

U.S. Structured Finance Newsletter

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RMBS Securitizations Back on the Horizon?

In the past few weeks, DBRS has received a series of requests to evaluate RMBS securitizations. Most notably, DBRS assigned ratings to Citigroup Mortgage Loan Trust Inc. (CMLTI) 2009-A on June 26, the first RMBS securitization after an eight-month dormancy in the U.S. residential mortgage sector. The securitization market in the U.S. came to a halt last October. Most of the activities during this period have been focused on restructurings of existing securities (ReREMICs) rather than issuing new transactions.

Out of the 12 requests recently submitted to DBRS, there is an equal split of prime and subprime pools, along with a liquidating trust and a FHA/VA proposal. Seasonings on the prime and subprime pools range from one month to eight years, with an average age of two to three years. Collateral backing these transactions have all been positively selected. Delinquent loans and second liens are generally removed, and some pools contain only fixed rate mortgages. The more recent or the highly seasoned pools are considerably better in credit quality and underwriting standards. They also have substantially lower current loan-to-value (LTV) ratios generally in the 50% to 60% range, while the pools originated in 2005-2007 all have current LTVs well exceeding 100% due to significant home price declines.

For example, the CMLTI 2009-A transaction contains extremely prime collateral. The loans are on average 73 months seasoned first-lien, 15-year fixed-rate mortgages secured by one- to four-family residential properties. As of the cut-off date (June 1, 2009), the loans had a weighted-average mortgage rate of 4.89% and FICO score of 751. The average original and amortizing LTVs are 54.3% and 36.0% respectively based on the original appraised values.

In evaluating and stressing these LTVs, DBRS first updates properties to their present value based on the original appraisals and loan age using the Metropolitan Statistical Area (MSA) Case-Shiller home price indices. Then, DBRS further stresses the appraised values to the MSA-level housing trough based on the Case-Shiller home price projections for the next 12 months, with no credit given to any possible price appreciation in this period.

In addition to stressing the LTVs, DBRS also scrutinizes the non-delinquent (or current) mortgages. Many so-called current loans have been delinquent in the past but were subsequently modified. Due to high recidivism rates across all sectors, DBRS reviews all modified loans in conjunction with modification dates and pay histories. To the extent that a modified "current" loan has not demonstrated a consistently improved payment pattern for a minimum of one year, DBRS will revert its status back to delinquent when assessing the default frequencies.

For a complete DBRS U.S. RMBS rating methodology published in April 2009, please [click here](#).

For questions or comments, please contact Quincy Tang at qtang@dbrs.com.

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