

November 26, 2007

Standard & Poor's To Continue Review Of Bond Insurers And Their Subprime-Related Transactions

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NEW YORK (Standard & Poor's) Nov. 26, 2007— Standard & Poor's Ratings Services' Global Bond Insurance Group is preparing another in its series of comments on bond insurers' subprime exposure, as stated in its recent report card on the bond insurance industry ("Subprime Mortgage Sector Brings Mixed Developments For Bond Insurers," published on Oct. 29, 2007). The last published comment on this topic ("U.S. Bond Insurers Withstand Subprime Stress," published on Aug. 2, 2007) included a stress scenario for the primary bond insurers that reflected our opinion that conservative theoretical deterioration of subprime RMBS securities and CDOs with subprime collateral did not impair the bond insurers' capital cushions. A capital cushion is the amount of capital that a company has in excess of the minimum capital requirement at its rating level.

We are working to update the assumptions that would underlie a revised stress scenario to reflect current market conditions and recent rating revisions in the RMBS and CDO of ABS sectors by our Structured Finance department. In addition, the new stress scenario will broaden the vintage period covered to

incorporate the entire period of 2005 through the third quarter of 2007, as well as incorporate additional asset classes, including Alt-A loans, closed-end second mortgages, net interest margin securities (NIMS), and home equity lines of credit (HELOCs).

In addition, as part of this ongoing review of bond insurers' exposure in the RMBS and CDO of ABS sectors, Standard & Poor's is reviewing insured CDO transactions with overcollateralization-linked events of default (EOD) to clarify potential courses of action that an insurer might follow in the event of an EOD trigger. Standard & Poor's is reviewing all bond insurers' exposures to such triggers and monitoring whether any of the triggers are exercised and, if so, if they materially alter our views regarding the potential for losses in any transactions.

As we have noted previously, ("Bond Insurers' Credit Default Swap Business Continues To Evolve," published on Dec. 4, 2006, and included in the 2007 Bond Insurance book), bond insurers' exposure in the CDO sector is written almost solely on a pay-as-you-go model. The bond insurers' payout terms on these transactions closely resemble a traditional financial guarantee policy. This means that bond insurers will only pay principal and interest if there is a default by the reference credit, which mitigates liquidity demand and the potential for an abrupt short-term drain on capital.

Standard & Poor's seeks to provide thoughtful and timely credit commentary to the markets and believes that this kind of clarity can be helpful to all market participants. We are currently incorporating the above-mentioned new data into our stress modeling in order to test the bond insurers' ability to withstand further subprime stress. We will publish our credit opinion upon completion of this process.

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