

The Future of Securitization

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Moody's Corporation & NYU Stern School of Business

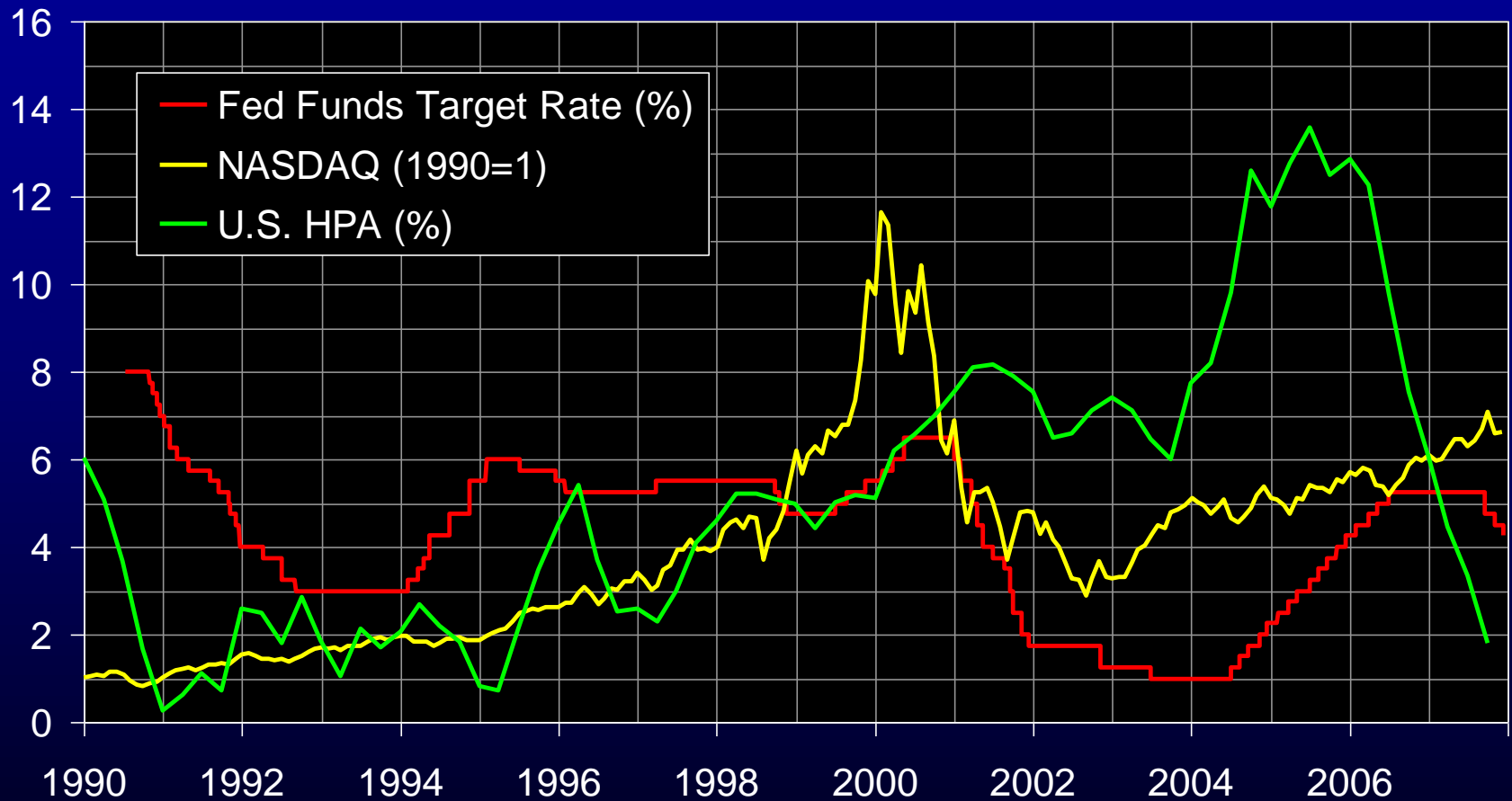
5th Annual Credit Risk Conference

Skirball Center at 566 LaGuardia Place

New York City

