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Structured Finance

Special Report

Structured Finance Credit Action Report: First-Quarter 2008

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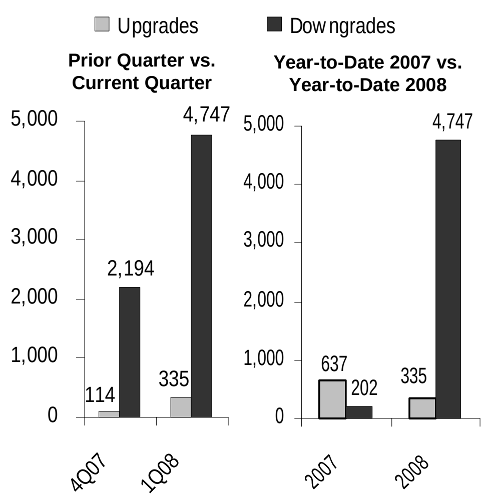
Related Research

- "2008 Global Structured Finance Outlook — Economic and Sector-by-Sector Analysis," dated Jan. 15, 2008

Sectors discussed in this report include: term asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), and residential mortgage-backed securities (RMBS).

Upgrades and Downgrades — Structured Finance
(No. of Rating Actions)



Note: There were 1,539 upgrades and 4,835 downgrades in 2007.

Summary

This report highlights credit trends and rating actions taken by Fitch Ratings in the U.S. RMBS, nonmortgage ABS, and CMBS sectors during the first quarter of 2008.

- Accelerating home price declines and the collapse of the U.S. subprime mortgage market have been the primary catalyst for disruption in the credit markets. Although subprime and Alt-A residential mortgage-backed securities (RMBS) have been most directly affected by these events, the fallout has had a cascading effect, triggering deterioration in collateral and ratings performance, on a relative basis, across virtually all structured finance sectors.
- Although there are early indications that liquidity conditions in the credit markets are beginning to recover, Fitch believes the U.S. economy is undergoing a shift that poses long-term challenges to the health of the consumer. Mounting job losses, higher prices on food and energy products, and the overhang from falling home prices are making it increasingly difficult for households to make ends meet. These factors are having both direct and indirect consequences for collateral and ratings performance across most structured finance sectors.

First-Quarter Highlights

- Collateral and ratings performance migrated lower in the first quarter of 2008, as spillover effects of problems in the RMBS collateral continued to send shockwaves through the structured finance markets.
- In the first quarter of 2008, Fitch issued 335 upgrades and 4,747 downgrades in the U.S. ABS, RMBS, and CMBS sectors, compared with 637 upgrades and 202 downgrades during the same period in 2007.
- For the year ended Dec. 31, 2007, Fitch issued 1,539 upgrades and 4,835 downgrades in the U.S. ABS, RMBS, and CMBS sectors.
- Overall, the upgrade-to-downgrade ratio decreased to 0.07:1, compared with 0.3:1 at the end of 2007 and 3.2:1 during the same period in the prior year.
- Negative rating actions were amplified by the RMBS and ABS downgrades related to Fitch's downgrades of the insurer financial strength (IFS) of eight financial guarantors.
- Mortgage performance has deteriorated markedly over the past several months, and Fitch has adjusted its projections accordingly. Fitch attributes this deterioration largely to the dramatic contraction in mortgage origination and securitization markets. In Fitch's opinion, this contraction has contributed to an acceleration and deepening of home price declines and, for many borrowers, has eliminated the option to sell or refinance a home to avoid foreclosure. Additionally, the apparent willingness of borrowers to walk away from mortgage debt has contributed to extraordinarily high levels of early default, which is particularly noticeable in the 2007 vintage mortgages.
    - As a result, Fitch increased its loss expectations for subprime RMBS that are backed predominately by first lien mortgages originated in 2006 and the first half of 2007. Average cumulative loss expectations, as a percentage of the initial securitized balance, are 21% and 26%, respectively.

  - In addition to raising loss expectations, Fitch has also raised the minimum loss coverage ratios (LCRs) for certain rating categories. This change was intended to provide greater rating stability in an environment of continued stress in the real estate markets and the broader economy. As a result of these revisions, Fitch affirmed 712 'AAA' rated classes, totaling $72 billion, and downgraded 581 classes, totaling $73 billion, of the 2006 and 2007 subprime RMBS. Approximately 184 classes remain on Rating Watch Negative.
- Falling home prices and fallout from the subprime mortgage crisis is also having a knock-on effect on asset performance in U.S. nonmortgage consumer ABS. In line with Fitch's year-end outlook, both credit cards and auto loan sectors have seen higher delinquencies in prime and subprime segments on a year-over-year basis. Fitch acknowledges that these sectors are particularly sensitive to changes in the economic environment, most notably changes in employment, income growth, and personal bankruptcies. While increasing economic pressures have raised concerns about the long-term health of the consumer, Fitch maintains its view that these sectors will be able to avoid broad and steep negative rating actions.
- In fact, year to date, the majority of ABS rating actions taken in the first quarter were not performance related. Rather, most downgrades taken so far this year in nonmortgage collateral were the result of negative rating actions taken on transactions supported by financial guaranty policies.
- Despite rising delinquencies and chargeoffs, which are approaching multiyear highs, U.S. credit card ABS continue to generate robust levels of excess spread and, thus, are able to withstand higher losses. Furthermore, it should be noted that increases in delinquencies and losses are coming off historically low levels experienced during the 2005–2007 period.
- In the auto loan sector, prime and subprime annualized net losses (ANLs) are also expected to continue to increase throughout the remainder of the year. However, collateral performance for the majority of transactions remains in line with expectations.
  - While federally guaranteed student loan performance has been relatively stable, private student loans have recently shown deterioration in delinquency rates. Additionally, disruptions have occurred in the auction-rate market, where much of the U.S. student loan paper has traditionally been placed. Protracted dislocation could put negative pressure on subordinate ratings of certain student loan trusts.
- Commercial real estate fundamentals continue to remain stable. Fitch expects loan delinquencies to rise modestly during 2008 but continue to remain low on a historical basis. The contraction of the credit markets has focused attention on the performance of maturing loans and refinancing prospects. Fitch found that, despite market issues, approximately 99% of all maturing fixed-rate mortgages still refinanced. A total of 3,354 U.S. CMBS fixed-rate loans with a balance of $21.4 billion have been refinanced since Aug. 1, 2007. Fitch also found that 88% of its floating-rate universe either has refinanced or is expected to refinance.

