



Methodology

*Rating U.S. Structured Settlements Asset-
Backed Securitizations*

DECEMBER 2011



Insight beyond the rating.

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Related Research:

Legal Criteria for U.S. Structured Finance Transactions
Operational Risk Assessment for U.S. ABS Servicers

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This methodology replaces and supersedes all related prior methodologies. This methodology may be replaced or amended from time to time and, therefore, DBRS recommends that readers consult www.dbrs.com for the latest version of its methodologies.



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TABLE OF CONTENTS

Executive Summary	4
Overview of Structured Settlements	4
Rating Methodology	8
Legal Structure and Opinions	16
Surveillance	16
Appendix I - Rating Process	17
Appendix II - Annuity / Settlement Providers	18
Appendix III - DBRS Idealised Default Table	19



Executive Summary

This report details the DBRS methodology for rating U.S. Structured Settlement ABS transactions. DBRS analyzes both qualitative and quantitative factors when rating structured settlement transactions which include the following:

- Quality of management and financial condition of the sponsoring entity;
- Originations and underwriting practices;
- Quality of the servicers' capabilities as outlined in DBRS criteria Operational Risk Assessment for ABS Servicers
- Collateral credit quality and the historical performance of the issuer's/originator's structured settlement portfolio;
- Creditworthiness of the insurance carriers backing the collateral pool;
- Transaction capital structure and credit enhancement;
- Cash flow analysis;
- Legal structure and opinions.

Based on the analysis of the aforementioned factors, amongst others, DBRS evaluates the sufficiency of proposed credit enhancement in the capital structure and the ability of the transaction to repay investors according to the transaction terms. When evaluating credit enhancement adequacy, DBRS considers all components of available credit enhancement including cash reserve accounts and overcollateralization. These terms typically include timely and full payment of interest on a monthly basis and principal by the legal final maturity date.

Overview of Structured Settlements

A structured settlement is created when a claimant in a legal action receives a judgment or settlement, often for a personal injury claim, which is then divided into a long-term stream of fixed payments. In a structured settlement, which is evidenced by an agreement between the claimant, the defendant, and the defendant's insurer, the claimant agrees that in lieu of a fixed judgment, for example \$1 million, he/she will accept a series of monthly payments over 20 years. Occasionally, however, personal circumstances may compel the claimant to sell/assign the payment stream to a specialty finance company in order to receive a lump sum payment.

Issuers, most often specialty finance companies, have packaged such structured settlements into ABS transactions since 1998. Since then federal, state and tax regulations have facilitated the financing of these assets in the securitization market. Current aggregate market volume of structured settlements is approximately \$100 billion and is growing by \$6-\$8 billion annually. Purchasers of structured settlements estimate approximately 3% of the total outstanding structured settlements has been sold in the secondary market. More than \$3 billion of structured settlements has been securitized into the public and Rule 144A markets, totaling more than 30 transactions.

The entities that have issued structured settlement securitizations:

- JG Wentworth
- Peachtree Settlement Funding
- Seneca One Finance
- Structured Asset Funding
- Novation Capital
- Sutton Park Capital



HISTORY

Until the early 1970s, successful plaintiffs, either in private settlements or pursuant to court order in personal injury suits, typically received a lump sum payment for their injuries. Beginning in the 1970s, favorable tax rulings allowed claimants to receive periodic payments, including implicit investment earnings on the settlement amount, tax free as an alternative to lump sum payments, whose investment earnings are taxable. In addition, Congress codified these rulings in the 1982 Periodic Payment Settlement Act and extended tax benefits to the insurance entities involved in funding settlement payments. The increasing size of jury awards in personal injury litigation provided another impetus to the growth of structured settlements. As a result of these factors, the structuring of litigation settlements has evolved into an established industry.

STRUCTURED SETTLEMENT DESCRIPTION

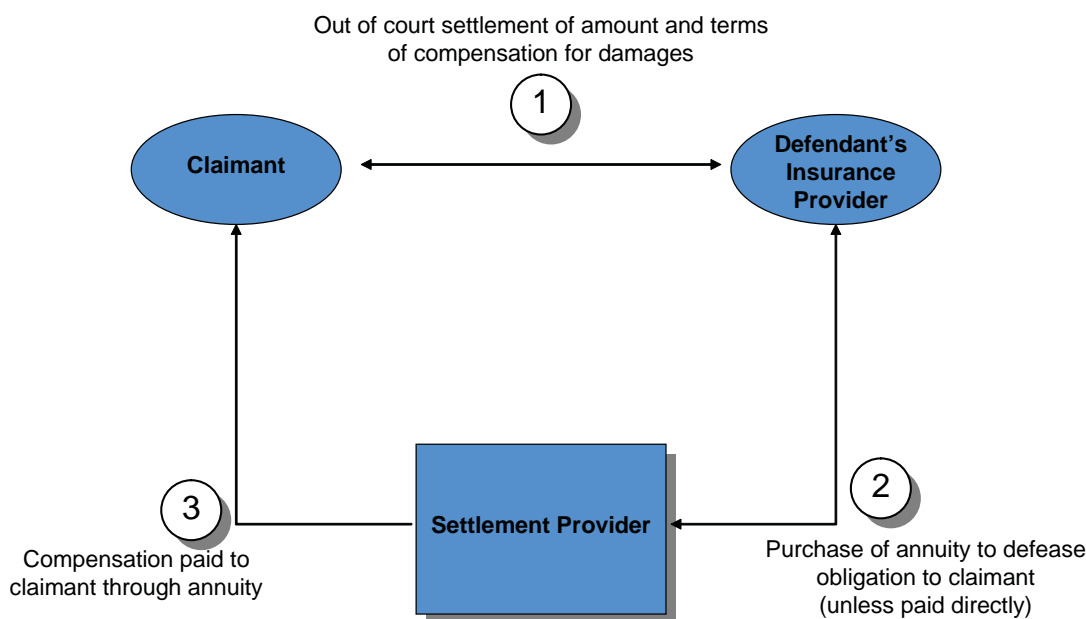
One of the more popular options is the structured settlement, an agreed-upon arrangement, whereby an insurer (or defendant) makes payments to the injured party (claimant) over a number of periods, as a substitute for a lump sum. Structured settlements can vary in their financial terms regarding the amounts paid, structure and timing, as payments may be made monthly, annually or less frequently. Once settled, the timing and size of the periodic payments under the structured settlement cannot be modified.