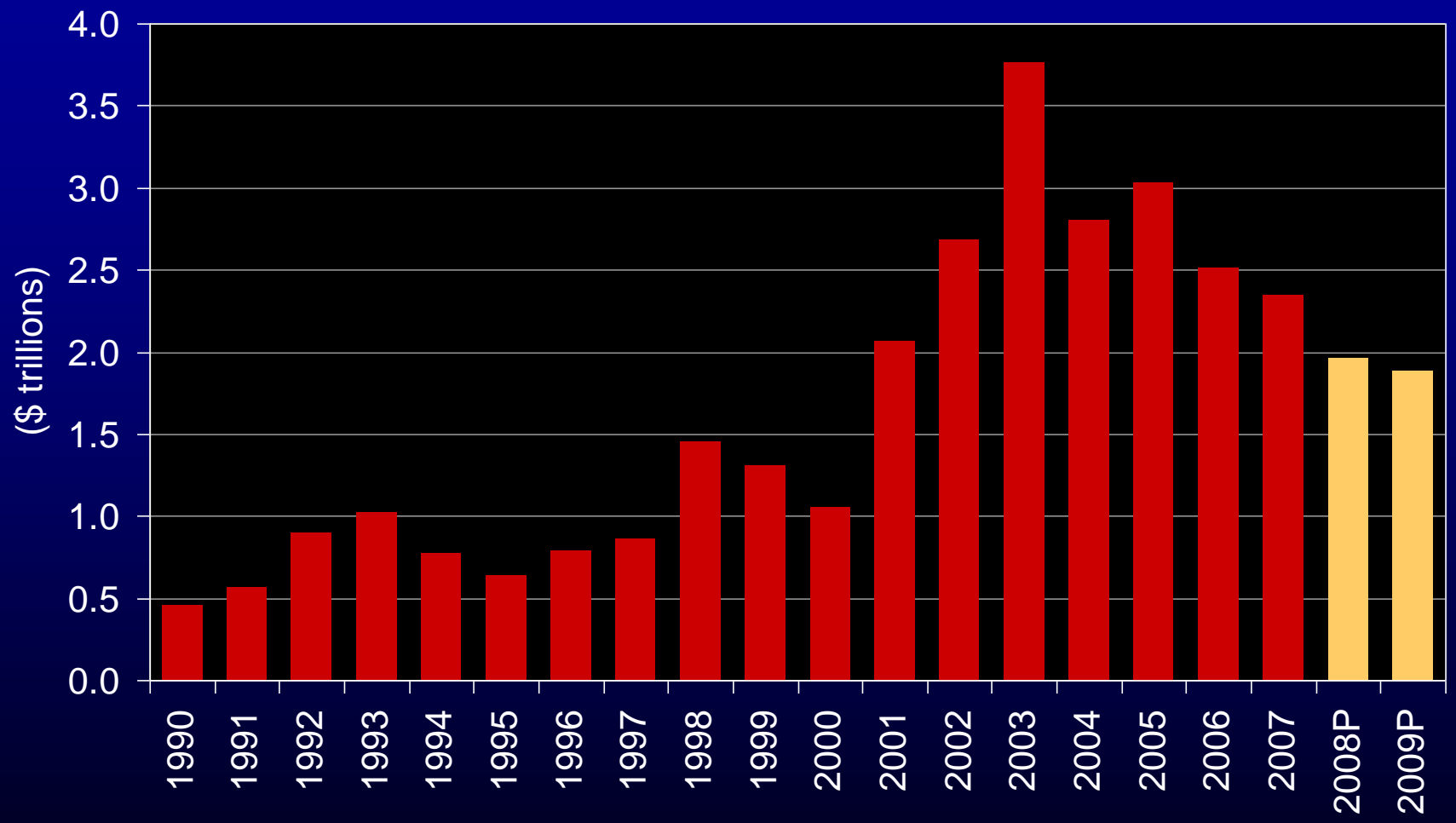
14 May 2008

Fed Funds Target Rate, NASDAQ Composite Index, and Annual Rate of U.S. Home Price Appreciation



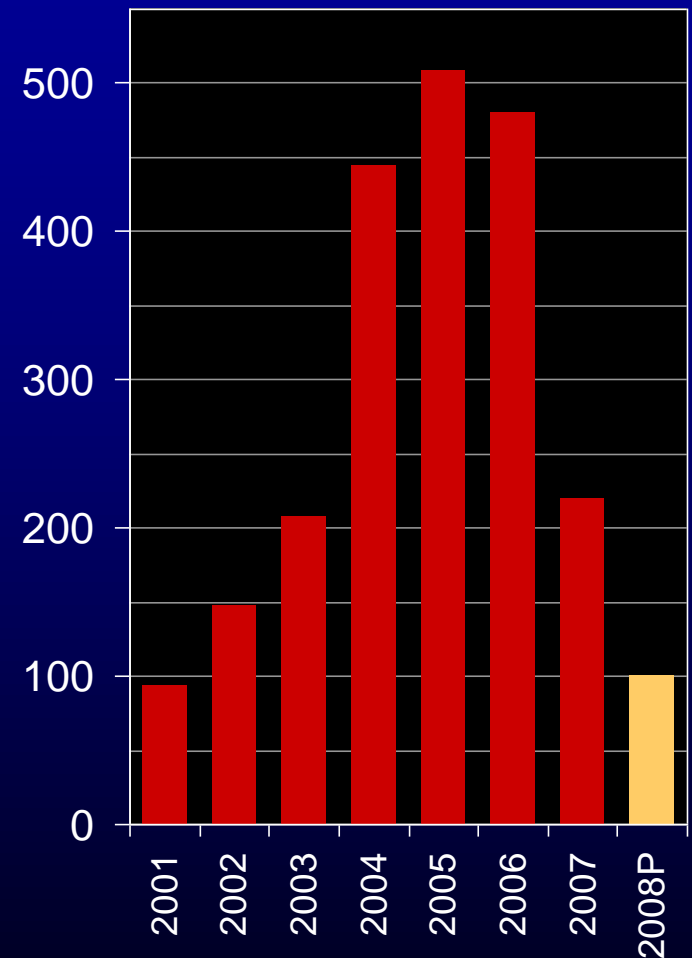
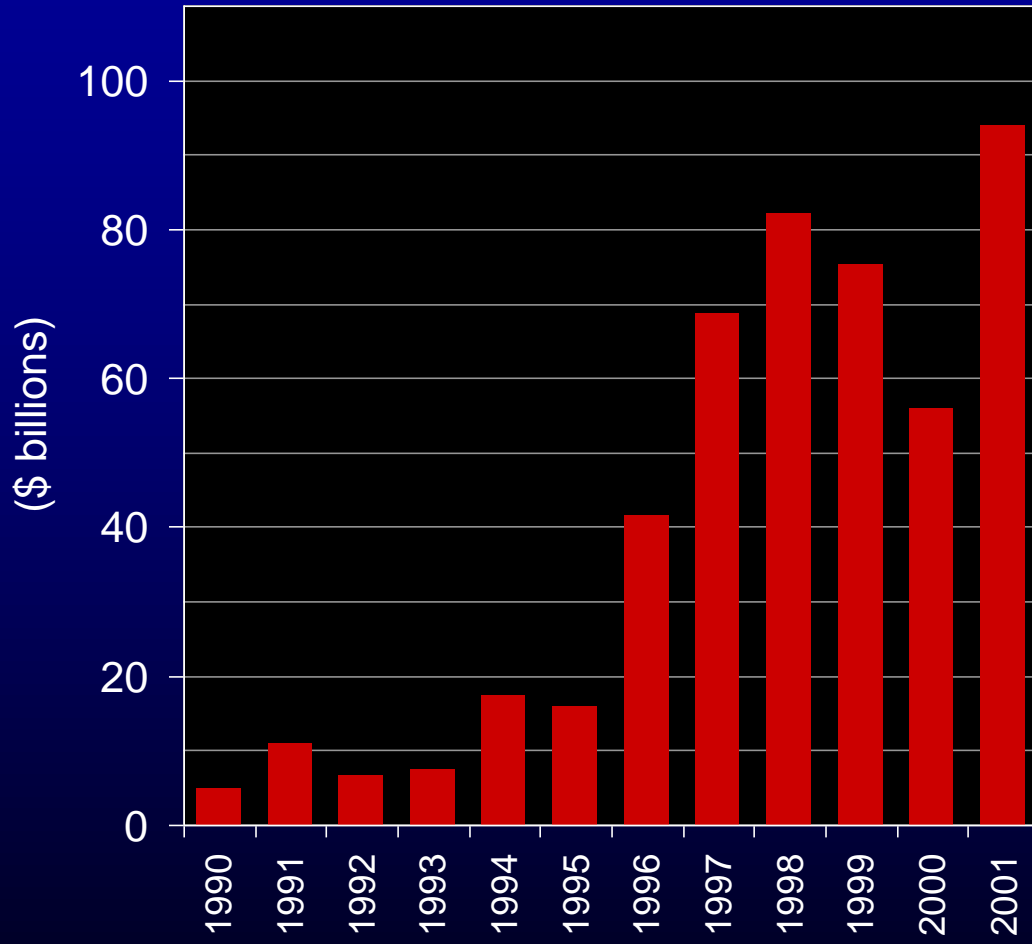
Source: Federal Reserve, Yahoo

