

Primary and Secondary Mortgage Markets - Overview

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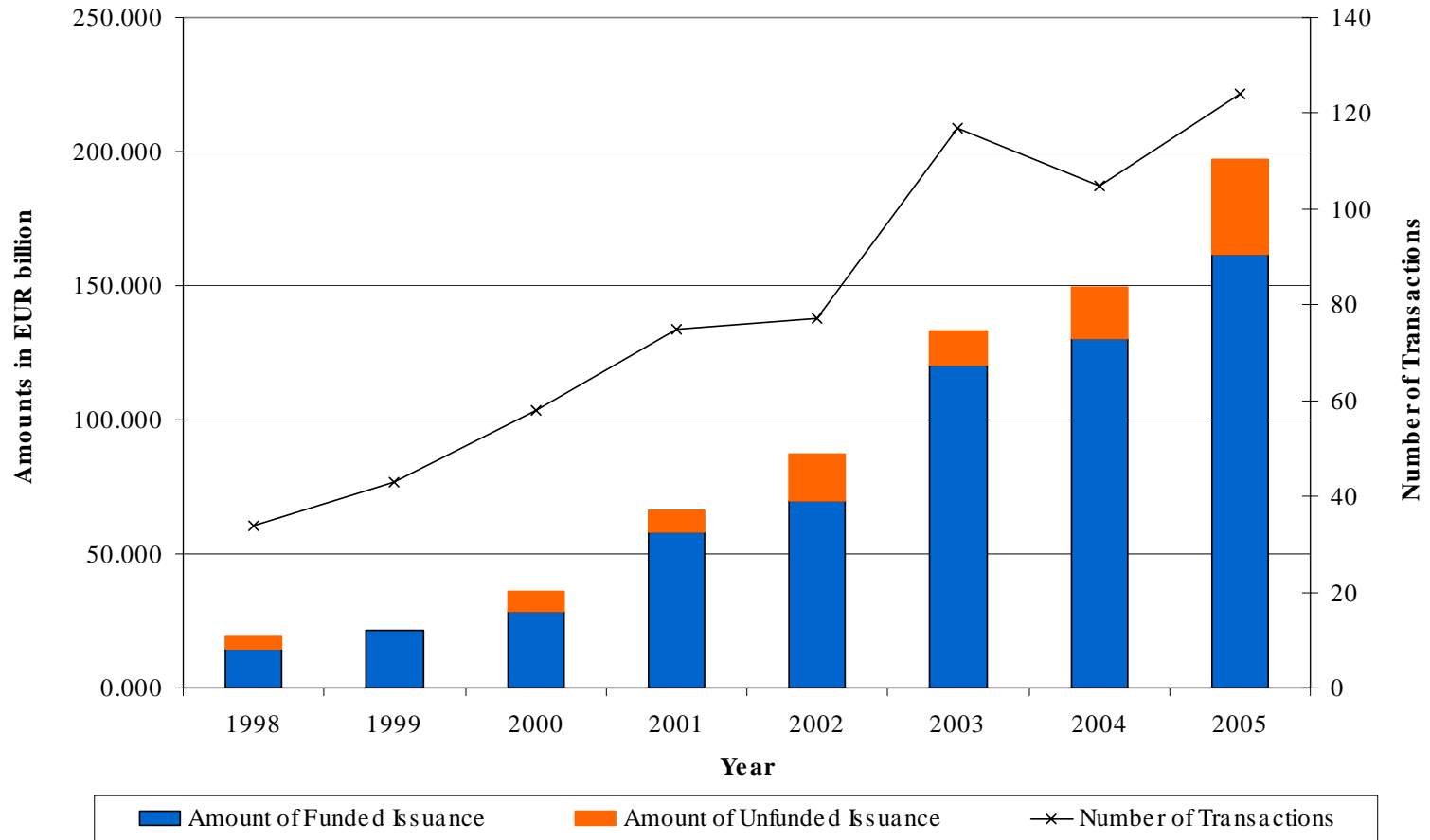
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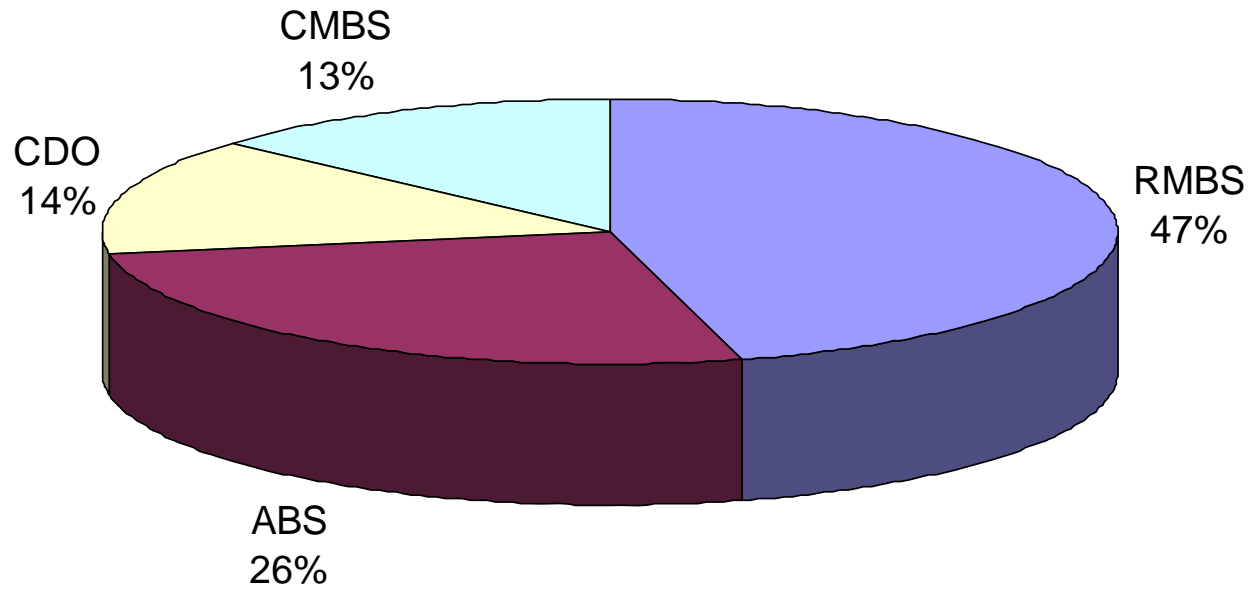