U.S. Term ABS

- In the first quarter, ended March 31, 2008, Fitch issued 250 upgrades and 505 downgrades, compared with a total of 233 upgrades and 61 downgrades for the full year in 2007. Nearly 93%, or 466, of total negative rating activity in the first three months of 2008 was attributable to downgrades of the IFS ratings of certain financial guarantors.
- Absent the financial guarantor downgrades, the upgrade-to-downgrade ratio was 6.4:1 in nonmortgage ABS. Including the financial guarantor downgrades, the ratio declined to 0.5:1, compared with 2.4:1 in the fourth quarter of 2007 and 3.8:1 for all of 2007.

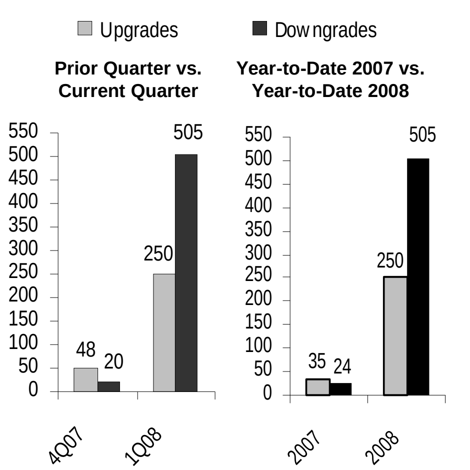
U.S. Structured Finance — Upgrades and Downgrades

(Years Ended Dec. 31)

	Upgrades	Downgrades	Classes Outstanding	% of Total Tranches Outstanding Upgrades	Downgrades	Difference (%)
2008*						
ABS	250	505	5,688	4.4	8.9	(4.5)
RMBS	16	4,203	48,283	0.0	8.7	(8.7)
CMBS	69	39	7,063	1.0	0.6	0.4
Total/Average	335	4,747	61,034	0.5	7.8	(7.2)
2007						
ABS	233	61	5,783	4.0	1.1	3.0
RMBS	530	4,704	47,987	1.1	9.8	(8.7)
CMBS	776	70	7,166	10.8	1.0	9.9
Total/Average	1,539	4,835	60,936	2.5	7.9	(5.4)
2006						
ABS	205	77	5,744	3.6	1.3	2.2
RMBS	1,059	501	37,738	2.8	1.3	1.5
CMBS	1,740	50	6,038	28.8	0.8	28.0
Total/Average	3,004	628	49,520	6.1	1.3	4.8

*Data through March 2008. Note: Numbers may not add due to rounding. Source: Fitch Ratings.

Upgrades and Downgrades — ABS
(No. of Rating Actions)



Note: There were 233 upgrades and 61 downgrades in 2007.

- Fitch expects the proportion of upgrades to downgrades to continue to remain under pressure for the duration of 2008 on a relative basis, due to economic concerns. It should be noted that the majority of downgrades taken so far this year in nonmortgage collateral were the result of negative rating actions taken on ABS transactions supported by financial guaranty policies and, thus, were not performance related.
- Downgrades in the first quarter occurred as shown in the chart on page 8.
- Excluding negative rating actions associated with downgrades on wrapped transactions, there were a total of 39 downgrades.
- Negative rating actions attributable to downgrades of insurers providing guarantees to specific transactions took place in the student loan (402), auto loan (31), rental car (13), insurance-related securities (ILS) (five), aircraft (four), time share (four), and equipment lease (three) sectors. Excluding negative rating actions associated with downgrades on wrapped transactions, there were a total of 39 downgrades. These included negative rating actions in the student loan (17), franchise loan (14), auto loan (three), and ILS (three) sectors. The majority of these rating actions were to transactions that had been previously downgraded.
- Upgrades in tobacco settlement ABS (236) were the result of a review of Fitch's rated portfolio following the agency's upgrade of the tobacco industry.
- Positive rating actions also took place in the auto loan (eight) and equipment lease (six) sectors, reflecting stable collateral performance and increased credit enhancement levels.
- So far this year, Fitch affirmed 1,741 ratings across all nonmortgage ABS sectors. In 2007 Fitch affirmed a total of 4,230 ratings.