Under the terms of the agreement between the claimant, the defendant and the defendant's insurer, either the defendant or its insurer is obligated to pay, to the claimant, a number of future payments. This stream of future payments would satisfy the injuries and damages encountered by the claimant. While the insurer may choose to make the stream of payments directly, in many situations, it elects to remove the obligations from its balance sheet. In this case, the payment liability is assigned to an assignee which is often another insurance company or an affiliate of the insurer that focuses on this type of specialized transaction. The assignee takes on the payment obligations after receiving an upfront payment from the original insurer. This arrangement lets the insurer and the claimant both gain access to certain tax benefits associated with structured settlements (Section 130 of the Internal Revenue Code of 1986). In order to facilitate and better document the making of the future payments, the assignee, insurer, or as the case may be, the defendant, would typically purchase an annuity contract from a life insurance company; under the annuity, the paying party (assignee, insurer or defendant) is often referred to as the "owner", with the claimant as the beneficiary of the payment stream. In this analysis, the term "settlement provider" is used to describe the payor, whether or not an annuity is purchased.

STRUCTURED SETTLEMENT ORIGINATION

A description of the manner in which a structured settlement is established by the purchase of an annuity is as follows:

- Claimant suffers a personal injury as a result of a defendant's negligence;
- Claimant sues defendant;
- Settlement is reached among claimant, defendant and defendant's insurer which calls for the claimant to receive periodic payments over time;
- If not being paid directly, the defendant/insurer obtains an annuity from a related or unrelated annuity issuer. The claimant is named as beneficiary of payments due under the annuity.
- The settlement provider (or as the case may be, the defendant/insurer), makes payments to the claimant over the defined period.



STRUCTURED SETTLEMENT SALES

Claimants who are already receiving periodic payments under a structured settlement have several options available to them over time. Claimants can:

- continue to receive the defined, periodic payments until the end of the contract (often with the estate continuing to collect in the event of death);
- sell a portion of the periodic payment stream to gain access to some amount of immediate cash while retaining the rights to the remainder of the payment stream (e.g., sale of the first 3 years' worth of payments but retention of the final 17 years);
- sell a percentage portion of each of the future payments to gain access to some level of immediate cash while retaining the periodic nature of the remaining payment stream (e.g., sale of 25% of each payment, but retention of 75% of each payment over a 20 year term); or
- sell the entire payment stream, gaining the largest amount of immediate funds while forgoing any future cash flow.

Recipients of the payment streams may have one or more reasons to sell a portion of the future receipts. In most instances, the sale provides access to immediate cash that may be needed for a particular expense (e.g. repayment of debt, housing, medical bills, education, transportation, change in marital status, etc.).

There has been a growing market for transacting in structured settlements, as per the second, third and fourth bullet points above. In these cases, the relevant payments (or portions thereof) are assigned (or reassigned) to the buyer; in return, the buyer makes a lump sum payment, taking into account a variety of factors including current interest rates, fees, creditworthiness of the settlement provider. Typically, specialty finance companies are the buyers of structured settlements ("Settlement Buyers"). Some of the more active Settlement Buyers are listed herein in the OVERVIEW OF STRUCTURED SETTLEMENTS section.

STRUCTURED SETTLEMENT PURCHASE PROCESS

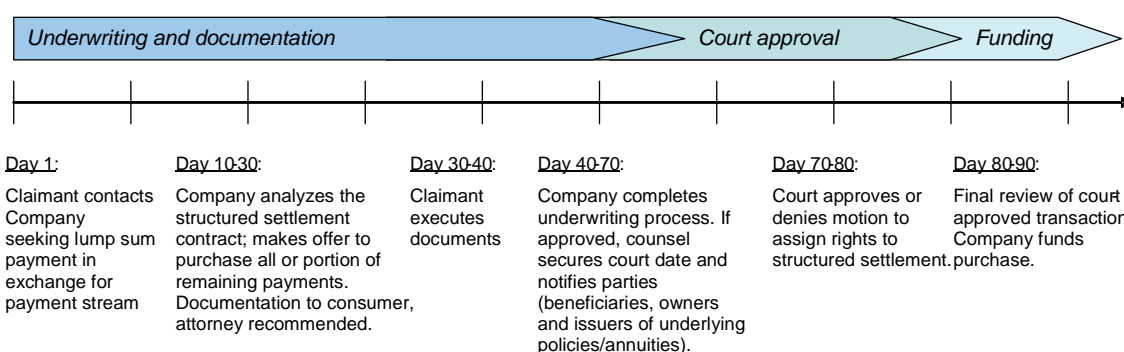
Generally, the process for a Settlement Buyer to purchase a structured settlement is as follows:

- The claimant makes the decision to sell his/her structured settlement, or a portion thereof;
- The Settlement Buyer inquires into the current financial and life circumstances of the claimant in order to formulate a transaction (mechanics and funding amount) that best meets the seller's specific need and to evaluate whether such a transaction would be acceptable in a court proceeding;



- An offer to purchase a designated portion of the future payments from the claimant is made by the Settlement Buyer;
- The offer is accepted by the claimant;
- Purchase agreement is executed and due diligence is conducted by the Settlement Buyer;
- A petition is filed in court, pursuant to applicable state law, seeking court approval of the transfer. In determining whether or not to grant such approval, among other things, the judge must conclude that the sale is in the best interest of the claimant, that the terms of the sale (particularly price) are reasonable, and that the transfer does not contravene any other order or statute;
- Once court approval is granted, the sale is consummated, with the lump sum being paid to the claimant.