Moody's Investors Service

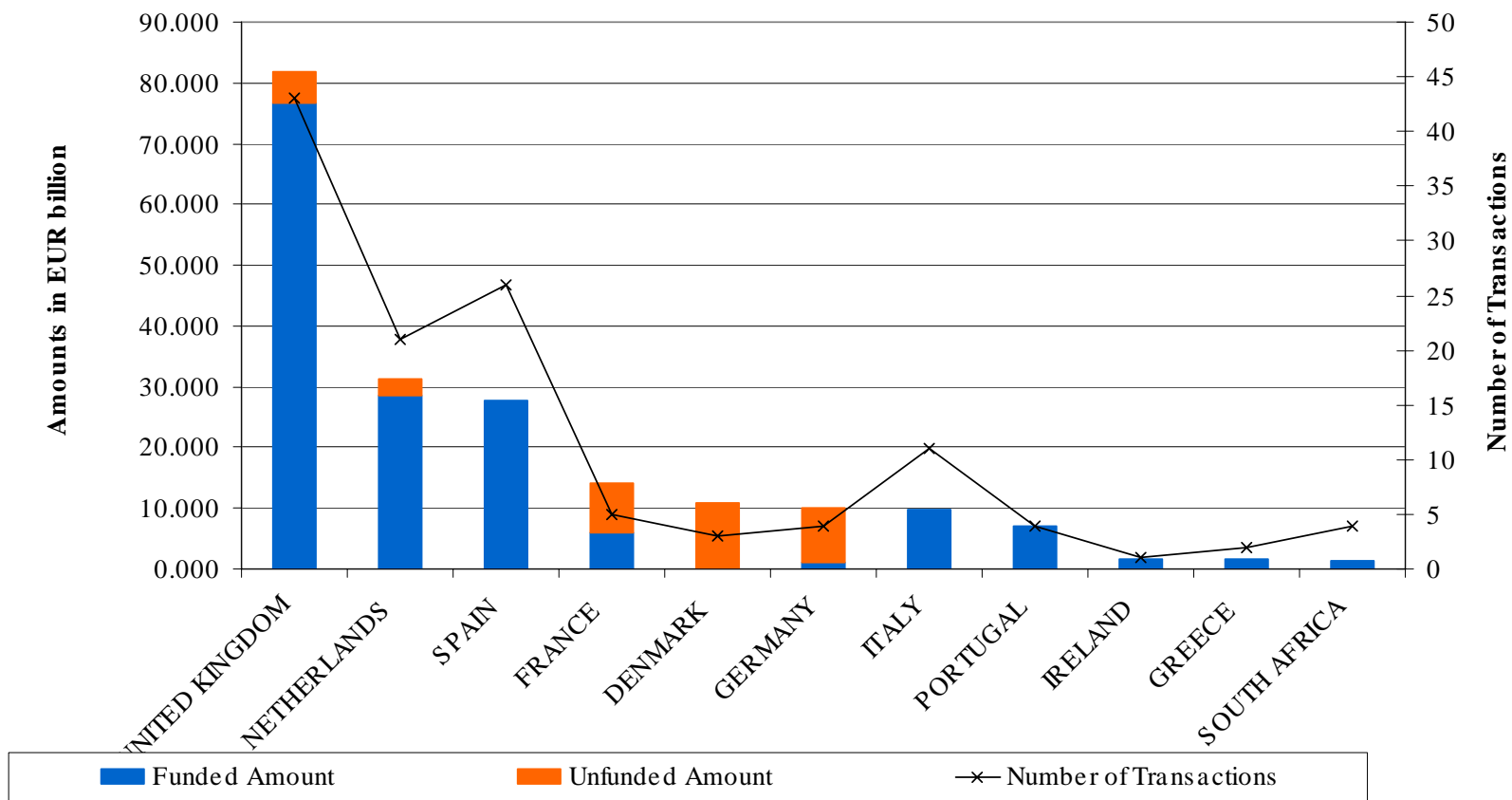
RMBS Growth in EMEA



EMEA Securitisation 2005 Volume – by Asset Class

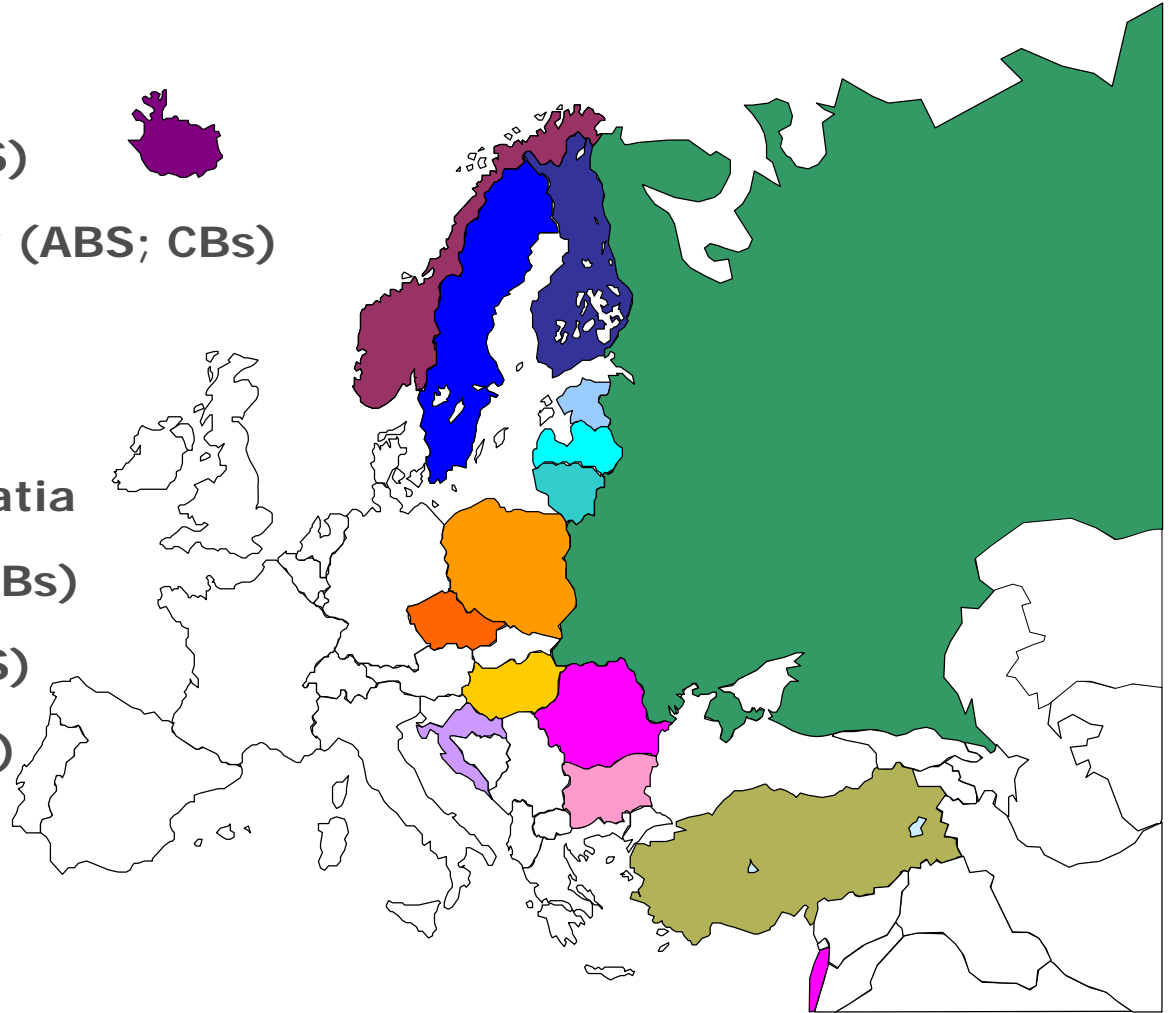


RMBS Distribution by Country – EMEA 2005



New Markets

- Russia & CIS (MBS, ABS)
- Poland, Czech, Hungary (ABS; CBs)
- Baltics (MBS)
- Nordic Region (CBs)
- Romania, Bulgaria, Croatia
- Turkey (FF ABS; MBS; CBs)
- Israel (ABS; CMBS; MBS)
- Persian Gulf (ABS; MBS)
- Africa





Moody's Rating Methodology



Moody's Rating Scale

<u>Quality of credit</u>	long term	short term	
Gilt edged	Aaa		Investment Grade
Very high	Aa1 Aa2 Aa3	Prime-1	
Upper-medium	A1 A2 A3	Prime-2	
Medium grade	Baa1 Baa2 Baa3	Prime-3	
Questionable	Ba1 Ba2 Ba3		
Poor quality	B1 B2 B3	Not Prime	
Very poor	Caa1 Caa2 Caa3 Ca C		Speculative Grade



Moody's Rating – Expected Loss

- Ratings measure credit risk
 - Probability of a default
 - Severity of a loss

■ Expected loss = Probability of default x Severity

- **Example:**

- Prob. Def. = 5%
- Severity of Loss = 20% (recovery rate = 80%)

– EL = 5% x 20% = 1%

– And, if the average life of the security is 6 years...