Key Rating Highlights

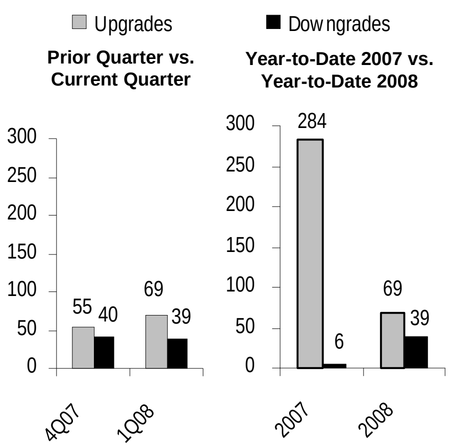
- In the first quarter of 2008, Fitch downgraded 419 classes of notes in the student loan sector, due primarily to negative rating actions on insurance companies providing guarantees to certain transactions. Overall, collateral performance for the majority of student loan trusts has been consistent with or better than expectations from a net default and delinquency perspective.
- Continued disruption in the auction-rate market has resulted in a historical number of auction failures, causing several U.S. ABS trusts containing auction-rate paper to

hit their available funds caps for prolonged periods. Despite this protracted dislocation, student loan ABS trusts with auction-rate debt continue to demonstrate resilience to the penalty rates caused by these failed auctions. As a result, Fitch does not anticipate any near-term rating actions on these trusts, based solely on such increased debt costs.

- In January 2008, Fitch upgraded 236 and affirmed 24 tobacco settlement ABS bond ratings. The agency put its portfolio of tobacco ABS ratings on Rating Watch Positive in September 2007, following Fitch's upgrade of the corporate rating of the domestic tobacco industry to 'BBB' from 'BBB–' with a Stable Rating Outlook on Aug. 29, 2007.
- In the auto loan sector, Fitch upgraded eight classes of notes from six transactions sponsored by Merrill Auto Trust, Chase Auto Owner Trust, DaimlerChrysler Auto Trust, JPMorgan Auto Receivables Trust, and Hyundai Auto Receivables Trust, due to positive collateral performance and improving credit enhancement levels.
- In the equipment lease sector, Fitch upgraded six classes of notes for transactions sponsored by GE Commercial Equipment Financing (two), GE Equipment Small Ticket LLC (one), and CIT Equipment Collateral (three), based on positive collateral performance and improving credit enhancement available to each class of notes.

U.S. CMBS

Upgrades and Downgrades — CMBS
(No. of Rating Actions)



Note: There were 776 upgrades and 70 downgrades in 2007.

- In the first quarter of 2008, Fitch issued 69 upgrades and 39 downgrades on U.S. CMBS transactions, compared with 55 upgrades and 40 downgrades in the fourth quarter of 2007.
- The majority of positive rating actions in the first quarter occurred in multiborrower fixed-rate conduit transactions. Upgrades were the result of increased pay down due to scheduled amortization and payoffs of maturing loans. Defeasance, which had been the primary factor in historical upgrades, has slowed dramatically. Fitch expects defeasance volume to continue to remain low and upgrades to decline from the prior year as a result.
- Small balance U.S. CMBS represented the largest number of downgrades during the first quarter, with 15 tranches being downgraded. Fitch continues to see unusually high delinquency rates in these transactions relative to CMBS. Delinquencies are the result of less sophisticated borrowers, declining property performance in struggling markets, and a high proportion of loans with adjustable-rate mortgage (ARM) resets.
- While upgrades have slowed, Fitch's upgrade-to-downgrade ratio showed only a slight decline from the same period in the past year. The first-quarter 2008 upgrade-to-downgrade ratio is 1.7:1, compared with 1.8:1 for the first quarter of 2007. Fitch expects the upgrade-to-downgrade ratio for 2008 to be substantially lower than the 10.8:1 ratio of 2007, due to less defeasance and decreasing values of distressed properties.

U.S. CMBS Delinquencies in 2008

- Fitch's U.S. CMBS Loan Delinquency Index continues to be at or near historical lows, with a slow rise during the first quarter of 2008. The index began the year at 27 basis points (bps) in January 2008 and increased to 33 bps in March 2008. By comparison, even with a six basis point increase in the first quarter, the index remained stable compared with the same period in 2007, when it was also 33 bps. Fitch expects delinquencies to continue to rise through 2008 and approach 1% by year end.
- Multifamily loans in struggling markets attributed to the recent increase in delinquencies. Fitch continues to see deteriorating multifamily performance in the Texas, Ohio, Michigan, and Indiana markets. Included in the increase of Texas

multifamily delinquency are 28 loans representing $289 million to one sponsor, MBS Cos.

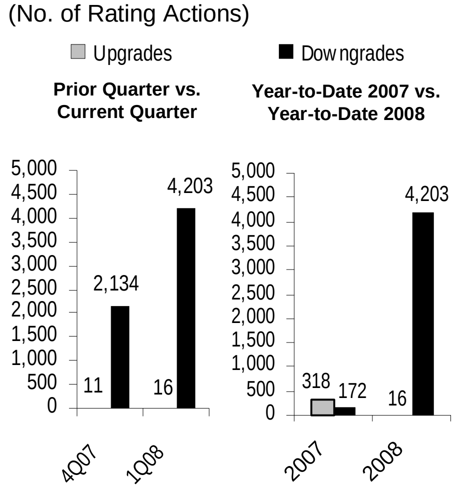
- Fitch has noted an uptick in loans not refinancing precisely at their maturity date. The number of nonperforming matured loans increased year over year, to 11.6% of the index in March 2008 from 2.9% in March 2007. As of March 2008, 44 loans were considered nonperforming matured loans, totaling $213.2 million, compared with seven nonperforming matured loans in 2007, totaling $37.3 million. Although more loans are reaching maturity without financing in place, Fitch has found that most of these loans ultimately do payoff with 60 days of maturity.