Typical Settlement Buyer Timeline



LEGAL, REGULATORY AND TAX DEVELOPMENTS

Over the past ten years, further clarity has evolved with respect to the handling of structured settlements, particularly as it relates to the ability to sell/assign them as well as certain tax benefits. Initially, a key issue existed related to anti-assignment provisions within annuity contracts. This caused some discomfort with the assignment process and made such assignments less certain. Challenges against the sale/assignment were a possibility and presented a risk which was more difficult to quantify. In addition, with respect to taxation, any assignments could have resulted in a 40% excise tax to the buyer.

Since 2000, several governmental actions have been instituted in order to ease these challenges. Firstly, in 2000 language designed to protect consumers when selling structured settlements was agreed upon by industry participants and regulators. The language is known as the “Model State Structured Settlement Protection Act” (“Model Language”) and has been used, to varying degrees by states in creating statutes related to structured settlements. It covers disclosure rules, the need for court order prior to effective assignment, procedural aspects, etc. With respect to the court order, there is a view that the court order could supersede any anti-assignment language within an annuity contract. Though this concept has been challenged in some cases (e.g. JG Wentworth Henderson case in California), ultimately, via appeal and otherwise, the transactions have been upheld and the assignments confirmed.

Secondly, in 2002, IRC Section 5819 – Treatment of Certain Structured Settlement Payments – was signed into federal law. With the passing of this legislation, an exception was created whereby any excise tax is not due if a qualified court order from a state court authorizes the sale as noted above.

Forty-six states have adopted laws that are based upon the Model Language (in some cases, using it verbatim), thereby making it possible for a sale or assignment to be executed with greater certainty. In four states, the handling remains unclear; New Hampshire, North Dakota, Vermont, and Wisconsin have not adopted any statutes. Within these four states, citizens may be able to transfer their settlement payment rights under the law of the state where the insurance company is based. If structured settlements



from these four states were included in a securitization, DBRS typically would assign no value to them or request additional legal analysis regarding their ability to be assigned. Structured settlements originated from these states, however, are typically not included in securitizations or minimized to account for less than 1% of the transaction with such exposures considered when evaluating proposed credit enhancement.

Rating Methodology

When rating structured settlement transactions, DBRS analyzes both qualitative and quantitative factors, including the following:

- Quality of management and financial condition of the sponsoring entity;
- Originations and underwriting practices;
- Quality of the servicer capabilities;
- Collateral credit quality and historical performance of the issuer's/originator's structured settlement portfolio;
- Creditworthiness of insurance carriers backing the collateral pool;
- Transaction capital structure and credit enhancement;
- Cash flow analysis;
- Legal structure and opinions.

QUALITY OF MANAGEMENT AND FINANCIAL CONDITION OF THE SPONSORING ENTITY

Structured settlement securitizations are initiated by holders of structured settlements who seek to finance their assets through use of the capital markets. The sponsor is often also the originator of the settlements and serves as the manager of the collateral securing the transaction. DBRS conducts an operational risk review of the sponsor focusing on a number of factors including its management team, market segments within which it participates, the types of settlements it originates, company history, future business plans and financial condition. For each of these areas, the review focuses on the position of the sponsor as a going concern, and how that position relates to the broader industry and competitors. The scope of the review of the sponsor is not intended to determine an individual credit rating for the sponsor, but designed to assess the sponsor's ability to perform the duties and responsibilities related to the securitization. In addition, the DBRS Financial Institutions and Corporate Finance Groups, with assistance from the Structured Finance Group, complete a review of the sponsor and provide an internal assessment.

ORIGINATIONS AND UNDERWRITING PRACTICES

The operational risk review also examines the originator's underwriting criteria, with emphasis on underwriting standards and legal safeguards. These standards and policies should be documented and formalized, and DBRS typically expects assets that enter the collateral pool, both at the time of closing and afterwards, to have been originated in a manner consistent with and to be serviced in accordance with industry practices. The assessment includes a review of the items noted below, among others, as well as any third-party due diligence reports.

Origination/Underwriting

- Product sourcing.
- Concentrations among and within origination channels.
- Performance by origination channels.
- Validation of originator information.
- Methods used to prevent and detect fraud.
- Mechanisms to ensure that no coercion occurs with settlement seller.



- Documentation requirements.
- Underwriting policies.
- Purchase approval criteria.
- Is documentation standardized?
- Who has underwriting authority?
- Are underwriting methods determined/controlled/monitored centrally or regionally?
- How do the guidelines compare within the industry?
- How often are the guidelines reviewed and revised? How have they been revised recently and how has that affected historical performance?
- Who is responsible for overseeing that guidelines are enforced?
- Exception/override process.
- Exceptions as a percentage of originations over time?
- Who has operational risk oversight with respect to the origination platform and the pool?
- Have any potential contract acquisitions been rejected? If so, what is the rejection rate and what were the reasons?

The following documents are typically retained in a custodial file for each structured settlement originated.

- The original settlement purchase agreement and all documents required to be delivered to the original purchaser.
- An original or best available copy (with supporting documentation as needed) of the related settlement agreement.
- An original or best available copy (with supporting documentation as needed) of the related annuity contract (or, if none is available, a benefits letter or similar documentation from the annuity provider evidencing the obligations of the annuity provider).
- Any notifications or acknowledgments received by the seller related to structured settlement, including acknowledgments of releases and satisfaction of judgments, child support or similar payment obligations.
- File-stamped copies of the related transfer order, together with any related consents or stipulations.
- The original related assignment agreement assigning the structured settlement to the seller
- A copy of the disclosure statement by the purchaser to the seller (if required by the applicable statute pursuant to the transfer order).

