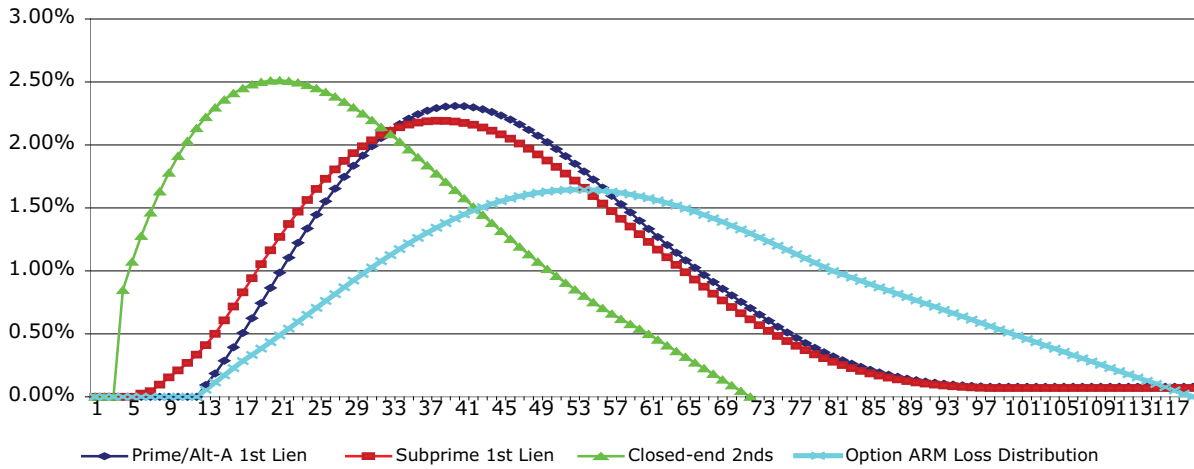


Exhibit 3: DBRS Baseline Cash Flow Assumptions

DBRS Prepayment Speeds by Product Type

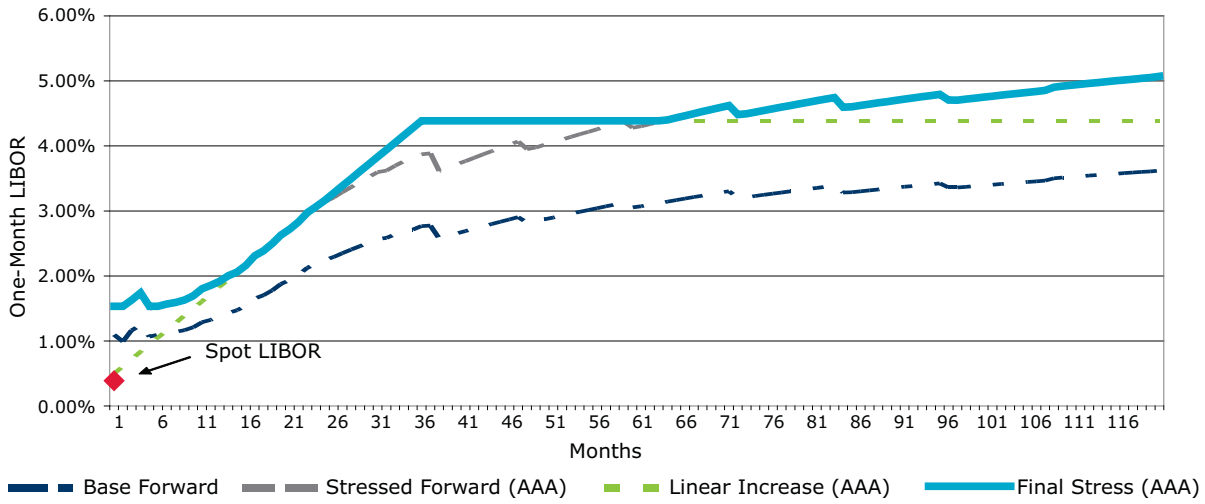


DBRS Loss Timing Curves by Product Type



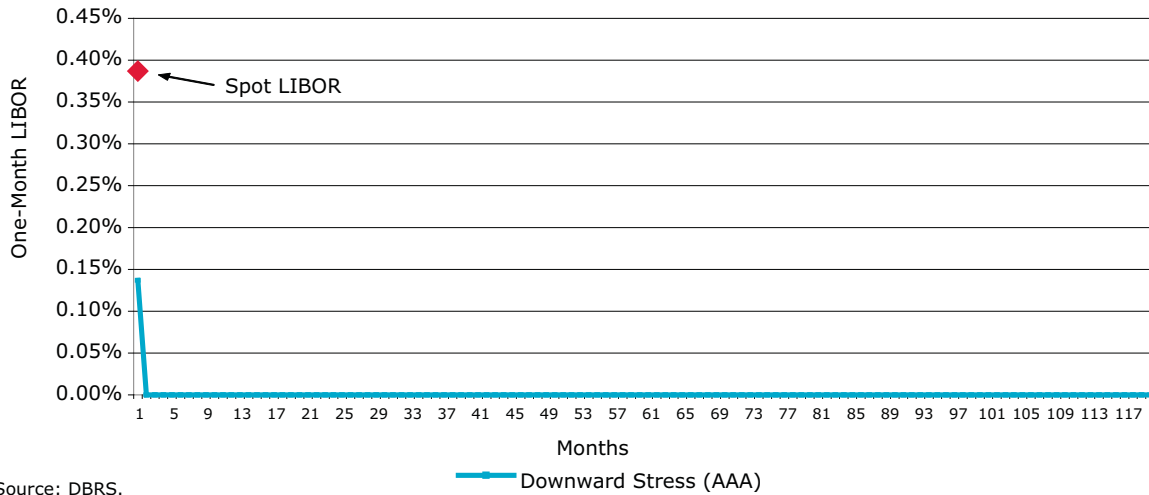


AAA One-Month LIBOR Stresses (Upward) – January 26, 2009



Source: DBRS.

AAA One-Month LIBOR Stresses (Downward) – January 26, 2009



Source: DBRS.

Copyright © 2010, DBRS Limited, DBRS, Inc. and DBRS Ratings Limited (collectively, DBRS). All rights reserved. The information upon which DBRS ratings and reports are based is obtained by DBRS from sources DBRS believes to be accurate and reliable. DBRS does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS ratings, reports and any other information provided by DBRS are provided "as is" and without representation or warranty of any kind. DBRS hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS or its directors, officers, employees, independent contractors, agents and representatives (collectively, DBRS Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of ratings and rating reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS or any DBRS Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. Ratings and other opinions issued by DBRS are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness or recommendations to purchase, sell or hold any securities. A report providing a DBRS rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. DBRS receives compensation for its rating activities from issuers, insurers, guarantors and/or underwriters of debt securities for assigning ratings and from subscribers to its website. DBRS is not responsible for the content or operation of third party websites accessed through hypertext or other computer links and DBRS shall have no liability to any person or entity for the use of such third party websites. This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS. ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE DISCLAIMERS AND LIMITATIONS AT <http://www.dbrs.com/about/disclaimer>. ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON <http://www.dbrs.com>.



Insight beyond the rating.

www.dbrs.com

Corporate Headquarters

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