Moody's Outlines Credit Factors of Subprime Securities Performance for House Subcommittee

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NEW YORK--(BUSINESS WIRE)--

Moody's Investors Service Team Managing Director Warren Kornfeld testified today before the U.S. House of Representatives Subcommittee on Financial Institutions and Consumer Credit to provide Moody's views on the performance of subprime mortgage securitizations and outline the credit factors that Moody's considers when rating mortgage-backed securities.

Mr. Kornfeld noted that the majority of the subprime mortgages contained in the bonds that Moody's has rated and that were originated between 2002 and 2005 have been performing better than historical experience might have suggested. In contrast, the mortgages that were originated in 2006 are not performing as well, however they are performing in line with mortgages originated in 2000 and 2001.

"From 2003 to 2006, Moody's cumulative loss expectations for subprime mortgage securitizations steadily increased, by approximately 30%, in response to the increasing risk characteristics of subprime mortgage loans and changes in our market outlook," Mr. Kornfeld said. "As Moody's loss expectations have increased, the amount of loss protection on bonds we have rated has also increased. Consequently, bonds issued in 2006 and rated by Moody's have greater amounts of credit enhancement when compared to similarly rated bonds that were issued in prior years."

Mr. Kornfeld also explained that while the employment outlook today is stronger than in the post-2000 period, the outlook for other major drivers of mortgage losses - home price appreciation, interest rates and refinancing opportunities - is less favorable. "As a result, Moody's is currently projecting that cumulative losses for loans backing 2006 subprime securitizations will generally range between 6% and 8%, though particularly strong or poor performing pools may fall outside of this range."

He also noted that Moody's believes loan modifications are an important tool to mitigate losses. "Loan modifications, when used judiciously, can mitigate losses on mortgage loans and increase the likelihood that bonds will be paid," Mr. Kornfeld said. "So, while loan modifications cannot eliminate losses or generate more credit enhancement for a transaction, we believe that they can typically have positive credit implications for securities backed by subprime mortgage loans."

About Moody's Investors Service

Moody's Investors Service is a leading provider of credit ratings, research, and risk analysis. Moody's commitment and expertise contributes to stable, transparent and integrated financial markets, protecting the integrity of credit. The firm's ratings and analysis track debt covering more than 100 sovereign nations, 12,000 corporate issuers, 29,000 public finance issuers, and 96,000 structured finance obligations. Moody's also publishes credit opinions, research and commentary, serving more than 9,300 customer accounts at some 2,400 institutions around the globe. Moody's Investors Service is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of $2.0 billion in 2006, employs approximately 3,400 people worldwide and maintains a presence in 27 countries. Additional information about the company is available at www.moodys.com.

Source: Moody's

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