

# U.S. Structured Finance Newsletter

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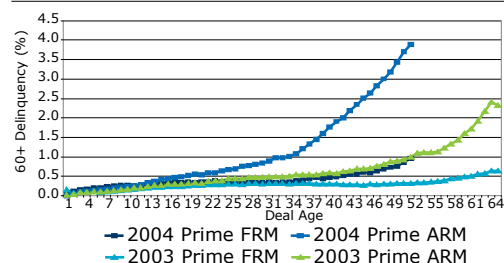
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## A CLOSER LOOK AT THE EARLIER VINTAGE PRIME AND ALT-A PERFORMANCE

There has been a considerable amount of attention paid to the poor performance of the 2005 through 2007 RMBS vintages. The related downgrade actions have resulted in a surge of ReREMIC (or securitization) issuances which is primarily motivated by the desire to create securities with increased credit support, rating stability and improved liquidity. In the recent past, DBRS has also seen some interest in securitizing bonds from the pre-2005 vintages. These vintages were largely expected to perform well, but the unprecedented economic conditions are now putting pressure on some of them.

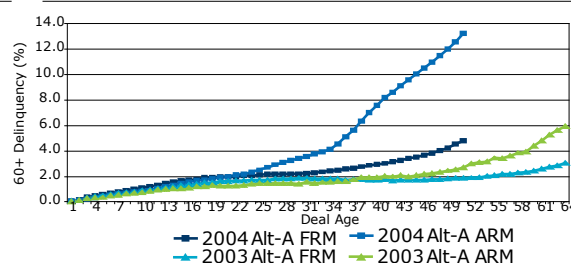
DBRS reviewed substantially all 2003 and 2004 prime and Alt-A securitizations available in Intex and graphed their relative performance below by product type. While 60+ day delinquencies had held steadily low for many months since issuance, there has been a significant increase in delinquency rates in the past 12 to 18 months. The increases were particularly steep for the 2004 ARM pools, with prime ARM delinquency rates nearly quadrupled (1.01% to 3.89%) and Alt-A ARM rates more than tripled (4.15% to 13.2%) in the past 18 months.

### Prime RMBS Performance



Source: Intex, DBRS

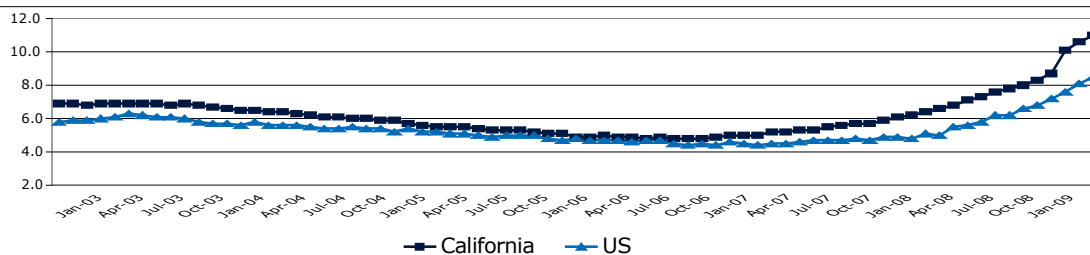
### Alt-A RMBS Performance



Source: Intex, DBRS

DBRS believes that a major factor for the increase in delinquencies is the heavy loan concentrations in regions that have been hit most severely by the economic recession. For example, the California concentrations in the 2003 and 2004 prime transactions were 44%<sup>1</sup> (2003 ARM), 42% (2003 FRM), 46% (2004 ARM) and 41% (2004 FRM), respectively. As of March 2009, the California unemployment rate was at 11% as indicated in the graph below, 2.5 percentage points higher than the national unemployment rate of 8.5%.

### Unemployment Rate, Seasonally Adjusted, January 2003 - March 2009



Source: Bureau of Labor Statistics

Home price declines in regions such as California also played a major role in deteriorating performance. Areas such as Los Angeles, San Diego and San Francisco have experienced price declines (from their peaks in mid-2006) of 40%<sup>2</sup>, 41% and 45% respectively. Even mortgages originated in 2004 have lost a considerable amount of home equity. For example, a 30-year FRM originated in June 2004 for a home in Los Angeles with an original LTV of 80% would have a current LTV of about 95%, factoring in a principal amortization of 57 months. In September 2006, the same loan would have had a LTV of approximately 58%.

DBRS believes that if performance continues to deteriorate, certain capital structures from the pre-2005 vintage with thin credit enhancements may become inadequate and, as such, super-senior ReREMICs, which carve out additional credit support for the senior bond, will be increasingly prevalent.

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1. Intex.  
2. Case-Shiller Home Price Indices as of February 2009.