U.S. Mortgage Originations



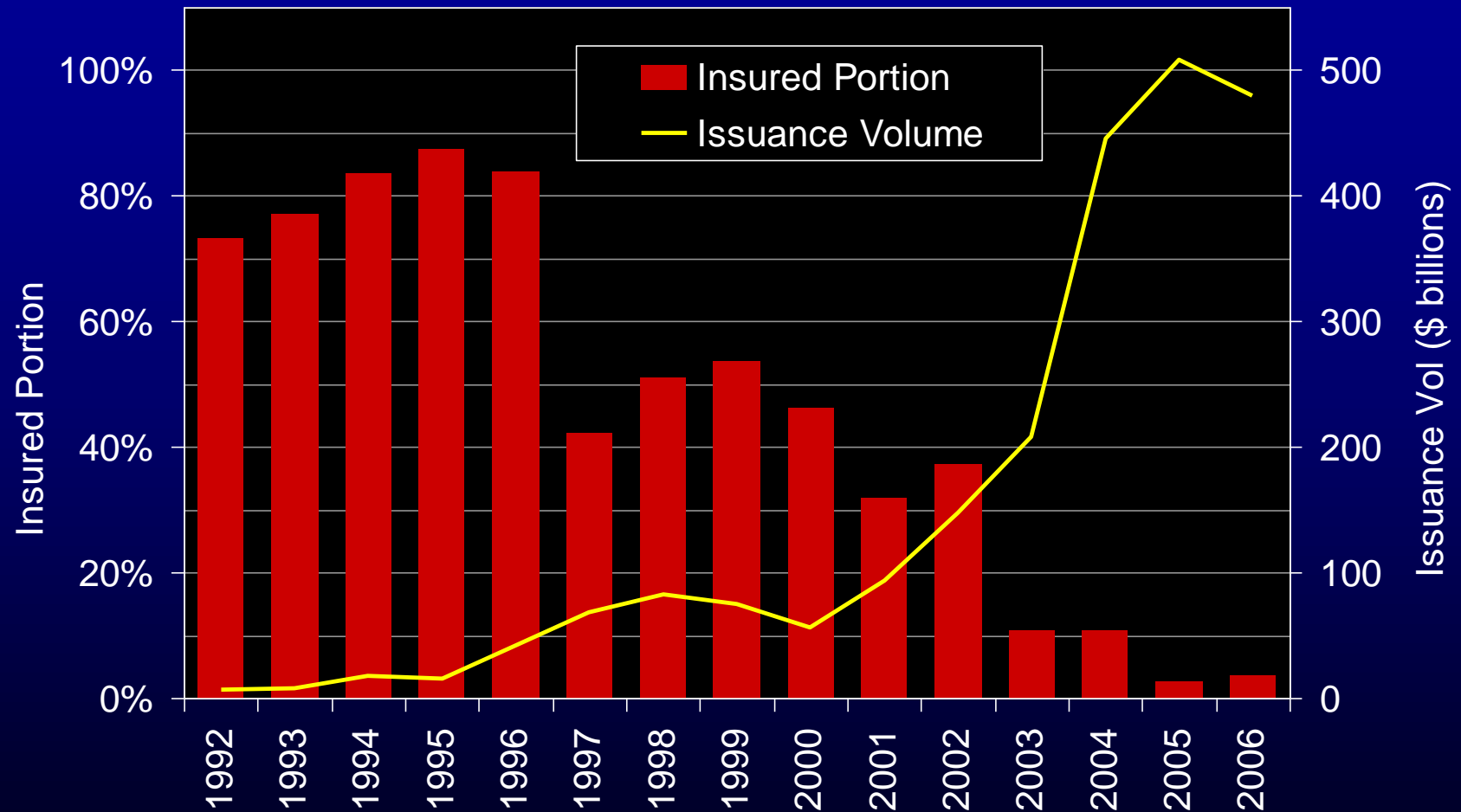
Source: Inside Mortgage Finance, Mortgage Bankers Associations