While DBRS does not assign formal ratings to the sponsoring entity or originator, it utilizes the operational risk review to determine if the entity is acceptable and incorporates the results of the review into the rating process for the new transaction. In the event that DBRS determines that a sponsor or originator is unacceptable, it may refuse to rate the deal.

QUALITY OF SERVICE CAPABILITIES

DBRS outlines its criteria for servicing capabilities in Operational Risk Assessment for ABS Servicers.

COLLATERAL CREDIT QUALITY AND HISTORICAL PERFORMANCE

Once a structured settlement company has a well-developed, diversified portfolio ("Pool"), it often considers a structured settlement securitization transaction. When reviewing a Pool for a structured settlement transaction, DBRS considers a number of factors, including the following.

Structured Settlement Inventory

For any new transaction, DBRS reviewed data for the proposed Pool. Typically, except as described below, transactions are reviewed assuming a static Pool, so, the composition of the Pool's obligors will not be assumed to change except due to repayments. This inventory represents a key input to DBRS ratings analysis. Transactions backed by a revolving Pool are discussed below in the *Revolving Versus Static Pools* section.



Among other things, DBRS typically expects the following data fields to be provided:

- origination date and sales date;
- legal jurisdiction for origination and sales;
- original and current notional balance;
- whether or not a court order was obtained;
- payment frequency (including any irregularities);
- payment amounts;
- lump sum paid for settlement stream;
- whether settlement is a partial or full assignment settlement provider;
- claims paying ability rating of settlement providers.

Revolving versus Static Pools

While most transactions are structured on a static basis with some providing a defined prefunding period typically not exceeding three or four months, there may be situations where the composition of a Pool changes over time, as is the case with asset-backed warehouse facilities. In these revolving structures, eligibility criteria, concentration limits and the dynamic nature of credit enhancement become more important. Through application of DBRS criteria, Pool migration within the proposed concentration limits is evaluated during the revolving period. In general, revolving periods are limited to periods permitted by the warehouse provider but may also be limited based upon the availability of data (e.g. if historical information is not available for more than three years) with additional credit enhancement potentially necessary to address negative trends in the Pool's credit characteristics. DBRS also reviews any concentration limit that permits assets with contingencies (e.g. life contingent).

Collateral Performance

DBRS typically reviews data received showing loss, delinquency, error, collection, court order success and other performance metrics. The purpose of this analysis is to help assess the quality of the origination process and to help determine a Pool's expected default and loss severity. DBRS typically reviews at least three years of data, taking into account, among other things the number of years in business and expertise of management with structured settlements. DBRS typically focuses on a number of key areas including the following:

Loss management: Past performance with respect to frequency and magnitude of loss is an important component for defining quality and future potential for credit losses within a Pool. Also it is indicative of the origination and servicing quality of the Settlement Buyer. Typically, historical losses are non-existent to very low due to the quality of the asset class, the payers and related legal processes and structures. While it is important to note the levels of loss incurred in the past, this record is not usually the primary driver in assessing proposed credit enhancement levels. Proposed credit enhancement levels are primarily based on the Pool's exposure to the insurance industry which is discussed below in the *Quantitative Credit Analysis* section.

Non-Payment Issues: It is important to review the originator's record with respect to non-payment or delay issues. Again, this type of information is indicative of origination and servicing quality. It is expected that issues would be very limited and to the extent that issues arise, the Settlement Buyer should be able to explain how such issues were discovered and resolved. Such issues may include administrative errors, cash diversion, disputes, etc.

Collection timing: Using the settlement companies' history (in the case of a term issuance), collection curves are derived and analyzed by DBRS to assist in evaluating expected transaction performance which may be particularly important in assessing tail risks. In addition, cash flow timing is evaluated to determine the expected pay down timing of the structure's liabilities and to assess the sufficiency of cash reserves in the structure.



Court Order Record: DBRS also reviews an originator's record with respect to gaining court approval on its purchases. While this performance may differ among originators due to business focus, it should be consistent with additional information provided regarding denials and how they may have been resolved.

Volumes: The Settlement Buyer should provide statistics related to deal flow, originations and assets under management. DBRS reviews these statistics to assess the viability and efficiency of the origination process as well as to adequacy and capacity of the servicing organization.

Eligibility

DBRS reviews the representations and warranties from the originator (Settlement Buyer) which usually includes that each structured settlement is an eligible receivable as defined in the transaction and trust legal documents. Typically, eligibility also includes that a court order shall have been obtained approving the sale of the structured settlement and that payment by the insurance company/annuity provider shall be made to an account accessible by the transaction. A more complete sample of typical eligibility criteria is included as Appendix I.

Geographic Concentrations

The Pool is reviewed to ensure that there are not any excessive concentrations in any given state. As legislation and political climate can change in the future, significant exposure within a particular state is reviewed and additional credit enhancement may be needed to address excess concentrations. DBRS looks favorably on individual state concentration limits that remain below 15 percent. For Pools with state concentrations in excess of 15 percent, DBRS may use a higher industry correlation coefficient as discussed in the Monte Carlo Analysis section.

Settlement Provider Concentrations

The Pool is reviewed to determine the concentrations among the Settlement Providers. The concentrations, and how the related credit ratings compare to the rated debt, are taken into account as part of the *Quantitative Credit Analysis* section below.

CREDITWORTHINESS OF INSURANCE CARRIERS BACKING THE COLLATERAL POOL

Default Risk Overview and Mitigating Factors

A key risk inherent to structured settlement transactions is default and/or insolvency by the insurance carriers backing the Pool. Structured settlement transactions have significant exposure to the insurance industry and often have high exposure amongst specific obligors in the insurance industry. In addition, two other factors increase a structured settlement transaction's exposure to the insurance industry: (1) due to the long nature of structured settlements cash flows which may exceed forty years, structured settlement transactions have long maturities; and (2), structured settlement transactions have little excess spread so they do not de-leverage quickly like certain asset-backed security structures. As a result of these factors, structured settlement transactions have significant exposure to event risk in the insurance industry. In general, there are a number of factors that provide comfort as to the ability of a structured settlement provider to make payments.

