

U.S. Structured Finance Newsletter

Volume 6, Issue 2, January 19, 2010



Claire Mezzanotte

Managing Director, ABS/RMBS
U.S. Structured Finance,
+1 212 806 3272
cmezzanotte@dbrs.com

Jan Buckler

Senior Vice President,
Research and Modeling
U.S. Structured Finance
+1 212 806 3925
jbuckler@dbrs.com

David Hartung

Senior Vice President, ABS
U.S. Structured Finance
+1 212 806 3269
dhartung@dbrs.com

Rosemary Kelley

Senior Vice President, ABS
U.S. Structured Finance
+1 212 806 3250
rkelly@dbrs.com

Chris O'Connell

Senior Vice President, ABS
U.S. Structured Finance
+1 212 806 3253
coconnell@dbrs.com

Quincy Tang

Senior Vice President, RMBS
U.S. Structured Finance
+1 212 806 3256
qtang@dbrs.com

Kathleen Tillwitz

Senior Vice President,
Operational Risk, ABS/RMBS
U.S. Structured Finance
+1 212 806 3265
ktillwitz@dbrs.com

New York

140 Broadway, 35th Floor
New York, NY 10005
+1 212 806 3277

Chicago

101 North Wacker Drive
Suite 100
Chicago, IL 60606

+1 312 332 3429

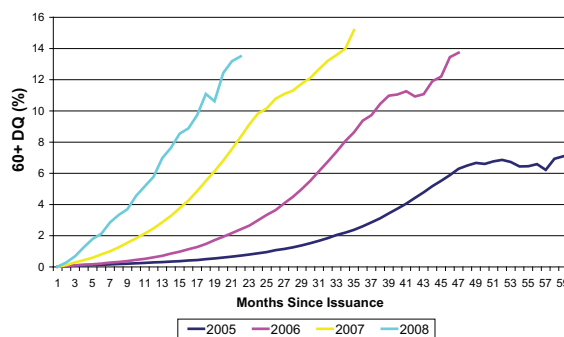
Toronto

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

PRIME PERFORMANCE WEAKENING AT AN ALARMING PACE

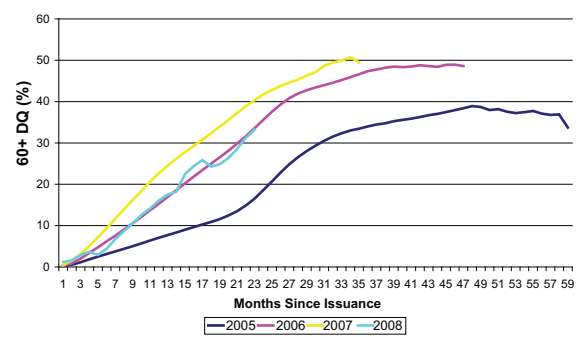
The performance of prime residential mortgage transactions has weakened substantially since issuance. The deterioration was particularly alarming in the past 12 months. On average, the serious delinquency rates¹ for the 2005 to 2008 vintages have risen 47% (weighted by the total outstanding balance of each vintage) from a year ago. As indicated in the Graph 1 below, 2008 vintage delinquencies have nearly tripled since December 2008, and the remaining vintages have each exhibited a 66% (2007), 59% (2006) and 13% (2005) increase respectively.

Graph 1. Prime RMBS - 60+ Days Delinquencies



Source: Intex & DBRS

Graph 2. Subprime RMBS - 60+ Days Delinquencies

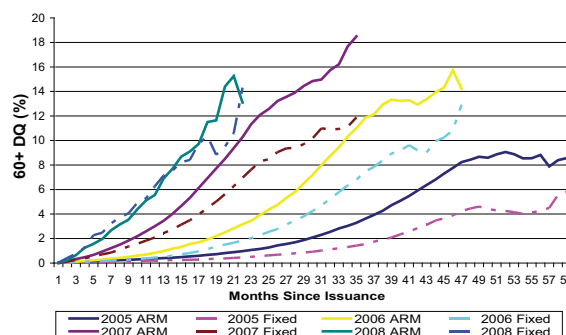


Source: Intex & DBRS

Despite the fact that prime mortgages still display the lowest overall defaults and expected losses, the rate of increase in prime delinquencies is, in fact, the most pronounced. For example, comparing the same period from December 2008 to December 2009, the subprime sector only experienced a 12% increase in serious delinquencies, as opposed to 47% for prime pools. Moreover, with the exception of 2008 and some 2007 transactions, subprime vintages seem to have generally reached the peak of their defaults and have exhibited signs of stabilization for the time being, as demonstrated in Graph 2 above.

Within the prime sector, there is a clearly discernable trend between fixed rate and adjustable rate collateral. Measured by the latest serious delinquency rates, fixed rate prime mortgages on average performed 40% better than their ARM counterparts. The trend is particularly evident for the 2007 vintage, as exhibited in Graph 3 below.

Graph 3. Prime Fixed vs. ARM - 60+ Day Delinquencies



Source: Intex & DBRS

DBRS continues to monitor its rated prime transactions issued from 2005 through 2008 and will take further rating actions as warranted.

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

1. Serious delinquency: 60 or more days delinquent, including loans in bankruptcy, foreclosure and REO.

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