U.S. Public Home Equity ABS Issuance



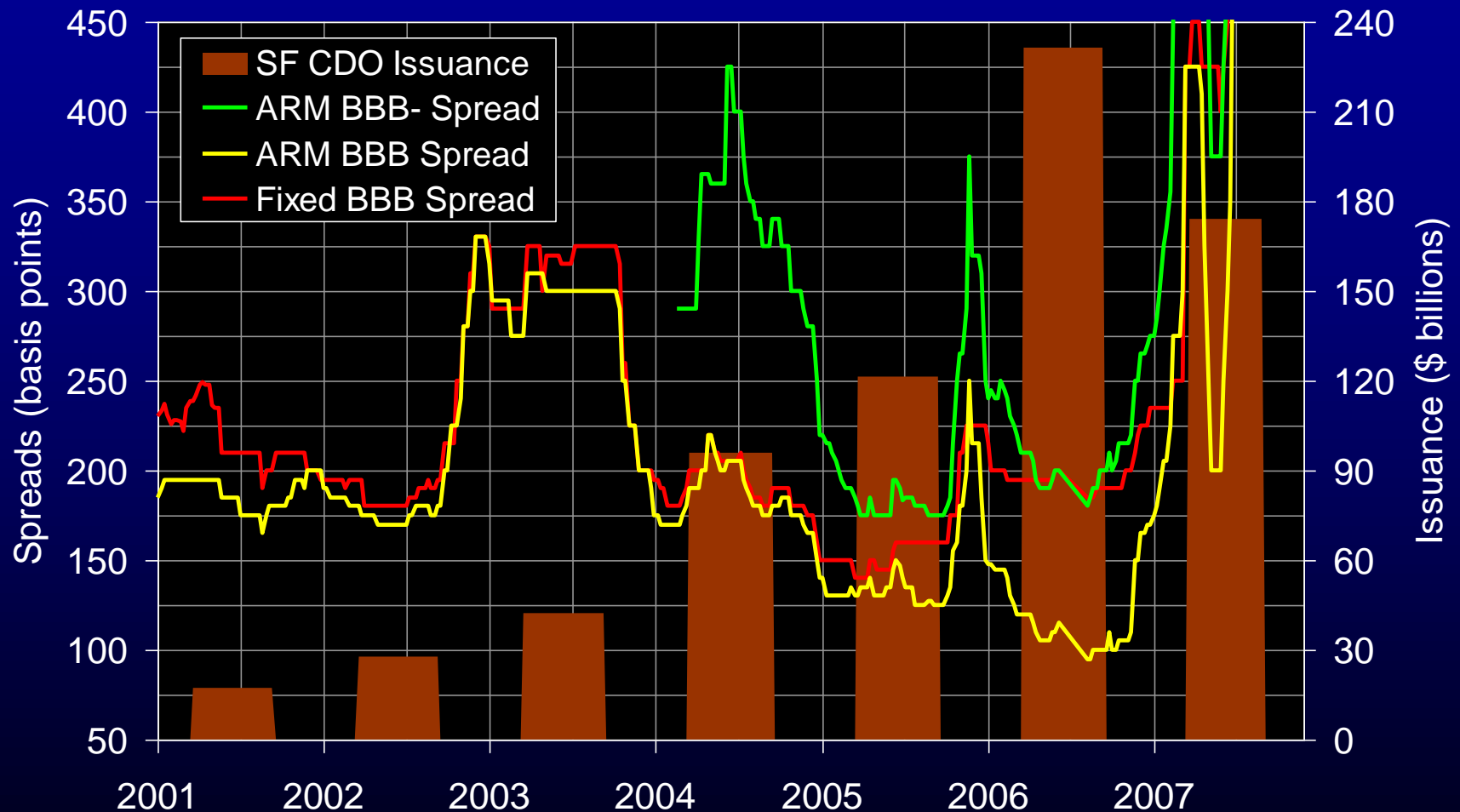
Source: Moody's, Bloomberg, Asset Securitization Report

Insured Portion of U.S. Home Equity ABS Issuance



Sources: Asset-Backed Alert Database (insured portion), Moody's, Bloomberg, Asset Securitization Report

Home Equity ABS Yield Spreads over Swaps/LIBOR and Annual Structured Finance CDO Funded Issuance Volume



Source: JPMorgan

Sub-prime Performance (12/2007)

