

# U.S. Structured Finance Newsletter

Volume 5, Issue 44, December 14, 2009



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## RMBS ISSUANCE IN 2009

2009 was a year of ReREMICs. For the 11 months ending November 2009, there was a total of 112 ReREMICs<sup>1</sup> issued in the RMBS sector, representing a 58% increase from last year. Although core securitizations emerged in mid-year when Citigroup Mortgage Loan Trust 2009-A was rated by DBRS, they were greatly outnumbered by the ReREMIC volume. In addition, the market also completed five servicer advance securitizations this year after such transactions became eligible under the Federal Reserve's Treasury Term Asset-Backed Loan Facility program. Overall, ReREMICs dominated market issuance and accounted for approximately 92% of the total transactions that closed in 2009.

DBRS has noticed several trends in ReREMICs issued this year. The underlying collateral has evolved in 2009. Following heightened performance pressure in the prime sector, the collateral for ReREMICs has migrated from primarily Alt-A securities to a blend of Alt-A and prime bonds. Meanwhile, due to competitive pricing on the underlying securities, issuers have lately expanded the ReREMIC universe to include many "non-standard" collateral types such as non-front-pay seniors that are currently locked out from principal payments, as well as subprime or even option ARMs (although, these non-standard assets were issued on a much more limited basis). While most of these assets can be resecuritized, the resulting credit enhancement levels are often very conservative due to performance and cash flow concerns.

On the other hand, ReREMIC capital structures have become simpler. Pro-rata pay or z-accrual structures common in 2008 and early 2009 are now largely obsolete. Plain sequential-pay structures (along with higher credit enhancement) also allowed investors to be comfortable accepting a rating lower than AAA for some ReREMICs. Many more ReREMICs issued in 2009 incorporated precautionary structural features in the form of exchangeable securities to protect against future potential rating volatility.

With respect to core securitizations in 2009, DBRS has rated a total of six (five public and one private) transactions and provided credit assessments on two. All deals were backed by seasoned collateral ranging from 2 to 7 years. Pools were often positively selected to exclude any delinquent loans; however, many did contain mortgages that were modified to "current" from a previously delinquent status. Several of the transactions did not require servicers to advance any principal and interest payments on delinquent mortgages. The capital structures generally consisted of a plain-vanilla senior class and overcollateralization, and sometimes a mezzanine tranche. Principal was almost always paid sequentially to the senior class without any trigger mechanism.

DBRS considers numerous factors when evaluating a seasoned pool of mortgages including indexing property values to a projected housing trough, mapping full documentation loans to lower categories (higher penalties) due to weakened underwriting, and reverting loan status of a modified mortgage back to delinquent if it has not demonstrated a sufficiently improved payment pattern. Besides these credit considerations, DBRS also focuses heavily on representation and warranties, servicer evaluations and third party due diligence reviews. As a result, DBRS has on occasion requested due diligence samples to be expanded to 100% of the pool, if the initial reviews were not satisfactory.

For questions or comments, please contact Quincy Tang at [qtang@dbrs.com](mailto:qtang@dbrs.com).

1. Source: Inside MBS & ABS, all %s are based on the number of transactions.