Key Rating Highlights

- Downgrades during the first quarter of 2008 were the result of increased loss expectations of current specially serviced loans and new transfers to special servicing. Fitch increased its loss expectations as a result of declining values for assets in struggling markets. Fitch also saw higher defaults of multifamily assets, particularly from Texas. Fitch expects Texas' multifamily properties to continue to struggle as more properties become real estate owned and oversupply puts downward pressure on recoveries.
- Upgrades during the first quarter of 2008 were the result of scheduled amortization and paydown from maturing loans. The 2003 vintage had the most upgrades as a result of five-year loans paying off at maturity. Upgrades were also seen in the 2004 and 2002 vintage transactions. While the 1998 and 1999 vintages benefited from paydown as well, increasing loan concentrations limited upgrades on lower-rated classes.
- Also during the first quarter of 2008, Fitch placed 18 classes from eight transactions on Rating Watch Negative. The majority of classes placed on Rating Watch Negative were from large loan transactions and the result of performance declines in one or more of the underlying loans. Fitch placed the lowest-rated class of the BALL 2006-BIX1 transaction on Rating Watch Negative when two loans transferred to special servicing as a result of maturity defaults. While Fitch does not ultimately expect a principal loss, the transaction may incur interest shortfalls as the special servicer works with the borrower to cure the defaults.

■ U.S. RMBS

Upgrades and Downgrades — RMBS
(No. of Rating Actions)



Note: There were 530 upgrades and 4,703 downgrades in 2007.

- In the first quarter of 2008, Fitch issued 16 upgrades and 4,203 downgrades, compared with 11 upgrades and 2,134 downgrades in the fourth quarter of 2007.
- For the year ended Dec. 31, 2007, Fitch issued 530 upgrades and 4,703 downgrades, compared with 1,059 upgrades and 501 downgrades in 2006.
- The upgrade-to-downgrade ratio declined markedly over the past two quarters, as Fitch revised upwards its loss expectations for subprime residential mortgage-backed securities backed predominantly by first lien mortgages originated in 2006 and the first half of 2007. Additionally, Fitch raised the minimum LCRs for certain ratings categories. With only a small number of positive rating actions taken on a few prime transactions, the upgrade-to-downgrade ratio declined to less than 1.0:1, compared with 0.05:1 for 2007 and 2.1:1 for 2006.
- Negative rating activity occurred predominantly in subprime and Alt-A collateral, accounting for 96.4% of total first quarter rating downgrades. As shown in the chart on page 13, negative rating actions took place in subprime RMBS (3,683), Alt-A RMBS (369), prime RMBS (100), scratch and dent (36), manufactured housing (9), and specialty RMBS (six) sectors.
- Positive rating activity in the first quarter of 2008 took place in the prime RMBS (11) and Alt-A RMBS (five) sectors, compared with a total of 11 upgrades in the previous quarter.

- In the first quarter of 2008, Fitch affirmed 6,249 U.S. RMBS ratings, compared with 10,082 ratings in the prior quarter. Affirmations took place as follows: Alt-A RMBS (2,445); prime RMBS (2,258); subprime RMBS (1,280); scratch and dent (81); manufactured housing (92); and specialty RMBS (67). In 2007, Fitch affirmed a total of 33,931 U.S. RMBS ratings.

Subprime RMBS Rating Highlights

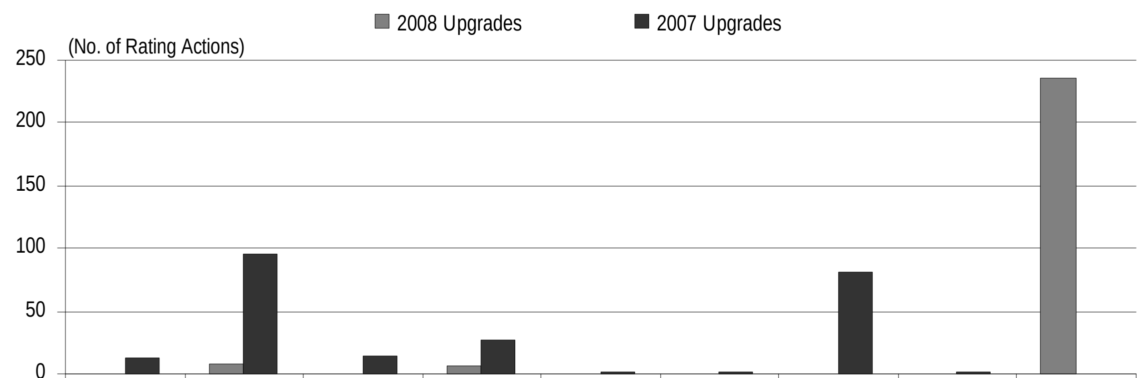
- In the first quarter of 2008, Fitch placed all subprime RMBS backed predominantly by first lien mortgages that originated in 2006 and the first half of 2007 on Rating Watch Negative (RWN). The outstanding balance of the subprime RMBS was approximately $139 billion.
- Fitch's review considered the substantial growth in delinquency pipeline as well as changes to assumptions.
  - Key assumption changes are as follows:
    - Current loan default projections based on six-month historical levels.
    - Worse roll rates for delinquent loans.
    - Simplified assumption for ARM reset.
    - Higher loss severity, reflecting home price decline forecast.
- As a result of these revisions, Fitch affirmed 712 'AAA' rated classes, totaling $72 billion, and downgraded 581 classes, totaling $73 billion, of the 2006 and 2007 subprime transactions. Approximately 184 classes remained on Rating Watch Negative.