Figure 11

Subprime Serious Delinquencies by Vintage of Securitization

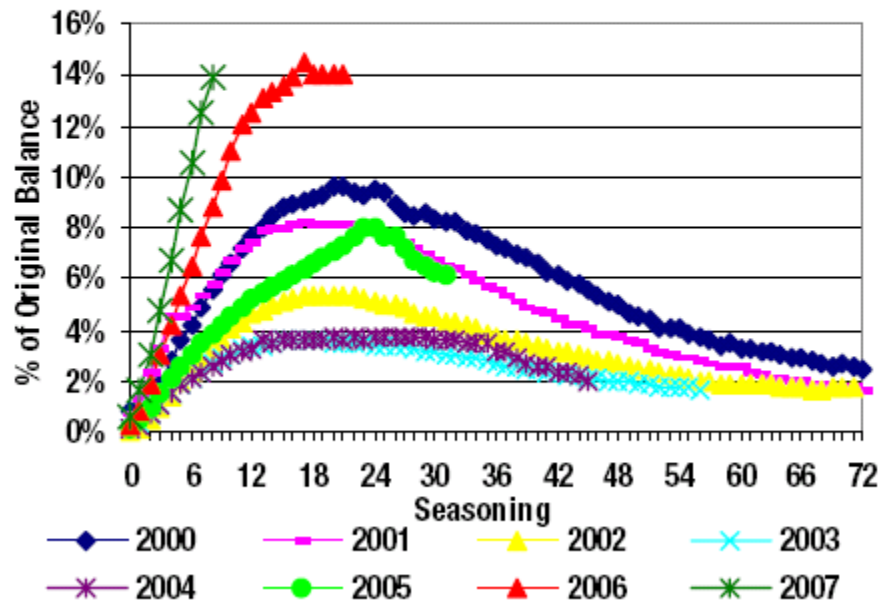
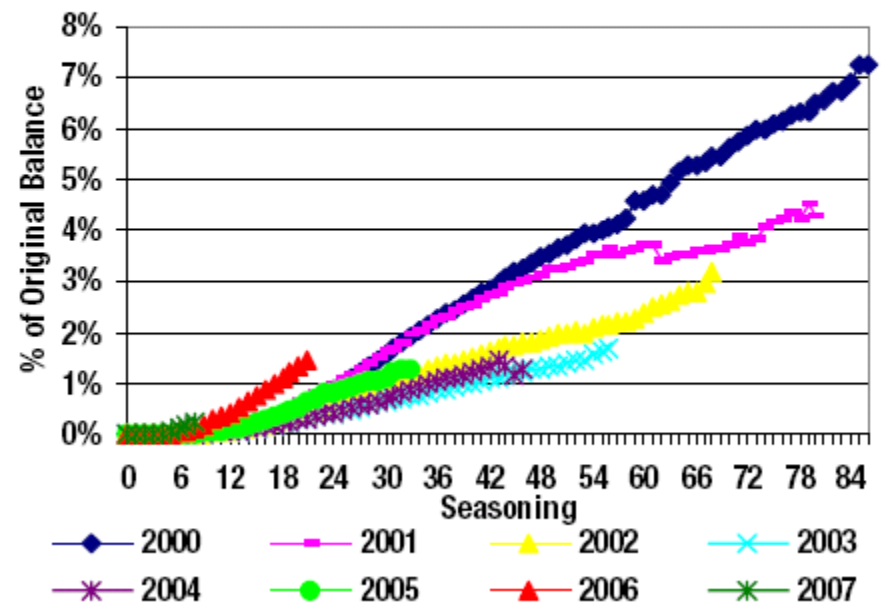


Figure 12

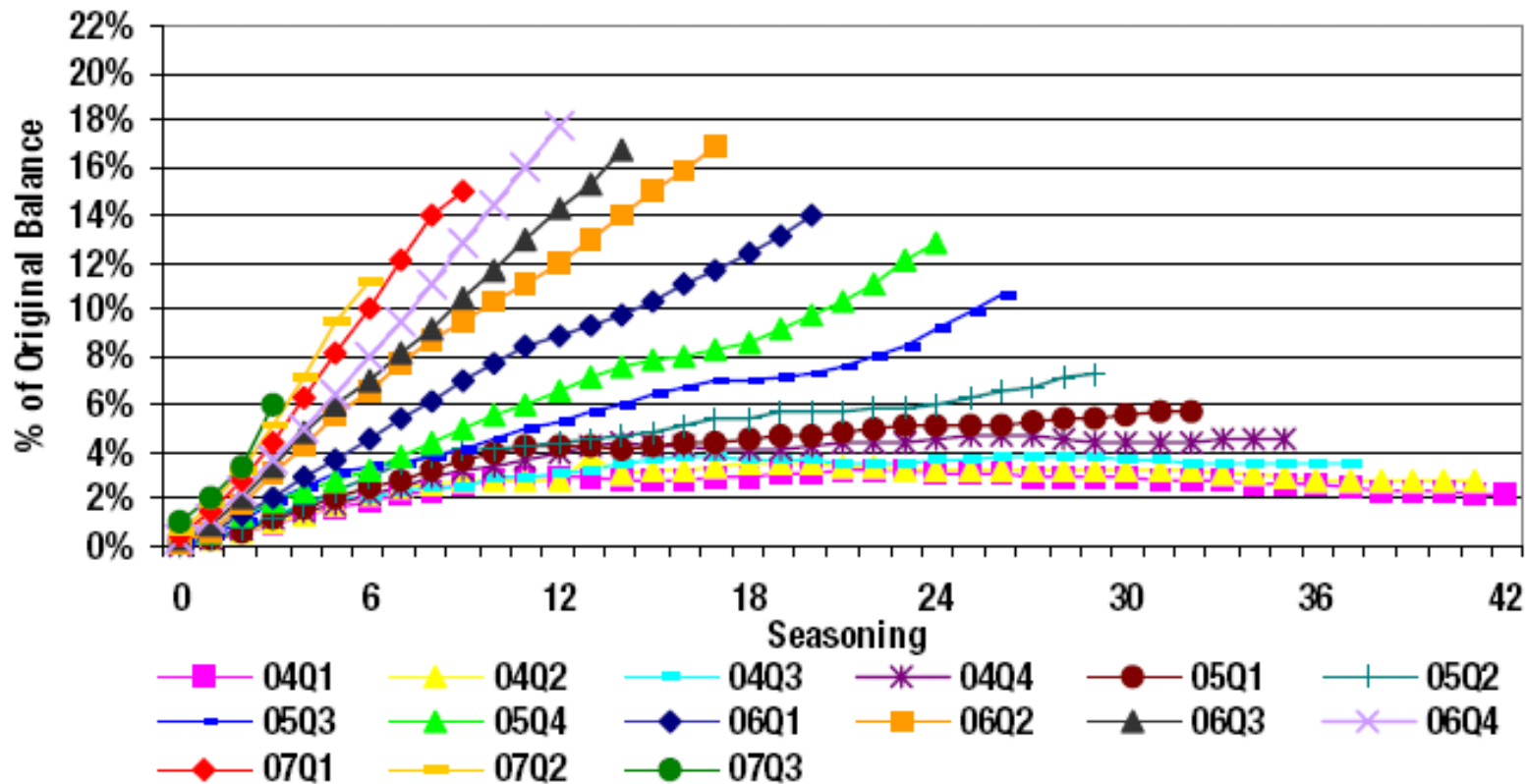
Subprime Cumulative Losses by Vintage of Securitization



