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## Actual U.S. Subprime RMBS Losses On 'AAA' Bonds Are Far Less Than Expected, Report Says

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NEW YORK (Standard & Poor's) Nov. 13, 2008--Actual principal write-downs on U.S. subprime residential mortgage-backed (RMBS) are substantially less than expected, with 'AAA' bonds projected to see a write-down rate of less than 1%, according to a recent report published by Standard & Poor's Ratings Services.

"In the RMBS arena, there is a substantial difference between a collateral loss and a principal write-down on a rated certificate," said Standard & Poor's credit analyst Andrew Giudici. "When it comes to subprime RMBS, the difference might even surprise you."

For U.S. subprime RMBS certificates issued from the second half of 2005 through the first half of 2007, Standard & Poor's now projects losses on the underlying mortgages to reach \$180 billion over their lives. But S&P projects that principal write-downs on the RMBS will be far less - a total of approximately \$85 billion. So while losses to RMBS investors are expected to be significant, they will be much less than the losses generated by the RMBS collateral.

Mr. Giudici noted, "The difference between the projected write-downs and losses reflects the various forms of credit enhancement that support the rated securities, such as subordination, overcollateralization (O/C), and excess spread. A principal write-down on the RMBS certificates occurs when the amount of collateral losses exceeds the amount of available credit support."

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As of the August 2008 distribution date, collateral losses for Standard & Poor's rated U.S. subprime RMBS transactions issued from the second half of 2005 through the first half of 2007 totaled approximately \$32 billion. Despite the amount of collateral losses, actual principal write-downs were below \$3 billion, which represents less than 0.35% of the total dollar amount of U.S. subprime RMBS certificates rated by Standard & Poor's during this time period.

"While we project that most of the subordinate subprime certificates issued from the second half of 2005 through the first half of 2007 will experience what we view as substantial principal write-downs, we project that 'AAA' certificates issued during this period will not be as severely affected," said Mr. Giudici. "Overall, we are projecting that 'AAA' certificates will be written down by less than 1%."

The full report, "U.S. Subprime RMBS Losses For Original 'AAA' Bonds May Be Significantly Less Than Market Projections," was published Nov. 12, 2008, on RatingsDirect.

The report is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at [www.ratingsdirect.com](http://www.ratingsdirect.com). If you are not a RatingsDirect subscriber, you may purchase a copy of the report by calling (1) 212-438-9823 or sending an e-mail to [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com). Ratings information can also be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search. Members of the media may request a copy of this report by contacting the media representative provided.

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