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## S&P Alters Modeling Assumptions For Step-Down Provisions To Enhance Credit Support For US RMBS

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NEW YORK (Standard & Poor's) Oct. 16, 2007--Standard & Poor's Ratings Services continues to review the impact of the trigger provisions governing the release of credit support after the step-down date in U.S. residential mortgage-backed securities (RMBS) transactions. As a result, Standard & Poor's will, in most cases, look for higher minimum overcollateralization (O/C) levels throughout the life of rated RMBS deals. Because a number of the rating changes affecting the 2005 subprime vintage resulted from the projected release of credit support following the step-down dates, we reviewed the impact that O/C floors have on the release of credit support. Based on recent observations of performance for the 2005 subprime vintage, we determined that an O/C floor, derived on a transaction-specific basis, may better protect the stability of the ratings on classes in future securitizations (as we first described in the Oct. 15, 2007, release titled "Ratings Lowered On 402 First-Lien Subprime U.S. RMBS Classes From 1Q-3Q Of 2005"). We will apply the new O/C floor when rating all transactions that use excess spread and O/C to cover losses.

For example, we back-tested one of the downgraded 2005 subprime transactions using the revised O/C floor calculation in accordance with the new assumptions. We determined that one of the certificates from this deal, which was downgraded two notches, would have avoided any rating action. Additionally, a second class that was downgraded four notches would have experienced only a single-notch downgrade.

The minimum O/C floor will be calculated for each deal and will now be assessed based on the amount of support required to avoid losses to the rated securities given Standard & Poor's stressed default and loss curves. The O/C floor will be a percentage of the original pool balance and will not be less than 50 basis points (including any prefunded amounts), and the resulting amount should not exceed the outstanding pool balance. We expect, based on testing performed to date, that the O/C floor increases will be substantial. In general, the O/C floor may be as high as (and in some instances higher than) half of the original targeted O/C.

Specifically, the O/C floor will be sized based on expected losses for the constraining scenario of the lowest-rated tranche in a given structure. The constraint is determined to be the scenario resulting in the highest O/C floor derived from running our three interest rate paths. Projected losses following the step-down date will be aggregated using the rating scenario of the lowest-rated tranche. We will then subtract the outstanding balance of any unrated subordinate tranches and projected excess spread generated through the remainder of the default and loss curves, including contributions from derivatives that cover losses, to arrive at the required O/C floor for that transaction.

This approach is effective immediately for all transactions that Standard & Poor's rates in the future. We expect that the revised O/C floor guidelines, in conjunction with the increased credit stresses implemented in July 2007, will result in substantially enhanced ratings stability as well as greater overall credit support for rated securitizations.

Standard & Poor's continues to review the impact of minimum O/C guidelines on credit support throughout the life of a transaction and anticipates publishing a full analysis upon completion of this review. We will monitor transaction performance in connection with these revisions and adjust our approach as appropriate.

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