ALT-A RMBS Rating Highlights

- In response to rapid deterioration in collateral performance, on March 6, 2008, Fitch initiated an extensive review of Alternative-A transactions originated between 2005 and 2007. Fitch placed 417 Alt-A RMBS transactions, with a total outstanding balance of approximately $160 billion, on RWN.
- As Fitch noted in its press release dated March 6, 2008, serious delinquency levels for these Alt-A vintages have been rising rapidly in recent months. For the 2006 vintage, average 60-day delinquencies for fixed-rate mortgage transactions had reached 6.4% for Fitch-rated deals and 8.6% for the market as a whole. For the 2006 vintage ARMs, Fitch-rated 60-or-more-day delinquencies are 9.6%. The market's delinquencies are 13.6%. While it should be noted that these delinquencies are much lower than those for subprime mortgages (2006 60-or-more-day of 27%), they are substantially higher than historical Alt-A levels, which, for Fitch-rated transactions, averaged about 1%–2%. Fitch has been evaluating each of the rated deals since issuance and, prior to the release date, has taken rating actions on subordinate Alt-A classes from 199 2005–2007 transactions, reflecting the declining collateral performance.

ABS Rating Actions — Upgrades 2007 vs. 2008

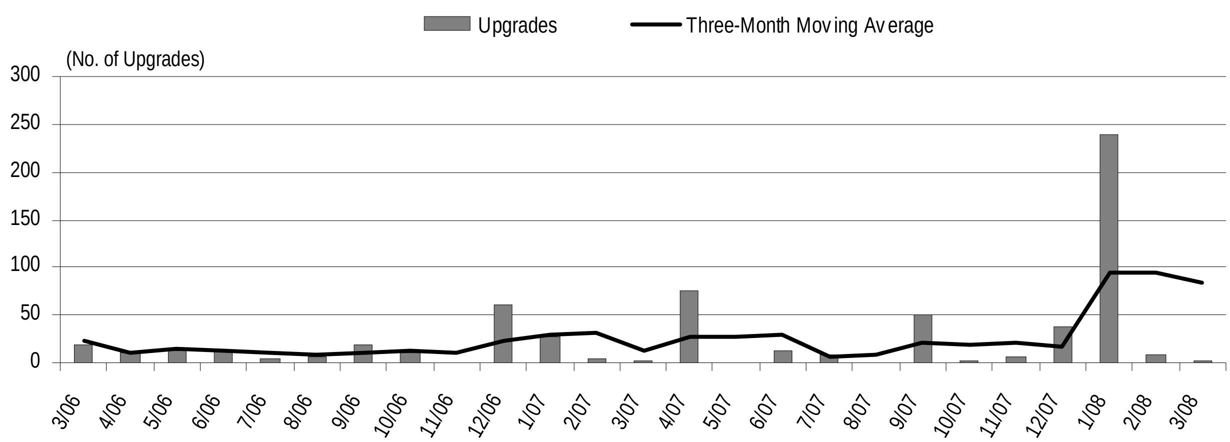
ABS Upgrades by Market Sector
(Full-Year 2007 vs. Year-to-Date 2008)



	Aircraft	Auto Loan/ Lease	Credit Card	Equipment Lease	Insurance Related	Rental Car	Student Loans	Time Share	Tobacco Settlements
2008 Upgrades	—	8	—	6	—	—	—	—	236
2007 Upgrades	13	95	14	27	1	1	81	1	—

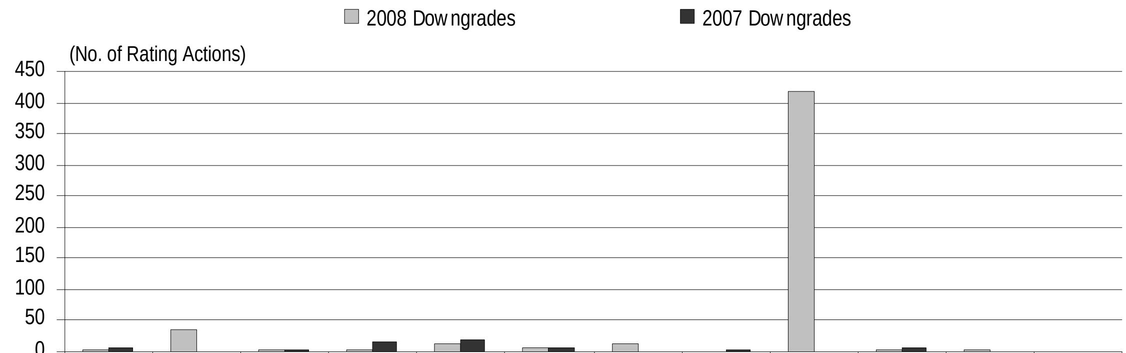
Full-Year 2007 Upgrades: 233 **Year-to-Date 2008 Upgrades: 250**