Source: Moody's

Sub-prime Performance (12/2007)

Figure 13
Subprime Serious Delinquencies by Quarter of Securitization



Source: Moody's

Sub-prime Downgrades in 2007

Exhibit 15: US HEL Downgrades in 2007

Exhibit 15A: Downgrades by Vintage

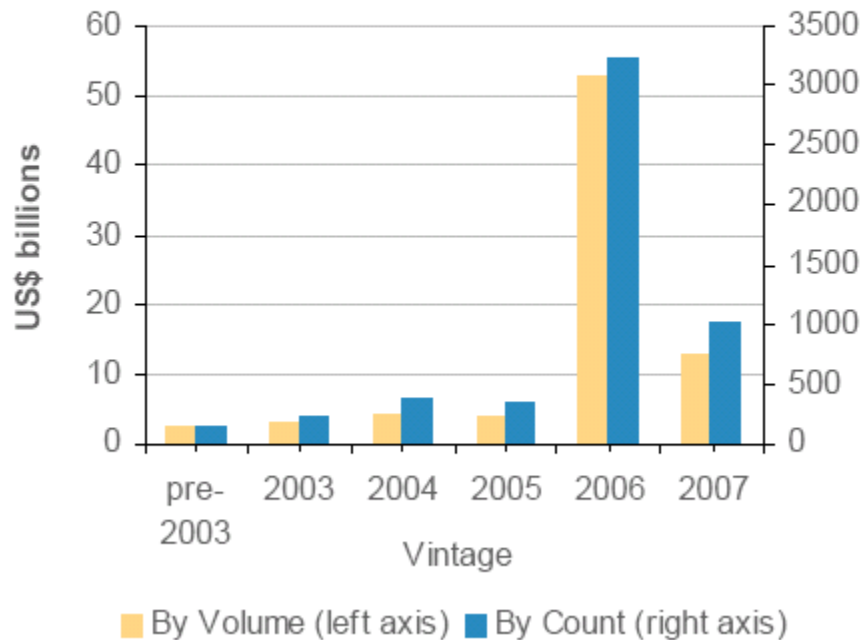
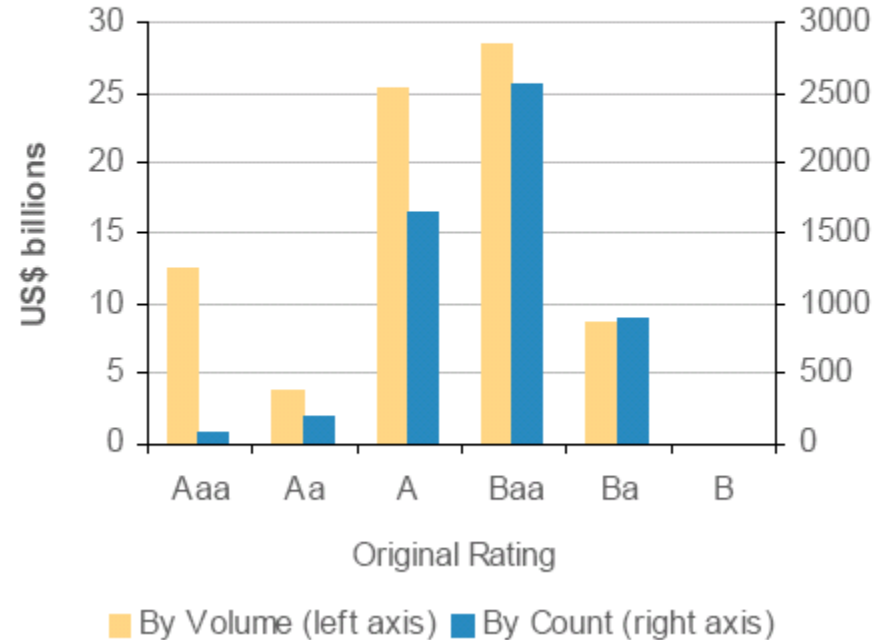
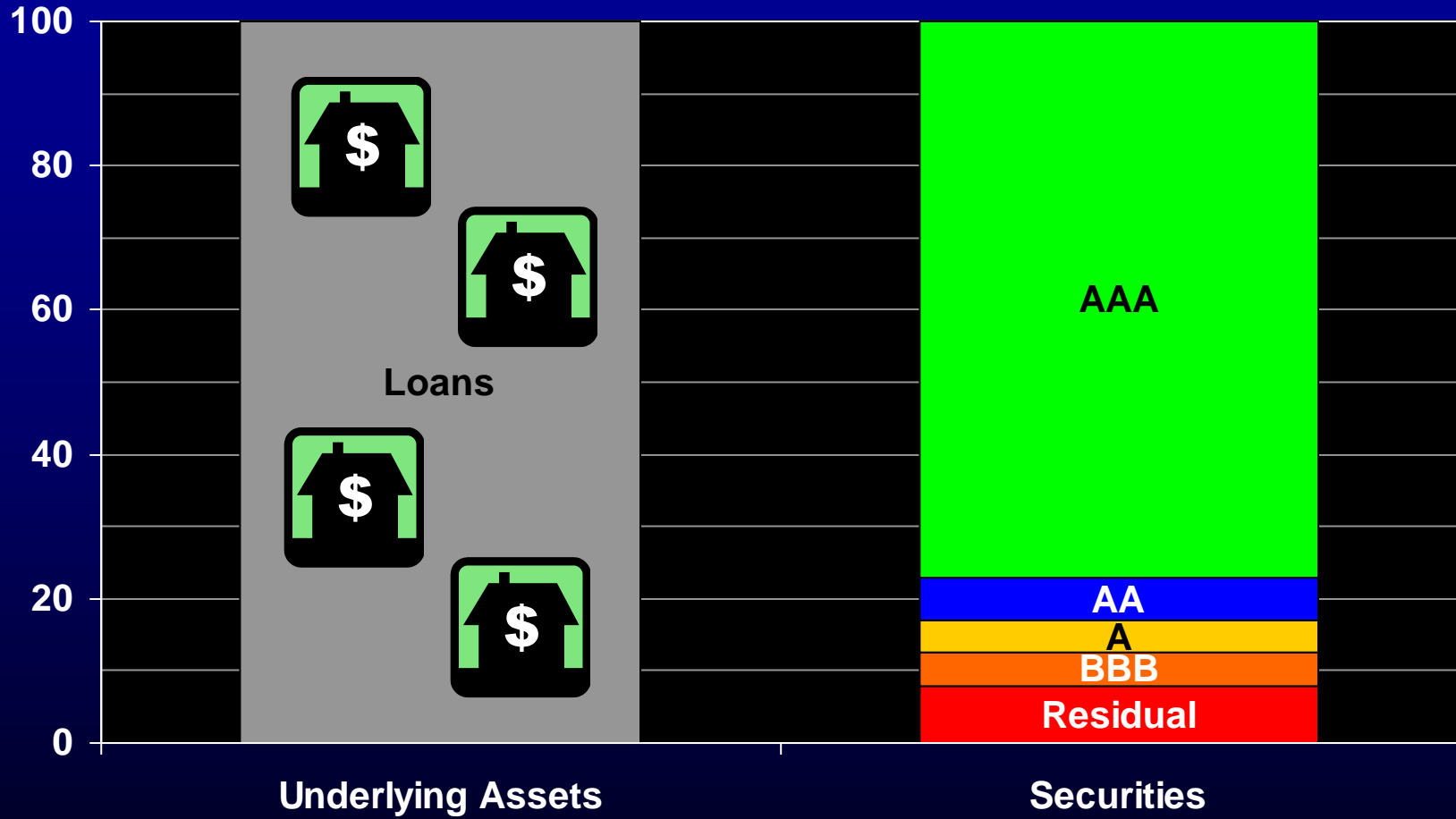


