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To: Moody's - SFG/Mortgage Pass Through
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Subject: Interim rule

For consistency, the committee chairs have agreed to the following interim rule for adding credit support to compensate for subprime class sizes of less than 1%:

If a subprime class is smaller than 1%, then the high potential intensity/severity of loss for that bond would lead to a rating one notch below the committed levels in the base case. So if committee decided that 3% credit support is enough to bring your bond to Baa2, if you end up with a bond size of 0.70%, that bond would be Baa3.

HOWEVER (and bankers almost always use the 'however'), if you increase credit support by at least 80% of the shortfall in bond size (ie, 80% of how many bps. smaller than 1% your bond is), then the rating holds. So in that same example, the bond size is 0.70, which is 0.30 short of 1%. So if you add 24 bps of credit support (0.30 X 80%), bringing the example to 3.24% of credit support, the bond is Baa2.

Again, these are interim rules, the sizing calculation may change over the next month as we finalize it. If implementing this rule would result in substantial changes in tranching vs. how we've done the previous deal for your issuer, bring that to an MD's attention before communicating the change.