Structured Settlement Providers: Settlement providers are usually large, highly rated insurance companies, with big books of business. Generally speaking, the rate of default on these organizations is low. A list of the key players in the market is included in Appendix II.

Insurance Claims Paying Ability: for insurance subsidiaries, the payments made on structured settlements are at the claims paying ability level. The claims paying ability measures the capacity of an insurance company to pay its policyholder claims as they fall due. The claims paying ability is gener-



ally higher than the long-term senior credit rating for an insurance company, since claims are paid ahead of all debt. Accordingly, amounts due are somewhat more likely to be paid than unsecured obligations of the same entity.

Other Factors: Upon default of an insurance carrier, other mitigating factors may come into play such as state insurance funds and the likelihood that any failing carrier would be succeeded by another. While these qualitative factors exist, they are not considered as credit enhancement in DBRS quantitative analysis but may be considered when determining potential recoveries following a default.

Quantitative Credit Analysis

DBRS performs a quantitative credit analysis on the carriers backing the Pool using three methods: the Carrier Rating Analysis, the Largest Obligor Analysis and the Monte Carlo Analysis. The first analysis generates the weighted average rating of the carriers backing the Pool, while the other two analyses estimate Pool losses at certain statistical confidence intervals. The results of these analyses will be utilized in the next step which determines the ratings appropriate for a given credit enhancement level.

Carrier Rating Analysis: DBRS calculates the weighted average credit rating of the overall Pool using two different methods. The first method is based on the credit ratings of each carrier exposure in the Pool while the second method is based on the default probabilities (implied by the credit rating) of each carrier exposure in the Pool. The first method is generated by (1) assigning numerical values (“Credit Score”) for each ratings level (i.e. 1 for AAA 2 for AA(high), 3 for AA and so on) and applying these values to each carrier backing the Pool, and then (2) calculating the weighted average rating value of the Pool based on the exposure of the Pool to each carrier. It is not expected that such weighted average credit rating will be equal to, or in excess of, the rating on the transaction but it serves as a benchmark for assessing Pool-wide creditworthiness.

In cases where DBRS does not maintain a public rating of a specific third party institution, DBRS may rely on public ratings assigned and monitored by other credit rating agencies. For individual settlement providers that are affiliates, DBRS may aggregate the exposures when completing the analysis described in this section.

The second method is generated by (1) assigning default probabilities for each credit rating level which are derived from DBRS Idealized Default Table which is included in Appendix III. The default probabilities are then used as DBRS Risk Scores (“Risk Scores”) for each credit rating. We present an example below in the Credit and Risk Score Table. Credit ratings are in the first column while their corresponding Credit Scores, which are used in the first method detailed above, are in the second column. The third column contains Risk Scores for a given credit rating over a ten year period: for example, the AAA tranche has a .34% probability of defaulting over a ten year horizon.

Credit and Risk Score Table

Credit Rating	Credit Score	DBRS Risk Score
AAA	1.00	0.34%
AA	3.00	0.77%
A	6.00	1.92%
BBB	9.00	5.49%
BB	12.00	16.18%
B	15.00	34.20%
CCC	18.00	63.89%



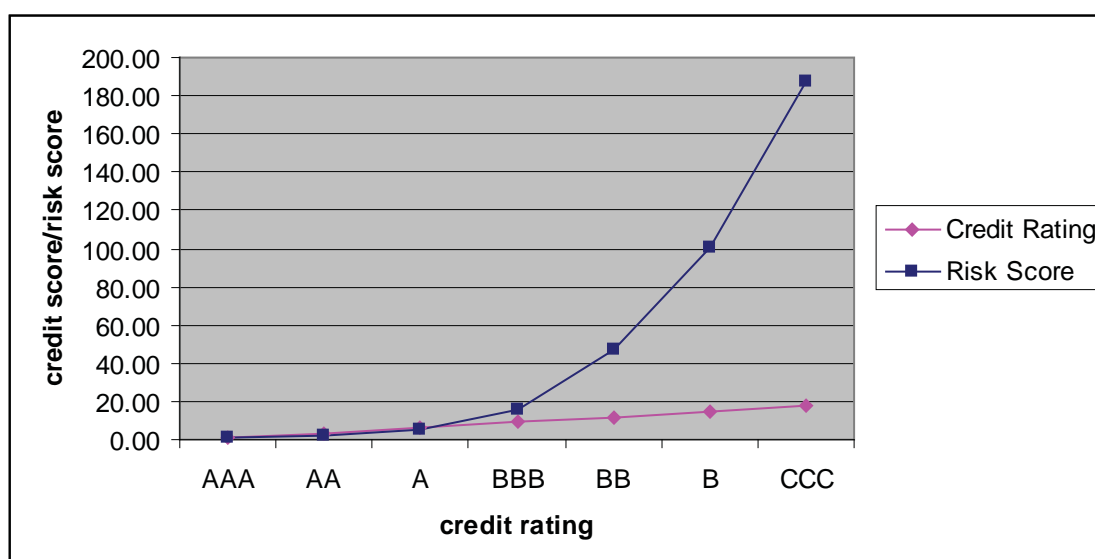
Then (2) DBRS calculates the weighted average Risk Score of the Pool based on the exposure of the Pool to each carrier. We present an example for both methods in the Weighted Average Carrier Rating Example below. There are three equally sized carrier exposures that are rated AA, A and BBB. In the first method, the corresponding Credit Scores are 3, 6, and 9, respectively, while in the second method the corresponding Default Scores are .77%, 1.92% and 5.49%, respectively. The weighted average Credit Score is 6.0 while the weighted average Risk Score is 2.73. The Risk Score has a clear interpretation: on average 2.73% of the carriers backing the Pool are expected to default.