Exhibit 15B: Downgrades by Original Rating

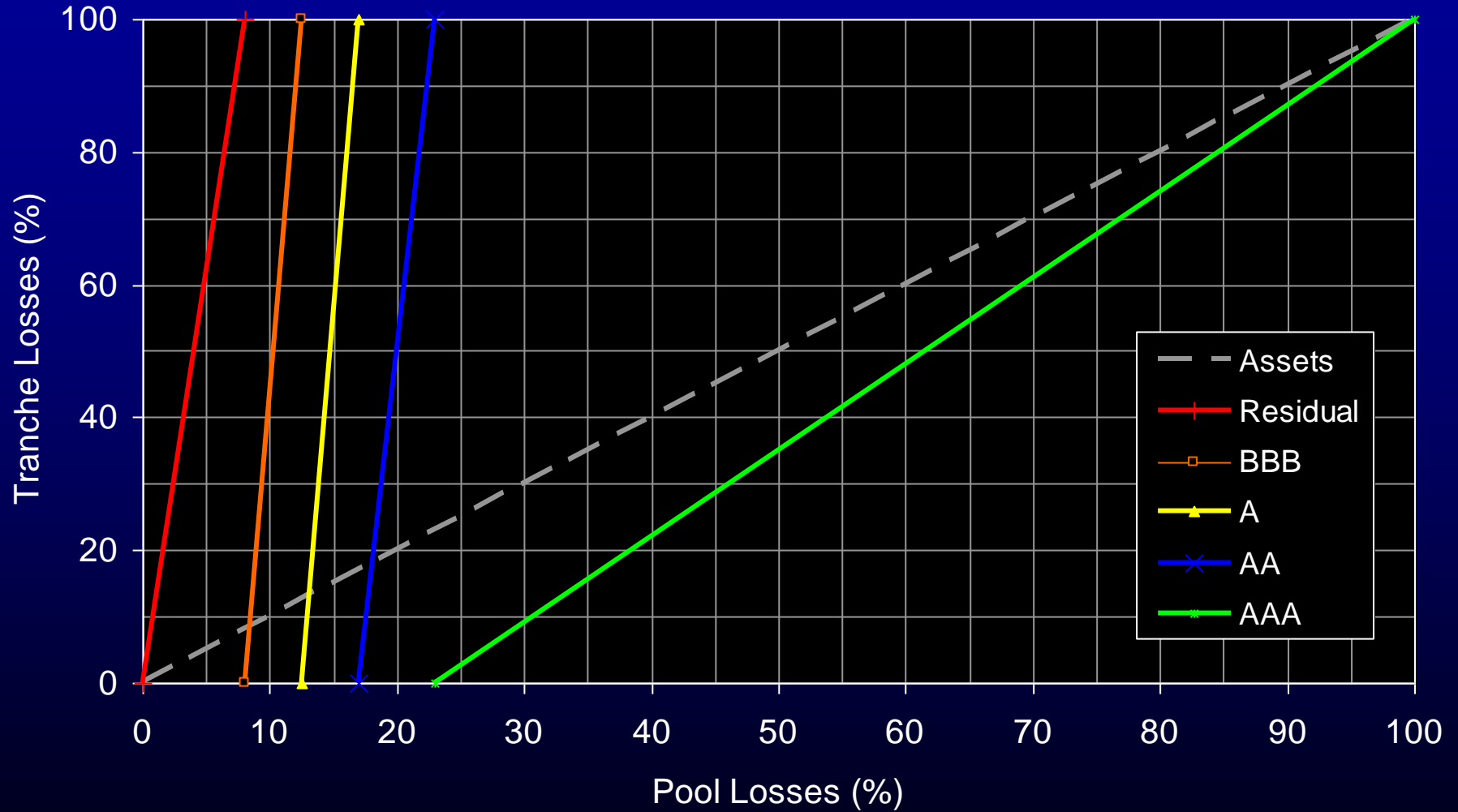


Source: Moody's

Basic HEL ABS Structure – Tranching



HEL ABS Deal Structure – Tranching



CDO Downgrades in 2007

Exhibit 26: US CDO Downgrades in 2007

Exhibit 26A: Downgrades by Vintage

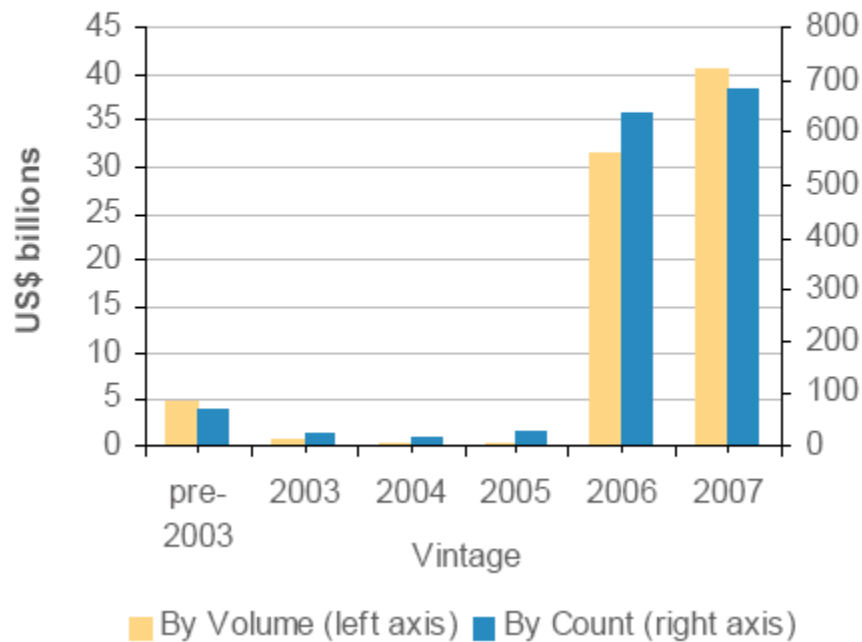
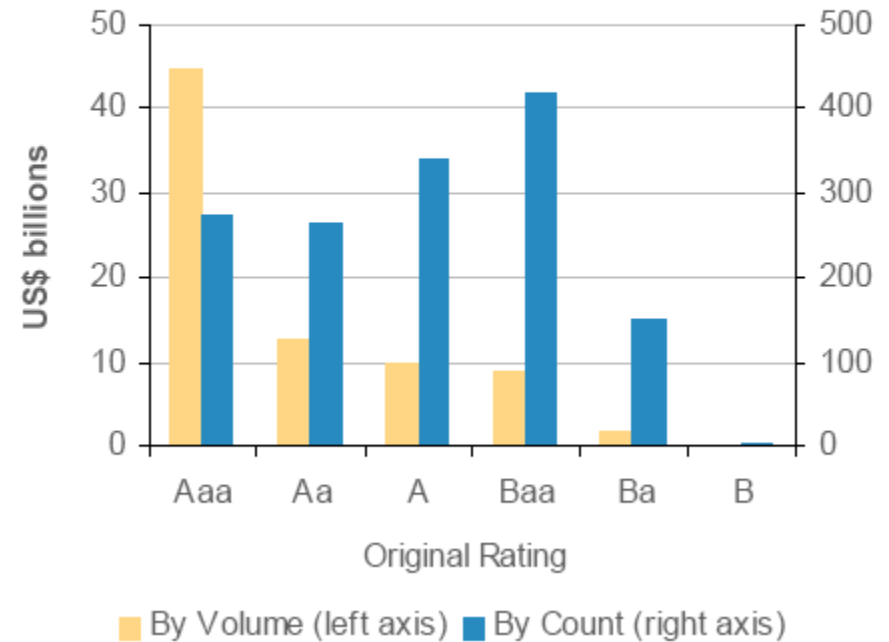


Exhibit 26B: Downgrades by Original Rating



Source: Moody's

The Current Situation

- Defaults are likely for **most** 2006-07 sub-prime mortgage ABS tranches initially rated triple-B
- Defaults are likely for **many** 2006-07 sub-prime mortgage ABS tranches initially rated single-A
- These defaults are not surprising in an environment of declining home prices
- SF CDO tranches rated triple-A are likely to default because of concentrated exposure the triple-B and single-A layers of sub-prime mortgage deals
- CDO professionals did not expect so many securities rated at the triple-B and single-A levels to default at the same time because they had not observed it in the recent past