Global Credit Research - 11 Dec 2008

New York, December 11, 2008 -- Moody's Investors Service has announced that it has revised and updated the key modeling parameter assumptions it uses to rate and monitor ratings of CDOs backed by structured finance securities ("SF CDOs"). This revision affects the three key parameters in Moody's model for rating SF CDOs: asset correlation, default probability, and recovery rate.

These changes are in response to weak performance of certain structured finance asset classes over the past two years, the limited near-term opportunities for consumers and corporates to refinance debt, and the increasingly negative credit outlook for the global economy.

As a result of the revised assumptions, Moody's anticipates that a large number of existing SF CDO ratings will be downgraded by approximately three notches and will remain on review for possible further downgrade. Ratings of a small number of tranches may be downgraded by more or less than three notches, or not at all, depending on numerous factors, including their vintage, current rating, portfolio composition, and credit enhancement. Moody's expects to complete these rating actions before year-end.

For rating SF CDOs, Moody's currently uses a Gaussian copula model, incorporated in its public CDO rating model CDOROM2.4, to generate a portfolio loss distribution. The asset correlation, default probability, and recovery rate parameters used in that model have been revised as described below.

Asset Correlations

When rating SF CDOs, Moody's employs a tree framework for asset correlations and assigns each asset into one of the branches on the tree, as described in Moody's Rating Methodology paper, "Moody's Revisits its Assumptions Regarding Structured Finance Default (and Asset) Correlations for CDOs," published on June 27, 2005. While Moody's will continue to use this correlation tree framework, the existing parameters have been revised, resulting in asset correlations that are approximately two to three times higher than their current values.

In light of the systematic seizure in the housing market and the credit markets in general, Moody's has made the following primary changes in asset correlations:

- Increasing the base global and meta sector asset correlations
- Creating a single RMBS category that includes prime, Alt-A, and subprime RMBS securities, which all have experienced substantial credit performance deterioration
- Reducing diversification credit for SF CDOs that have a high concentration in one type of structured finance assets
- Combining the current Commercial Real Estate and Corporate meta sectors into a single meta sector and introducing a real-estate add-on factor to increase the cross-sector correlation between real-estate related assets
- Increasing the penalty for geographic concentration
- Reducing the vintage diversification benefits and allocating vintage concentration penalty to all sector and geography levels
- Assuming higher asset correlation for highly-rated structured finance assets than for lowly-rated assets

Default Probability

Moody's will also now apply resecuritization stress factors to default probability assumptions for structured finance asset collateral underlying both new and existing SF CDO transactions. The resecuritization stress addresses the leveraged rating impact on SF CDOs of changes in their underlying collateral performance and had previously been applied only to new ratings.

Moody's will group the stress factors into two categories depending on the assets underlying the CDO that is being rated. The first category includes US RMBS, EMEA non-conforming RMBS, Manufactured Housing ABS, Franchise Loan ABS, and Mutual Fund Fee ABS. Other underlying assets included in this category are SF CDOs and corporate synthetic CDOs. For securities in this first category, a multiplier of 4 will be applied to the default probability for all rating categories except Aaa, for which a factor of 12 will be applied.

The second category is comprised of asset classes that have historically had more stable performance, such as ABS backed by auto loans, credit card receivables, student loans, EMEA RMBS other than for non-conforming RMBS, CMBS, and CLOs. For this second category, a stress multiplier of 2 will be applied to all rating categories except Aaa, for which a factor of 6 will be applied. Generally speaking, asset classes not mentioned above will be classified in the second category.


Recovery Rates

Moody's has also revised and updated its recovery rate assumptions for structured finance assets. Moody's original methodology applies a set of fixed recovery rate assumptions that are based on the assets' original rating and tranche size as a percent of the capital structure. Recent data from the credit crisis suggest that very low recovery rates should be expected for some structured finance assets and unstable recovery rates for others. Instead of assuming fixed recovery rates, Moody's will now use a floating recovery rate model based on a beta distribution that has its mean set to the assumed recovery rate level, as specified in Moody's structured finance recovery rate tables. Furthermore, Moody's will
use an asset's current rating instead of its original rating to determine the mean recovery rate.

Updated Public Model

Moody's also announced that it will soon release its updated public CDO rating model CDOROMv2.5, along with user guide, which incorporates and explains in detail these new parameters in rating and monitoring ratings of SF CDOs.

Moody's ratings are determined by a committee process that considers both quantitative factors, such as those described above, and qualitative factors. The rating outcome may differ from the model output. This press release updates the modeling parameters in Moody's current SF CDO methodology, which appears in the following publications. The publications can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory:

"Moody's Approach to Rating Multisector CDOs," published on September 15, 2000

"Moody's Approach To Rating Synthetic Resecuritizations," published on October 29, 2003

"Moody's Revisits its Assumptions Regarding Structured Finance Default (and Asset) Correlations for CDOs," published on June 27, 2005


NOTE TO JOURNALISTS ONLY: For more information please contact New York Press Information +1-212-553-0376; EMEA Press Information in London +44-20-7772-5456; Juan Pablo Soriano in Madrid +34-91-310-1454; Alex Cataldo in Milan +39-02-914-81-100; Eric de Bodard in Paris +331-5330-1076; Detlef Scholz in Frankfurt +49-69-707-30-700; Meridig Haladjian in Limassol +357-25-586-586; Alex Sazhin in Moscow +7 495 228 60 60; Petr Vins in Prague +4202 2422 2929; Tokyo Press Information +813-5408-4110; Hilary Parkes in Toronto +1-416-214-1635; Hong Kong Press Information +852-2916-1150; Hector Lim in Sydney +612 9270 8102; Luiz Tess in São Paulo +5511-3043-7300; Alberto Jones Tamayo in Mexico City +5255-1253-5700; Daniel Rúas in Buenos Aires +54 11-4816-2332 ext. 105; Craig Jamieson in Johannesburg +27-11-217-5470; Jehovah el-Nakla in Dubai +971 4 401 9536; or visit our web site at www.moodys.com
contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.