Weighted Average Carrier Rating Example

Annuity Provider	Discounted Balance	% Discounted Balance	Internal Rating	Method 1 Credit Score	Method 2 DBRS Risk Score
Insurance Co. A	10,000,000	33.3%	AA	3	0.77%
Insurance Co. B	10,000,000	33.3%	A	6	1.92%
Insurance Co. C	10,000,000	33.3%	BBB	9	5.49%
Total/ Wtd Average	30,000,000	100.0%		6.00	2.73%

Note that Credit Scores increase at a constant rate as credit ratings decrease: the Credit Score increases by 3.0 for each credit level below AAA. This property does not hold for Risk Scores: default probabilities increase at an increasing rate for each lower credit rating. We graph both the Risk Score and the Credit Score by credit rating from the Credit and Risk Score Table below to illustrate the point. We have rescaled the Risk Scores to put them on a similar scale with the Credit Scores, by dividing each Risk Score by the AAA default probability, .34%. The graph highlights a key observation: Risk Scores increase at an increasing rate as credit ratings decrease. As noted in the Weighted Average Carrier Rating Example, the weighted average Credit Score of two equally sized AA(3) and BBB(9) carrier is A(6) while the weighted average Risk Score of these two carriers, 2.73%, exceeds the Risk Score of an A carrier. In general carriers with lower credit ratings will have a disproportionate impact of the overall Pool Risk Score.

Default Probability by Credit Rating





Largest Obligor Analysis: This analysis focuses on potential losses to the Pool from exposures to large carriers backing the Pool and overall event risk in the insurance industry. After discounting the scheduled Pool payments at the transaction discount rate, the amount is aggregated into a discounted Pool balance (“Discounted Pool”). The Largest Obligor Analysis defaults three to five carriers, depending on the requested rating level, and then applies recoveries in the 50-70% range¹. This calculation results in a Pool loss estimate.

DBRS selects the largest three to five carriers’ exposures, based on discounted future payments, with ratings lower than the anticipated rating. This analysis is performed for each rated tranche of the transaction.

The carrier exposures are also recalculated at several points in the future to analyze the potential impact of changes in carrier exposures over time (e.g. at the beginning of years 5, 10 and 20 of the transaction). The analysis is performed using the same mechanics as applied in the initial calculation above, resulting in estimated Pool losses at different points in time. The estimated Pool loss results (through time) are then compared to the credit enhancement for each rated tranche: the credit enhancement for each tranche must exceed the estimated Pool loss for a given rating level.

We present a hypothetical transaction below to illustrate the Largest Obligor Analysis for evaluating proposed credit enhancement for a transaction. Anticipating a “AAA” rating for a tranche, DBRS determines the five largest carrier concentrations in the Pool with ratings below the “AAA” level. As discussed above, a “AAA” rating corresponds to a numerical rating of 1 so the largest five carriers with ratings higher than 1 will be selected. The ratings for the largest five obligors in the table below range from 4 to 6, corresponding to “AA(low)” to “A”, respectively. The simulated default of this group generates an expected default of 41.72%; assuming a 65% default recovery, the expected loss on the Pool is 14.6%. If proposed credit enhancement equals or exceeds this value, the criteria to pass the “AAA” stress for the Largest Obligor Test is met.

Largest Obligor Table

Annuity Provider	Discounted Balance	% of Discounted Balance	Rating Agency #1	Rating Agency #2
Insurance Co. A	12,505,005	10.52	4	4
Insurance Co. B	9,916,569	8.34	5	5
Insurance Co. C	9,662,706	8.13	5	5
Insurance Co. D	8,778,008	7.39	4	6
Insurance Co. E	8,728,446	7.34	5	6
TOTAL	49,590,734	41.72		

Monte Carlo Analysis: The third analysis focuses on the default and loss risk from the overall carrier exposures backing the Pool and estimates losses to the Pool at different statistical confidence intervals that correspond to a given rating level. In this analysis, DBRS utilizes its proprietary model, the CDO Toolbox, to estimate Pool losses. The CDO Toolbox has several key inputs including notional exposure, default probability which is derived from the carrier rating, expected recoveries for each carrier, and correlation assumptions among the carriers. The Idealised Default Table in Appendix III is used as the asset default table and liability percentile table when applying CDO Toolbox for this analysis. Notional exposures are calculated from discounted future payments for each carrier, default probabilities are derived from the ratings assessments for each carrier, and expected recoveries are

1. DBRS has performed research to support the recovery assumption which has included a review of NOLHGA, the Life and Health Insurance Guaranty System, and the Financial Crisis of 2008-2009 dated 5 June 2009.



assumed to be in the 50-70% range. A single correlation factor is used across all the carriers as they generally are in the same industry. The CDO Toolbox then outputs estimates of losses at statistical confidence intervals that correspond to potential tranche ratings.

TRANSACTION CAPITAL STRUCTURE AND CREDIT ENHANCEMENT

The estimated losses from both the Largest Obligor Analysis and the Monte Carlo Analysis are used by DBRS to assess the sufficiency of the proposed credit enhancement of each tranche to be rated in the transaction capital structure. Typically, the more conservative of the two results from the analytical approaches is used to evaluate proposed credit enhancement for each tranche. Most structured settlement transactions have little excess spread available as credit enhancement.

Events of Default

DBRS reviews the transaction's Events of Default and servicing termination events. These may include a variety of events such as payment defaults, covenant defaults, false representations and warranties, and lack of valid assignment. Typical Events of Default include:

- Non-payments to security holders that are not cured within a contractual grace period.
- Security interests granted to the indenture trustee are impaired and not cured within a contractual grace period;
- Events of voluntary bankruptcy of the issuer;
- Involuntary bankruptcy of the issuer that is not cured within a contractual grace period.

With respect to servicing termination events DBRS details its views in DBRS Legal Criteria for U.S. Structured Finance Transactions.