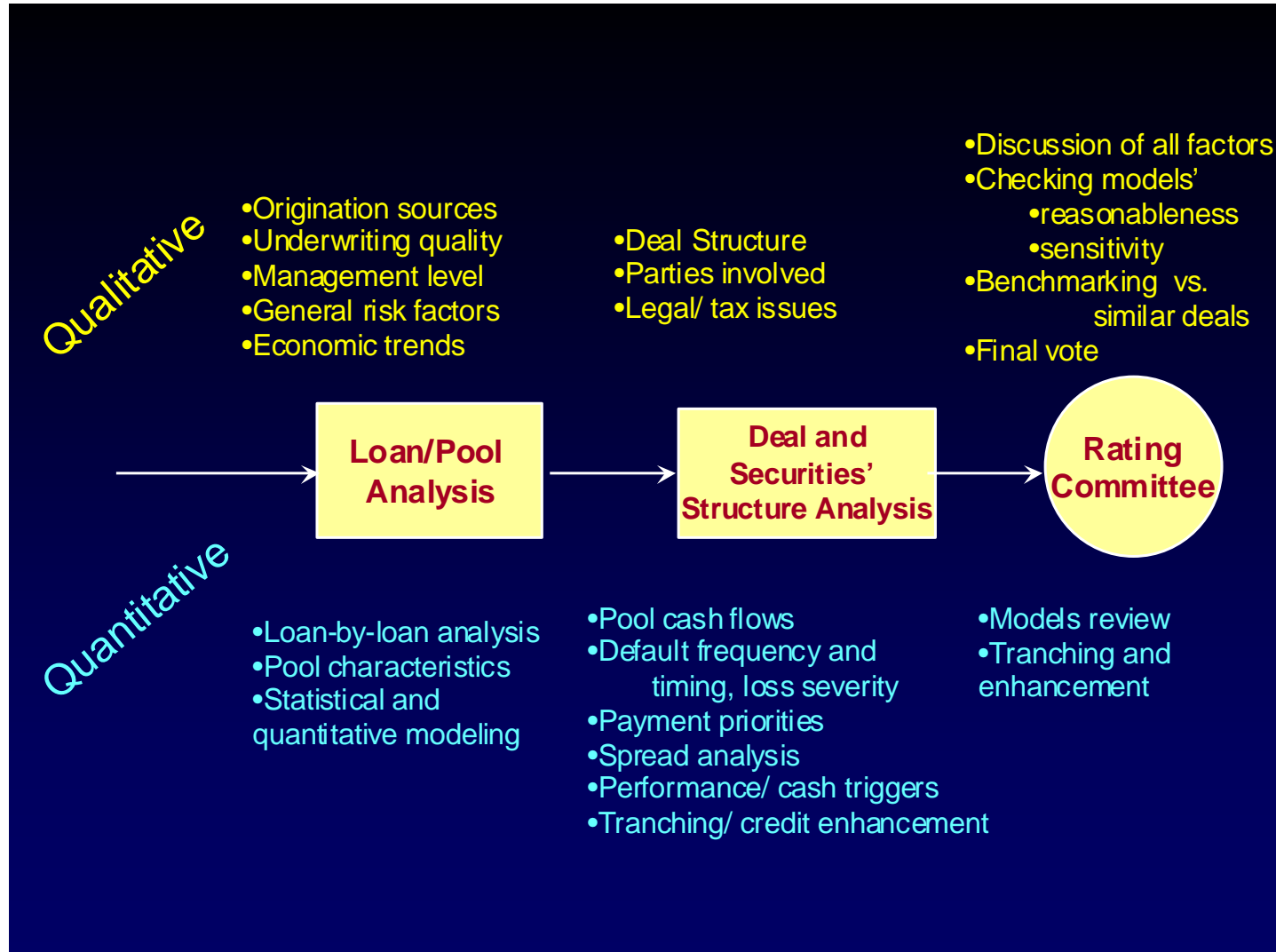


Moody's Idealised Expected Loss Table

Rating	Year									
	1	2	3	4	5	6	7	8	9	10
Aaa	0.00003%	0.00011%	0.00039%	0.00099%	0.00160%	0.00220%	0.00286%	0.00363%	0.00451%	0.00550%
Aa1	0.00031%	0.00165%	0.00550%	0.01155%	0.01705%	0.02310%	0.02970%	0.03685%	0.04510%	0.05500%
Aa2	0.00075%	0.00440%	0.01430%	0.02585%	0.03740%	0.04895%	0.06105%	0.07425%	0.09020%	0.11000%
Aa3	0.00166%	0.01045%	0.03245%	0.05555%	0.07810%	0.10065%	0.12485%	0.14960%	0.17985%	0.22000%
A1	0.00320%	0.02035%	0.06435%	0.10395%	0.14355%	0.18150%	0.22330%	0.26400%	0.31515%	0.38500%
A2	0.00598%	0.03850%	0.12210%	0.18975%	0.25685%	0.32065%	0.39050%	0.45595%	0.54010%	0.66000%
A3	0.02137%	0.08250%	0.19800%	0.29700%	0.40150%	0.50050%	0.61050%	0.71500%	0.83600%	0.99000%
Baa1	0.04950%	0.15400%	0.30800%	0.45650%	0.60500%	0.75350%	0.91850%	1.08350%	1.24850%	1.43000%
Baa2	0.09350%	0.25850%	0.45650%	0.66000%	0.86900%	1.08350%	1.32550%	1.56750%	1.78200%	1.98000%
Baa3	0.23100%	0.57750%	0.94050%	1.30900%	1.67750%	2.03500%	2.38150%	2.73350%	3.06350%	3.35500%
Ba1	0.47850%	1.11100%	1.72150%	2.31000%	2.90400%	3.43750%	3.88300%	4.33950%	4.77950%	5.17000%
Ba2	0.85800%	1.90850%	2.84900%	3.74000%	4.62550%	5.37350%	5.88500%	6.41300%	6.95750%	7.42500%
Ba3	1.54550%	3.03050%	4.32850%	5.38450%	6.52300%	7.41950%	8.04100%	8.64050%	9.1905%	9.7130%
B1	2.57400%	4.60900%	6.36900%	7.61750%	8.86600%	9.8395%	10.5215%	11.1265%	11.6820%	12.2100%
B2	3.93800%	6.41850%	8.55250%	9.9715%	11.3905%	12.4575%	13.2055%	13.8325%	14.4210%	14.9600%
B3	6.39100%	9.13550%	11.5665%	13.2220%	14.8775%	16.0600%	17.0500%	17.9190%	18.5790%	19.1950%
Caa	14.3000%	17.8750%	21.4500%	24.1340%	26.8125%	28.6000%	30.3875%	32.1750%	33.9625%	35.7500%