ABS Upgrades: March 2006–March 2008



ABS Rating Actions — Downgrades 2007 vs. 2008

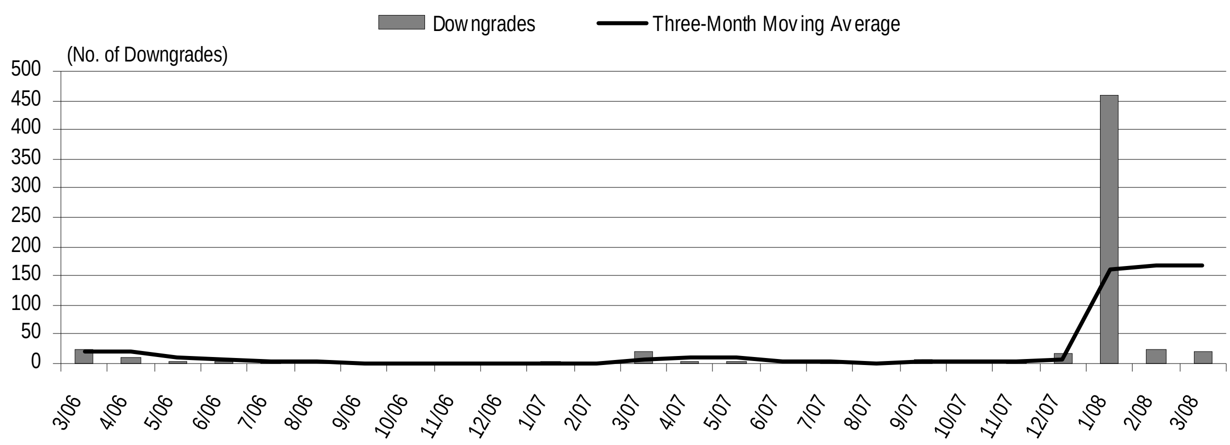
ABS Downgrades by Market Sector
(Full-Year 2007 vs. Year-to-Date 2008)



	Aircraft	Auto Loan/ Lease	Credit Card	Equip. Lease	Frnchse	Insur. Related	Rental Car	Small Business	Student Loans	Struc. Debt/ Rpck	Time Share	Entert./ Intell. Property
2008 Downgrades	4	34	3	3	14	8	13	—	419	3	4	—
2007 Downgrades	5	—	2	17	20	6	—	2	1	7	—	1

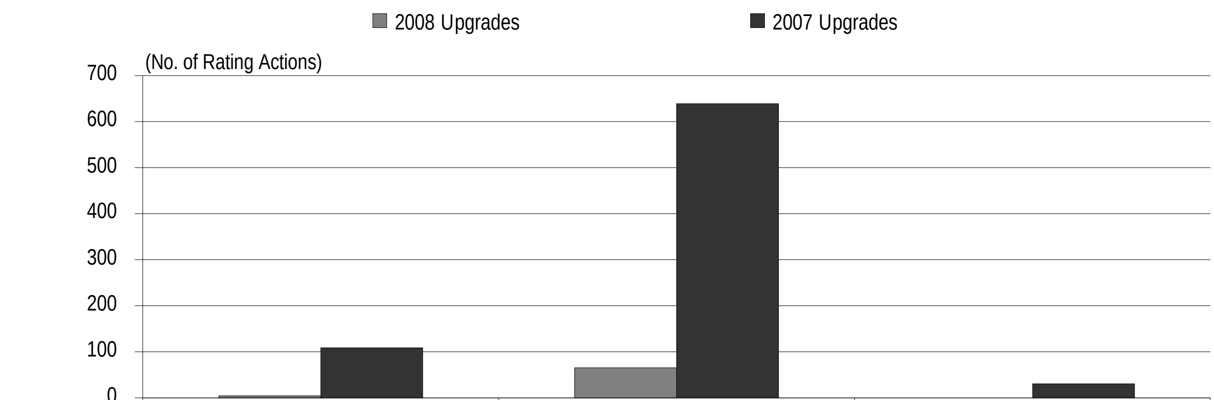
Full-Year 2007 Downgrades: 61 **Year-to-Date 2008 Downgrades: 503**

ABS Downgrades: March 2006–March 2008



■ CMBS Rating Actions — Upgrades 2007 vs. 2008

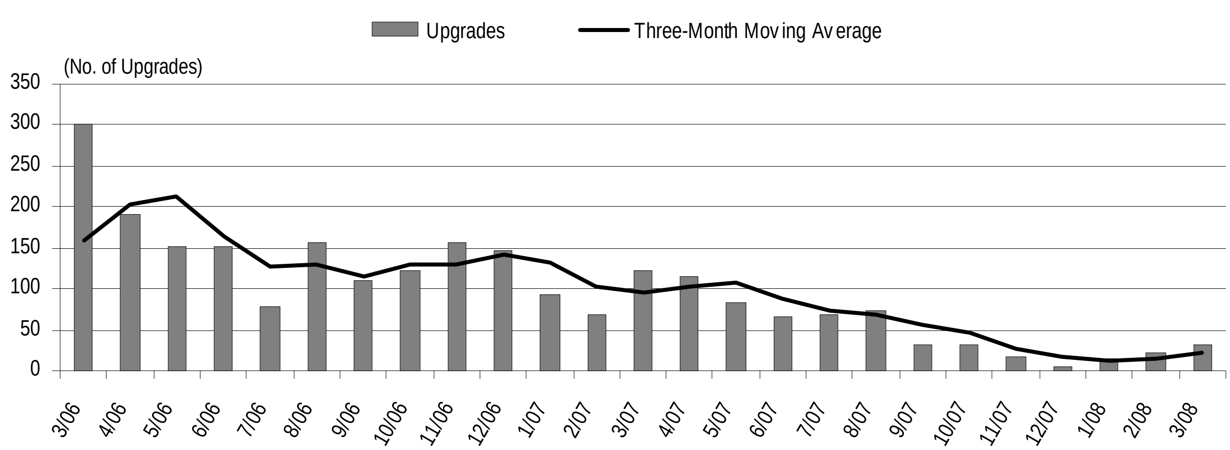
CMBS Upgrades by Transaction Type
(Full-Year 2007 vs. Year-to-Date 2008)