CASH FLOW ANALYSIS

Modeling Methodology

DBRS utilizes its proprietary cash flow modeling tool ("Model") to analyze the transaction structure's ability to absorb losses to the Pool and still make timely payments of expenses, interest and principal to the various stakeholders of the structure. Structured settlement transactions that have two or more rated bond tranches necessitate that each tranche be analyzed separately. The Model requires a number of key inputs, including priority of payment assumptions, liability structure assumptions and asset payment assumptions. The priority of payment and liability structure assumptions are modeled according to the transaction documents. The key asset payment assumptions include contractual cash flow for the Pool, default and loss levels, default and loss timing and recoveries (discussed below).

The originator or its agents provide contractual cash flows for the Pool which is a key input for the Model. The Monte Carlo Analysis generates default and loss assumptions which are expressed as percentages of total collateral as detailed in the *Quantitative Credit Modeling* section above. The Model views the sum of contractual cash flows as the total collateral ("Collateral"): for example, if contractual cash flows total \$100 million and the Monte Carlo Analysis generates 15% default and 5% losses, then the Model will default \$15 million and impose \$5 million of losses on the contractual cash flows. However, to the extent that the Largest Obligor Analysis indicates higher expected losses for a given tranche, DBRS incorporates these results into the assessment of the proposed credit enhancement.

Defaults and losses are applied to the Pool in a manner that is consistent with contractual features of the structured settlement cash flows. When one or more Settlement Providers experiences financial distress, the other Settlement Providers would be expected to continue paying their obligations to claims holders. The anticipated reduction in cash flows from Settlement Providers in financial distress would be represented by haircuts applied to the payments as dictated by the severity of the financial distress. Hence, when the Model defaults a portion of the Pool in a given period, the 'defaulted' collateral continues



paying for the remainder of its life with a haircut applied based on the loss severity rate. Thus, defaults and losses occur at specific periods, but their cash flow impact is realized throughout the life of the Pool cash flows. The Model also applies different default timing ramps to analyze the structure's ability to absorb a given level of defaults and losses over different time horizons. Typically DBRS applies a single recovery rate to the default ramp that generates the loss level at each rating level. The projected cash flows are distributed according to the priority of payments, making sure to incorporate the impact of any transaction features that may modify the priority of payments such as performance triggers.

Delayed Payment of Timely Interest/Servicing Fees

Defaults and losses are not the only events that can potentially impact the transaction structure. If contractual payments are not made on a timely basis or scheduled receipts are not closely matched to the transaction liabilities, there may be delays in the payment of interest and transaction fees. While it is expected that payments will be made on time, it is necessary to evaluate whether the structure, and each tranche, can adequately handle temporary payment shortfalls.

In determining the amount of financing available under a securitization transaction, scheduled cash flows are typically discounted using the weighted average bond interest rate and senior transaction fees. Assuming no delinquencies, the scheduled cash flows are used to make timely interest and fee payments. Aggregate scheduled cash flows may present some unevenness which will be reviewed in light of timely interest and transaction expenses set forth in the transaction documents.

In order to provide for coverage of uneven/non-level cash flows and delinquent payments due to timing differences and administrative errors, DBRS assesses the amount of cash held within the transaction structure such as reserve accounts to assess whether debt interest payments and transaction fees are appropriately covered. Typically three to six months of interest and fees or at least 1% of the Aggregate Portfolio Balance are made available within a dedicated cash account for liquidity purposes.

Legal Structure and Opinions

One of the key legal risks with structured settlements, historically, has been the state's degree of willingness to recognize the sale of the annuity, which was discussed in the Overview of Structured Settlements section. However, recent legislation has mitigated the issue in most states. Those states that do not have such legislation are less likely for inclusion in a transaction. Other legal issues that pertain to the claimants' rights which should be reviewed by Settlement Buyers at time of purchase include: bankruptcy of claimant, ability of claimant to assign rights (e.g. for minors), spousal approval, double assignment, existing liens, etc. Origination policies and procedures should specifically address these situations. DBRS reviews the transaction structure as well as the standard legal opinions provided in a securitization for consistency with the DBRS Legal Criteria for U.S. Structured Finance Transactions .

Surveillance

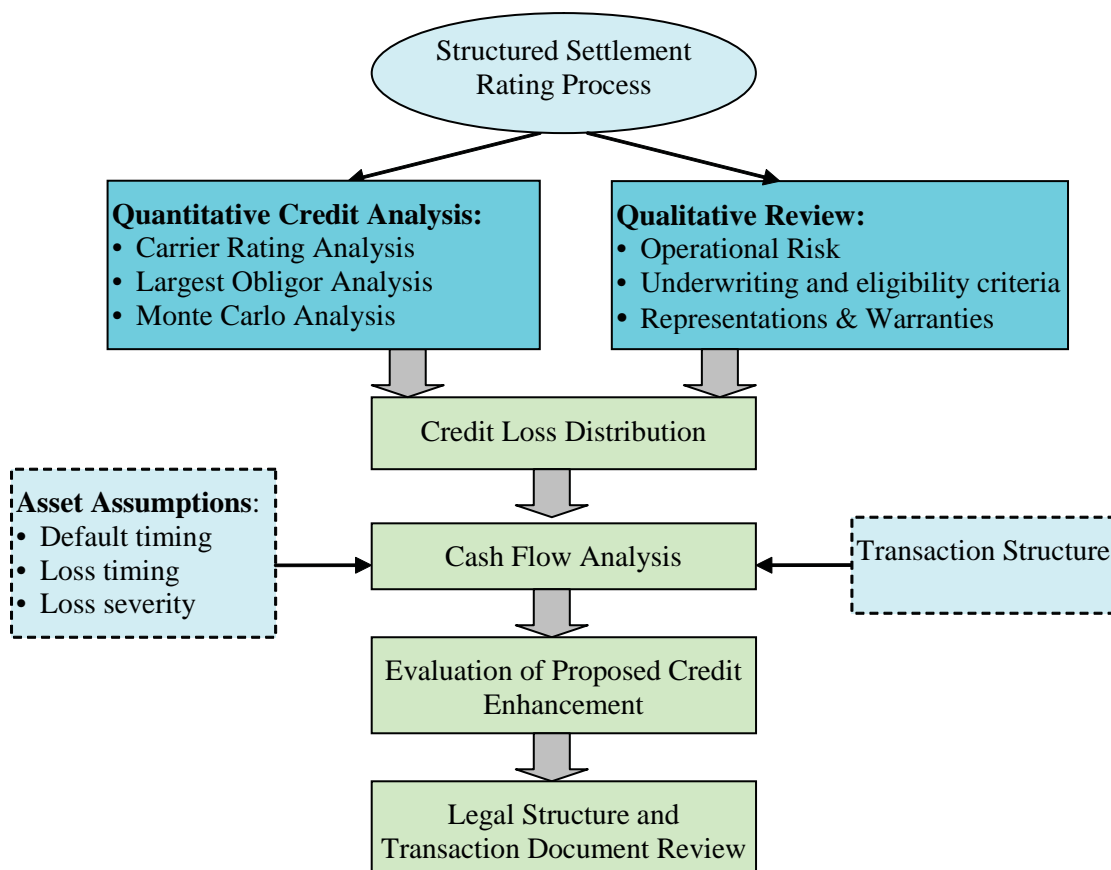
DBRS monitors structured settlement transactions in accordance with the DBRS Master U.S. ABS Surveillance Methodology.