Rating Process: Qualitative and Quantitative



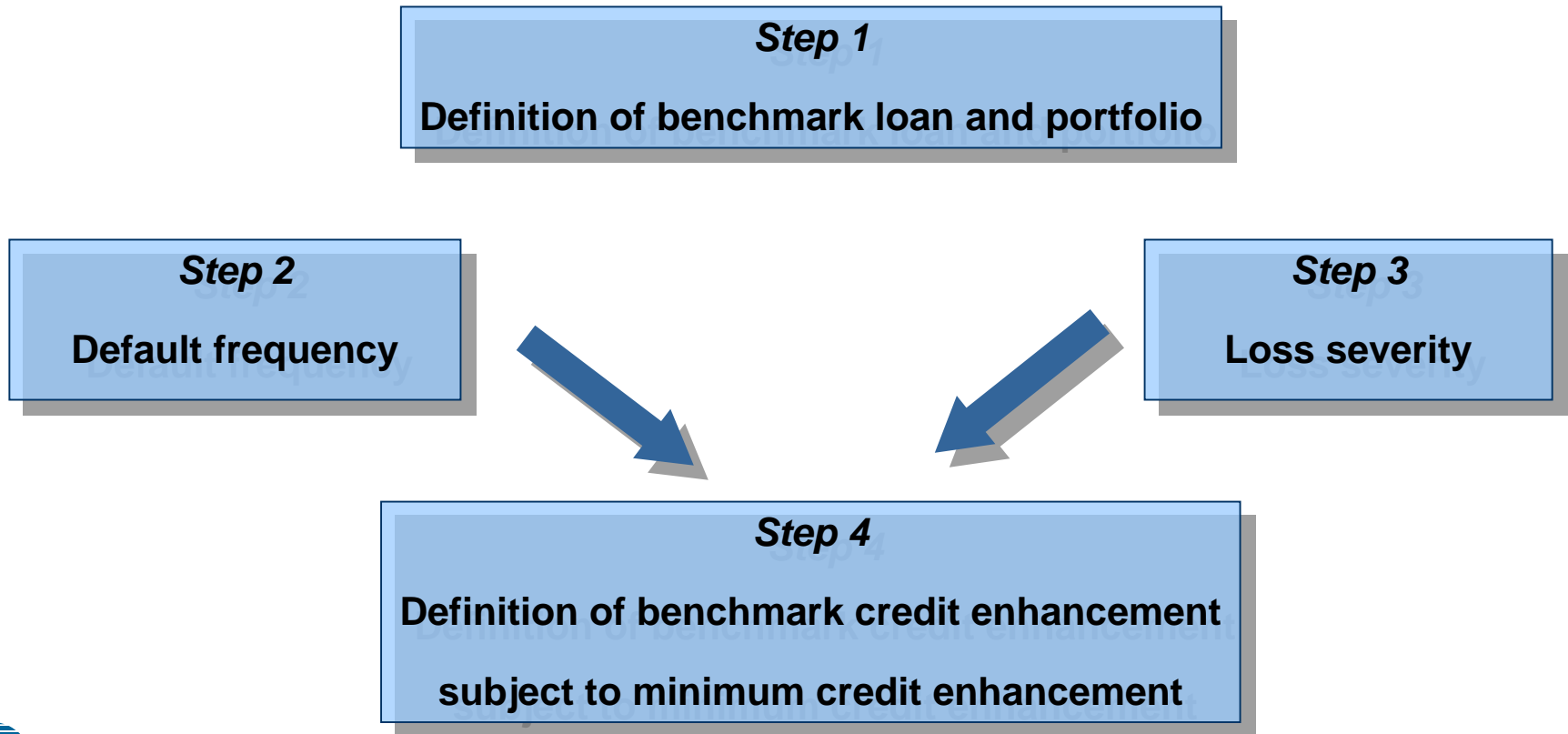
MILAN –Standardised Scoring Model

- MILAN is the result of an in depth analysis and comparison of major EMEA RMBS markets
- Although being a standardised model, each MILAN version addresses specific features for each country
- MILAN is a **Scoring Model**, which scores each single loan compared to a benchmark loan and the total portfolio to a benchmark portfolio
- Defines “**Adjusted MILAN CE**” the committed credit enhancement level that is necessary in a simple pass-through transaction to get to target rating