	Large Loan	Multiborrower	Single Borrower
2008 Upgrades	5	64	—
2007 Upgrades	108	637	31

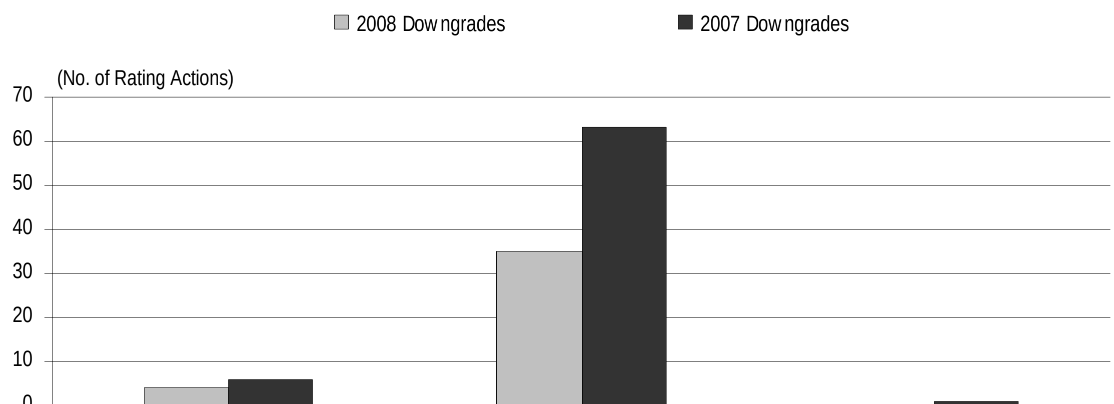
Full-Year 2007 Upgrades: 776 **Year-to-Date 2008 Upgrades: 70**

CMBS Upgrades: March 2006–March 2008



CMBS Rating Actions — Downgrades 2007 vs. 2008

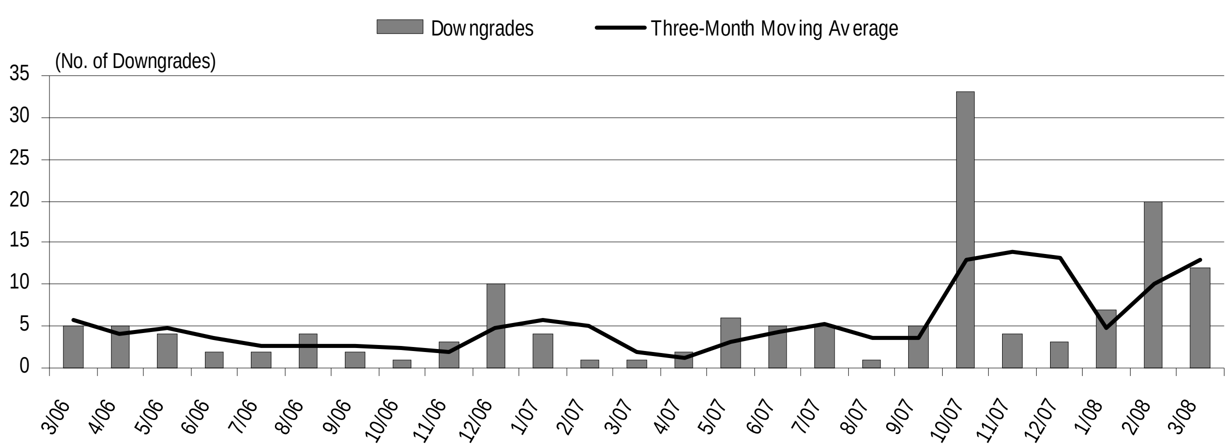
CMBS Downgrades by Transaction Type
(Full-Year 2007 vs. Year-to-Date 2008)



	Large Loan	Multiborrower	Single Borrower
2008 Downgrades	4	35	—
2007 Downgrades	6	63	1

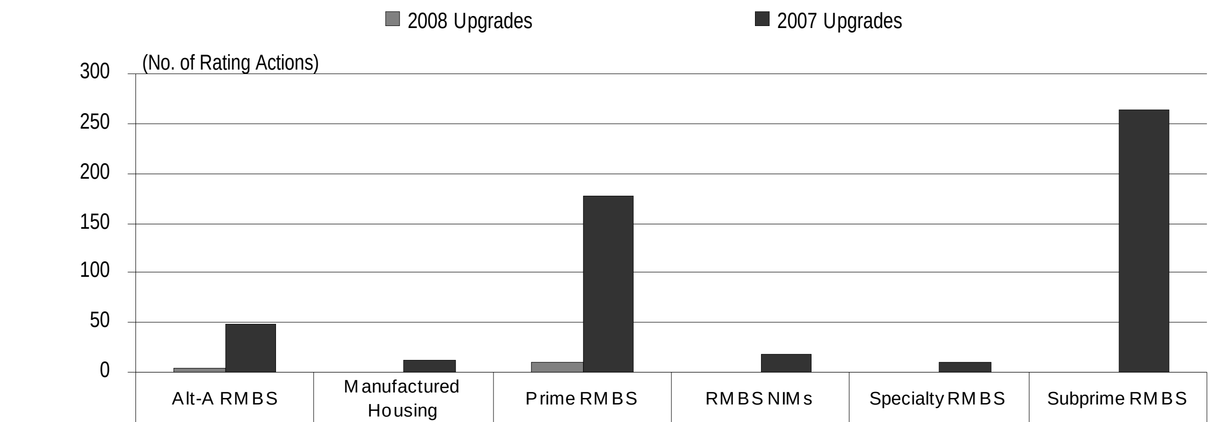
Full-Year 2007 Downgrades: 70 **Year-to-Date 2008 Downgrades: 39**