Appendix I - Rating Process

The DBRS methodology for rating U.S. structured settlement transactions reflects the following analytical considerations:

- Qualitative review:
 - Operational risk assessment.
 - Underwriting and eligibility criteria
 - Representations and warranties review.
- Quantitative Credit Analysis including Carrier Ratings Analysis, Largest Obligor Analysis and Monte Carlo Analysis.
- Cash flow analysis based on transaction structure, credit loss distribution and asset assumptions.
- Evaluation of the form and sufficiency of credit enhancement.
- Legal structure and transaction documents review.

The following diagram describes the process for analyzing a structured settlement transaction:



The Monte Carlo analysis (CDO Toolbox) is a substantial component of the DBRS rating process. A material deviation from the rating implied by the model would be a three-notch or greater rating difference.



Appendix II - Annuity / Settlement Providers

The National Structured Settlement Trade Association (www.nssta.com) lists, among others, the following members, which are some of the key annuity/settlement providers:

- Allstate Life Insurance Company
- American General Life Companies
- Amica Life Companies
- John Hancock Life Insurance Company
- Liberty Mutual
- Metropolitan Life Insurance Company
- New York Life Insurance Company
- Pacific Life & Annuity Company
- Prudential Life Insurance Company



Appendix III - DBRS Idealised Default Table

Rating	Maturity in Years									
	1	2	3	4	5	6	7	8	9	10
AAA	0.0110%	0.0264%	0.0460%	0.0699%	0.0987%	0.1330%	0.1736%	0.2212%	0.2765%	0.3405%
AA (high)	0.0161%	0.0390%	0.0691%	0.1071%	0.1539%	0.2107%	0.2784%	0.3580%	0.4501%	0.5554%
AA	0.0212%	0.0517%	0.0922%	0.1442%	0.2091%	0.2883%	0.3832%	0.4948%	0.6237%	0.7703%
AA (low)	0.0281%	0.0709%	0.1297%	0.2055%	0.2994%	0.4123%	0.5445%	0.6962%	0.8672%	1.0571%
A (high)	0.0419%	0.1095%	0.2045%	0.3280%	0.4801%	0.6602%	0.8671%	1.0991%	1.3543%	1.6306%
A	0.0487%	0.1287%	0.2419%	0.3893%	0.5704%	0.7841%	1.0283%	1.3005%	1.5978%	1.9173%
A (low)	0.0945%	0.2420%	0.4391%	0.6815%	0.9643%	1.2825%	1.6309%	2.0045%	2.3990%	2.8101%
BBB (high)	0.1860%	0.4685%	0.8333%	1.2659%	1.7521%	2.2792%	2.8359%	3.4126%	4.0013%	4.5956%
BBB	0.2318%	0.5818%	1.0305%	1.5581%	2.1460%	2.7776%	3.4384%	4.1166%	4.8024%	5.4884%
BBB (low)	0.3732%	0.8912%	1.5142%	2.2099%	2.9528%	3.7230%	4.5053%	5.2884%	6.0636%	6.8252%
BB (high)	1.0800%	2.4384%	3.9327%	5.4686%	6.9863%	8.4500%	9.8400%	11.1473%	12.3697%	13.5091%
BB	1.3627%	3.0573%	4.9001%	6.7721%	8.5997%	10.3408%	11.9738%	13.4908%	14.8921%	16.1826%
BB (low)	2.2346%	4.7297%	7.2541%	9.6836%	11.9572%	14.0507%	15.9604%	17.6938%	19.2641%	20.6863%
B (high)	3.6297%	7.4056%	11.0204%	14.3419%	17.3292%	19.9866%	22.3389%	24.4186%	26.2592%	27.8922%
B	4.8503%	9.7471%	14.3160%	18.4179%	22.0296%	25.1805%	27.9201%	30.3028%	32.3799%	34.1974%
B (low)	10.0776%	17.6609%	23.5135%	28.1371%	31.8670%	34.9314%	37.4891%	39.6528%	41.5044%	43.1047%
CCC (high)	18.7898%	30.8505%	38.8426%	44.3357%	48.2625%	51.1831%	53.4376%	55.2363%	56.7119%	57.9502%
CCC	22.2746%	36.1264%	44.9743%	50.8151%	54.8208%	57.6837%	59.8169%	61.4696%	62.7949%	63.8884%
CCC (low)	61.1373%	68.0632%	72.4872%	75.4076%	77.4104%	78.8419%	79.9085%	80.7348%	81.3974%	81.9442%
C	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%	100.0000%

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