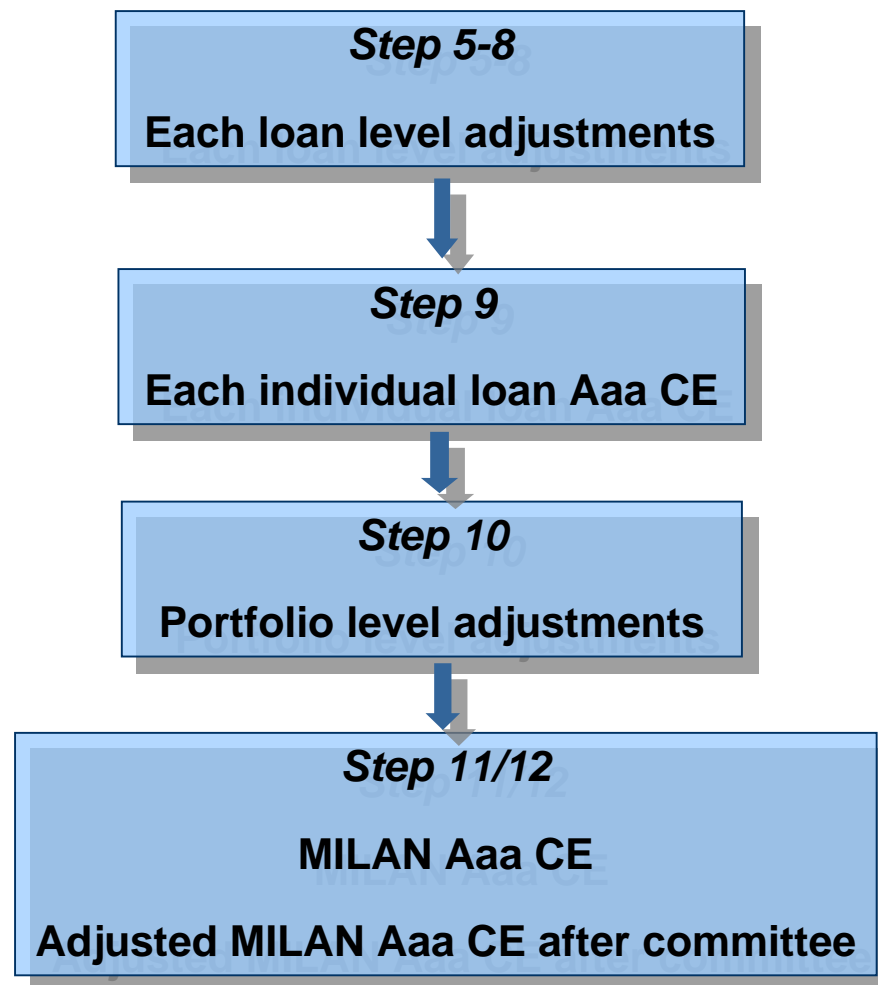
Overview of MILAN

MILAN at a Glance - Steps 1 to 4



MILAN at a Glance (2)

MILAN at a Glance - Steps 5 to 12



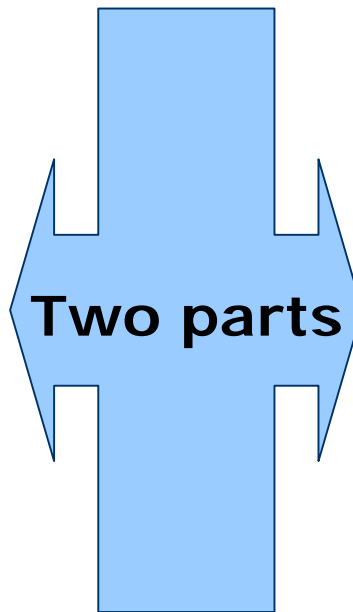
Benchmark Credit Enhancement

Definition and Basis

- Benchmark credit enhancement (“CE Bench”) is the expected loss of a benchmark loan in a recessive scenario

Default frequency
based on:

- Loan-to-Value ratio
(LTV)

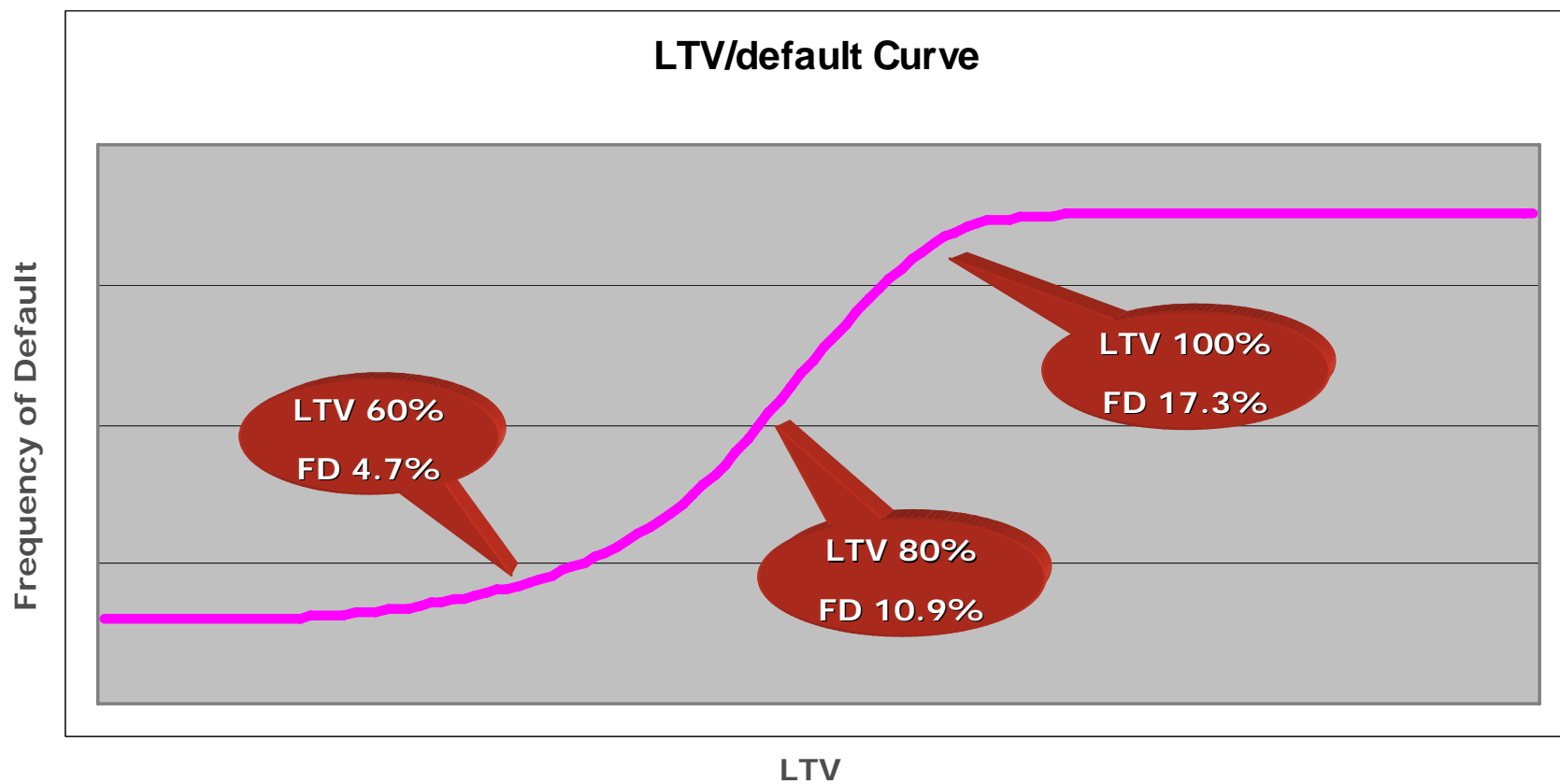


Loss severity based on:

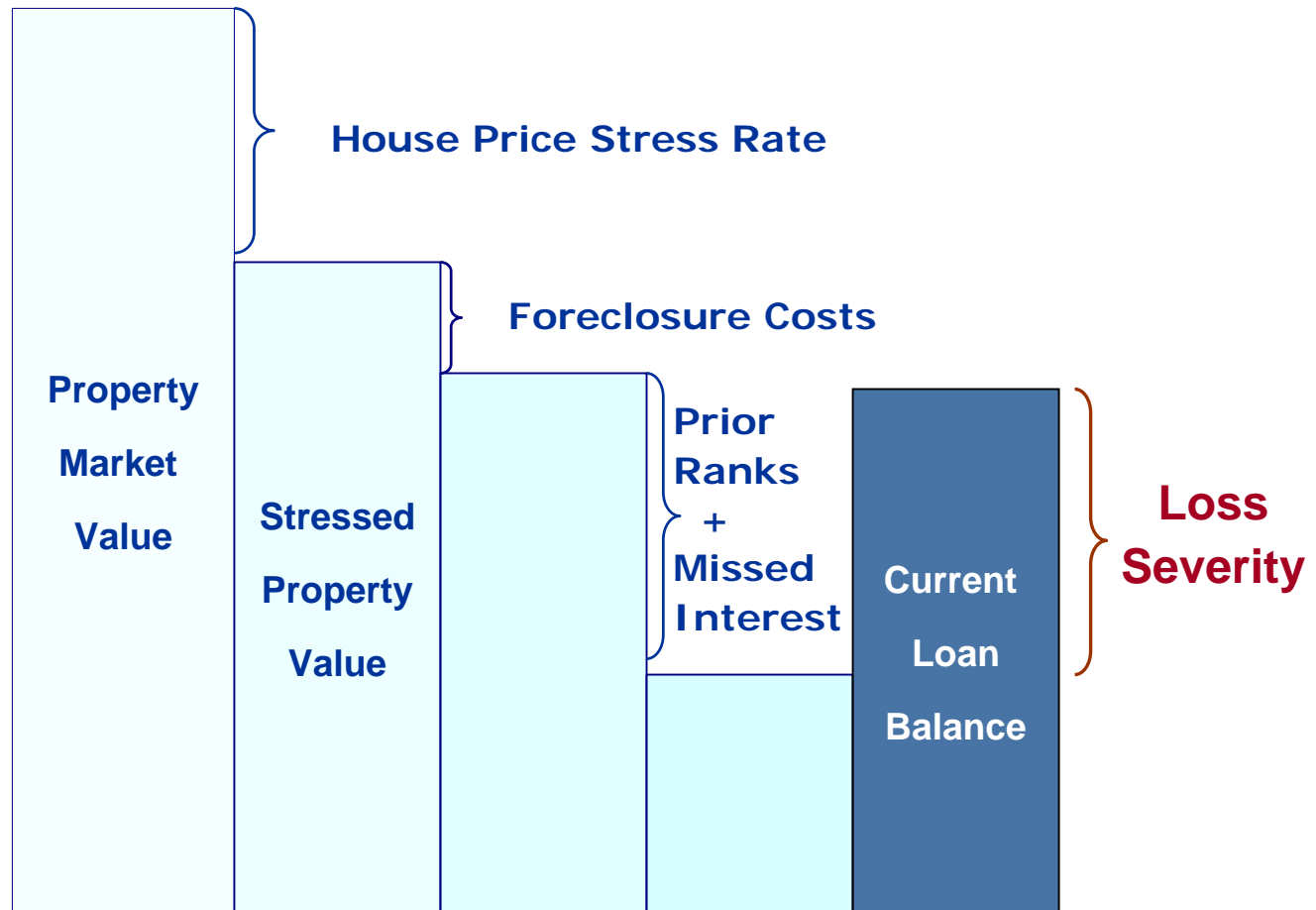
- costs of foreclosure
- time to foreclosure
- missed interest
- minimum CE
- house price stress



LTV/Default Curve Example



Loss severity



MILAN Aaa CE – Example

CE Bench	7.06%
1. Property Adjustments	3.53%
2. Loan Adjustments	1.06%
3. Borrower Adjustments	3.53%
4. Performance Adjust.	0.00%
5. Originator/Servicer	0.76%
Min Aaa CE	4.00%
MILAN Aaa CE each loan	15.94%
6. Portfolio Adjustments	1.40%
MILAN Aaa CE for Portfolio	17.34%
Adjusted MILAN Aaa CE	17.50%