CMBS Downgrades: March 2006–March 2008



RMBS Rating Actions — Upgrades 2007 vs. 2008

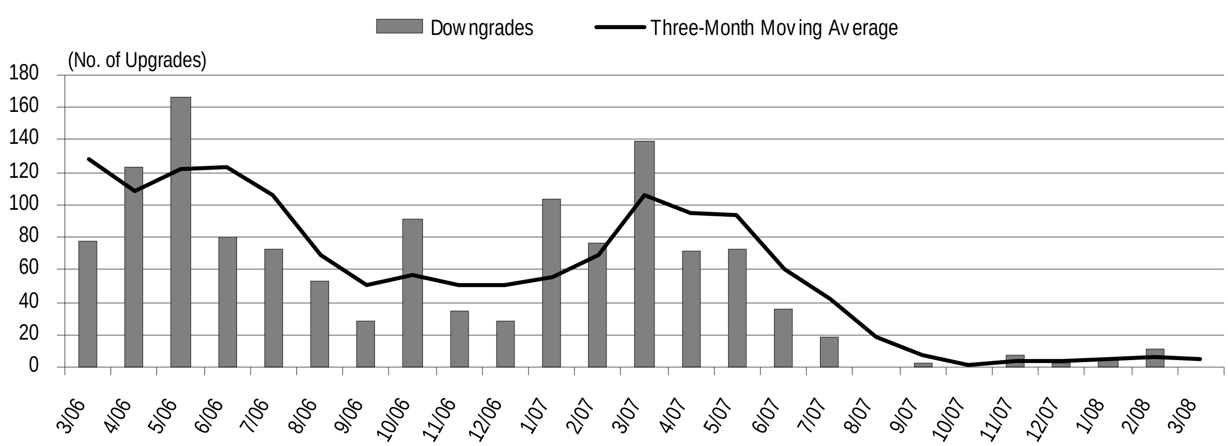
RMBS Upgrades by Asset Type
(Full-Year 2007 vs. Year-to-Date 2008)



	Alt-A RMBS	Manufactured Housing	Prime RMBS	RMBS NIMs	Specialty RMBS	Subprime RMBS
2008 Upgrades	5	—	11	—	—	—
2007 Upgrades	49	12	177	18	11	263

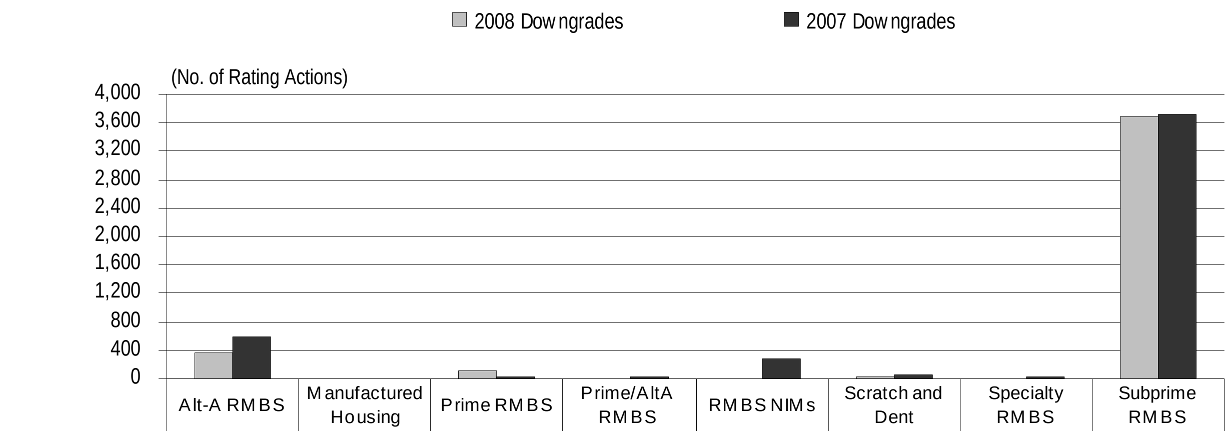
Full-Year 2007 Upgrades: 530 **Year-to-Date 2008 Upgrades: 16**

RMBS Upgrades: March 2006–March 2008



RMBS Rating Actions — Downgrades 2007 vs. 2008

RMBS Downgrades by Asset Type
(Full-Year 2007 vs. Year-to-Date 2008)



	Alt-A RMBS	Manufactured Housing	Prime RMBS	Prime/AltA RMBS	RMBS NIMs	Scratch and Dent	Specialty RMBS	Subprime RMBS
2008 Downgrades	369	9	100	—	—	36	6	3,683
2007 Downgrades	587	6	23	27	273	54	15	3,719

Full-Year 2007 Downgrades: 4,703 **Year-to-Date 2008 Downgrades: 4,203**

RMBS Downgrades: March 2006–March 2008