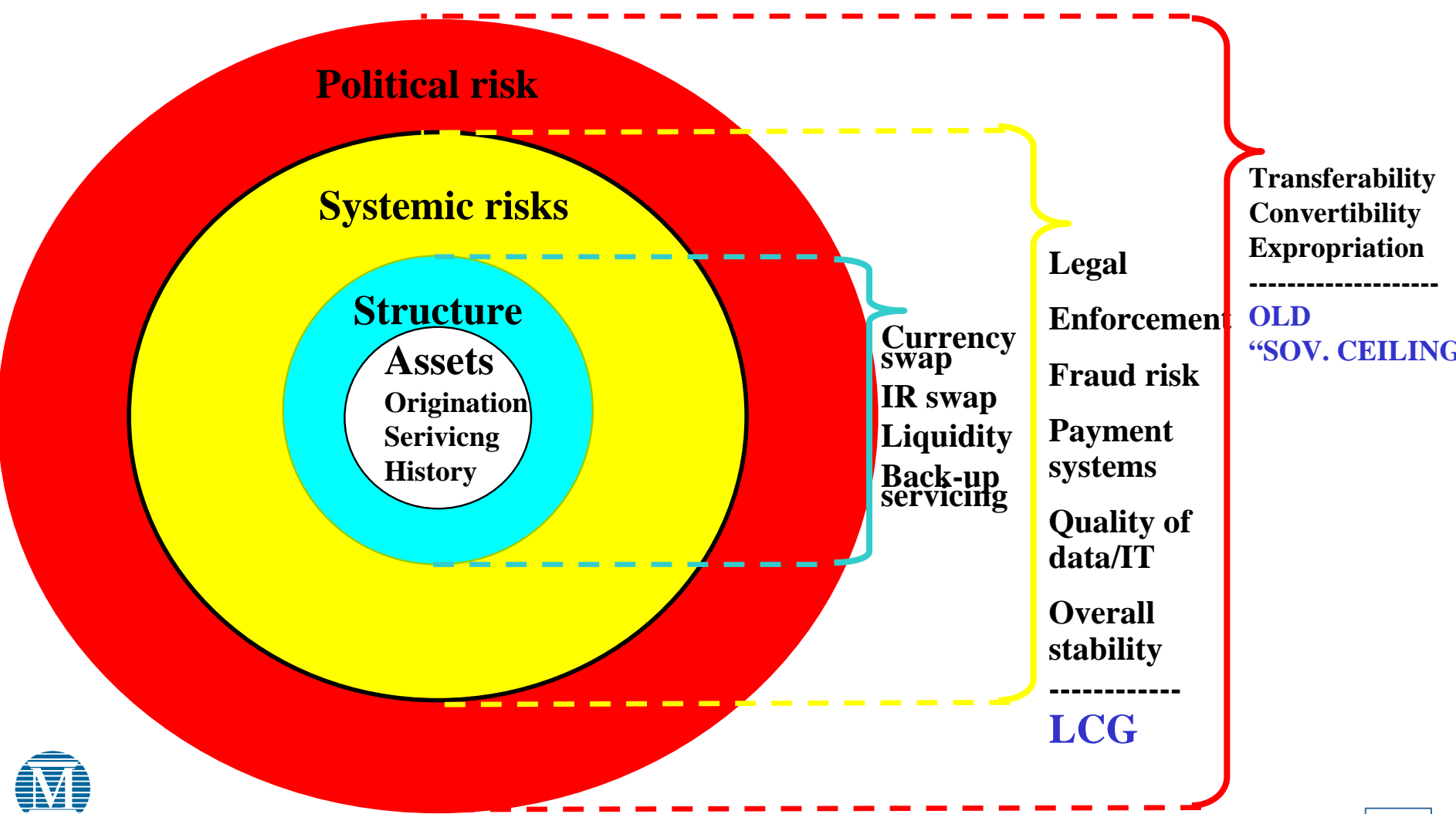
Example - Borrower Adjustment

Borrower Type	Adjustment Factor
Employed with subsidy	10%
Civil Servant	- 30%
Unemployed	30%
Self employed	25%
Company	40%
Student	30%
Pensioner	30%*
Other/ No Data	40%

*This can vary on a case-by-case basis, depending on the transaction



Risk Layers and Typical Issues In New Markets

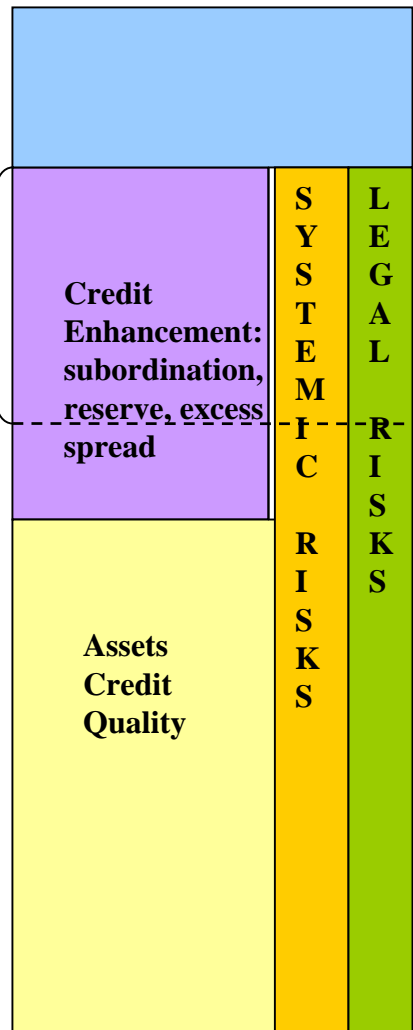


Piercing the Sovereign Ceiling – How?

A rating can exceed the LCG only by an external guarantee or insurance “wrap”

1) Due to **joint default method**, sovereign ceiling may be pierced based on highly rated LC obligation combined with low moratorium risk.

2) Otherwise through **liquidity facility or political risk insurance**



Aaa

Country's local currency Guidelines (LCG)
Aa3 for Romania

Country's foreign currency rating (“sovereign ceiling”)
Ba1 for Romania



Suggestions – **Early** Preparation For a Transaction

- Discuss legal issues with lawyers and rating agency
- Decide and discuss rating target
 - See what enhancement/structure may be needed
- Prepare portfolio data, including data format
- Prepare historical performance data
- Consider back-up servicer
- Determine structure
 - External support? (PRI, wrap, guaranty)



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