

Reading 4

Moody's Investors Service 2005, Structured Finance, *Rating Implementation Guidance, Updated Moody's servicer quality rating scale and definitions*, 10 May.

Copyright © 2005 Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their affiliates and licensors. All rights reserved.

Reproduced with permission.

Note:

This report is provided purely for educational purposes and must not be relied upon, reproduced, disseminated or otherwise used in any manner whatsoever. The information in this document may not be current and must not be used for the purpose of making a decision in relation to a particular financial product or class of financial products.

Updated Moody's Servicer Quality Rating Scale and Definitions

AUTHORS:

Jason Grohotolski
Analyst
(212) 553-1067
Jason.Grohotolski@moodys.com

Wen V. Zhang
Analyst
(212) 553-3605
WenV.Zhang@moodys.com

CONTACTS:

Warren Kornfeld
Senior Vice President
United States
(212) 553-1932
Warren.Kornfeld@moodys.com

Yaron Ernst
Vice President - Senior Credit
Officer
Europe, Middle East and Africa
(EMEA)
(33) 1-5330-1027
Yaron.Ernst@moodys.com

Andrew J. Kriegler
Managing Director
Canada
(416) 216-2002
Andrew.Kriegler@moodys.com

Brigitte Posch
Vice President- Senior Credit
Officer
Latin America
(212) 553-4507
Brigitte.Posch@moodys.com

Keiko Sawada
Managing Director
Japan
(81) 3-5408-4147
Keiko.Sawada@moodys.com

Tim See
Vice President- Senior Credit
Officer
Australia
(61) 2-9270-8104
Tim.See@moodys.com

Michael Ye
Managing Director
Asia Pacific
(852)2916-1122
Min.Ye@moodys.com

Brett Hemmerling
Investor Liaison
(212) 553-4796
Brett.Hemmerling@moodys.com

Edward Bowden
EMEA Investor Liaison
(44) 20-7772-5485
Edward.Bowden@moodys.com

WEBSITE:

www.moodys.com

CONTENTS

- Summary Opinion
- Addition Of Modifiers Introduces Greater Transparency
- Clarification Of Rating Descriptions Will More Accurately Convey The Meaning Of SQ Ratings
- Updated SQ Rating Definitions

SUMMARY OPINION

Since Moody's began issuing Servicer Quality (SQ) ratings in 2001, the securitization markets have continued to evolve at a rapid pace and investors have increased the level of attention they pay to servicers. The number of servicers rated by Moody's has grown quickly during that time, rising to over 40 worldwide¹ as of the end of April 2005. Because of the significant increase in the number of rated servicers, market participants have indicated a desire that our rating scale be further refined in order to better differentiate servicing risk among servicers.

In order to offer a more detailed assessment, Moody's is adding "+" (plus) and "-" (minus) modifiers in addition to its existing SQ2, SQ3, and SQ4 rating categories and a "-" (minus) modifier in addition to its existing SQ1 rating category. Moody's will incorporate the new rating scale that includes modifiers into the ratings of all existing servicers at the time of each servicer's next annual review.

We are also clarifying our SQ rating definitions to reinforce the concept that Moody's SQ ratings represent its assessment of a servicer's combined "servicing ability" and "servicing stability". We discuss these rating definitions herein.

These changes apply to all Moody's SQ ratings across all asset classes (ABS and RMBS) and all markets globally.

¹ Refer to moodys.com for a recent listing of Servicer Quality ratings.



ADDITION OF MODIFIERS INTRODUCES GREATER TRANSPARENCY

Moody's new modifier "+" (plus), when added to an SQ rating indicates that the servicer ranks in the higher end of the designated rating category. The modifier "-" (minus) indicates that the servicer ranks in the lower end of the designated rating category. The lack of a modifier indicates that the servicer ranks in the middle of the designated rating category for SQ2, SQ3 and SQ4 and indicates that the servicer ranks in the higher end of the SQ1 rating category.

Adding modifiers will help to increase transparency to the marketplace regarding the servicing of securitizations. The number of servicers rated by Moody's has grown rapidly to over 40 worldwide as of the end of April 2005. Given the significant increase in the number of servicers we rate, market participants have indicated a desire for a further refinement of our rating scale to better differentiate servicing risk. At the same time, the growing number of servicers we rate allows us to make better comparisons and more accurately benchmark each servicer's quality. The use of modifiers will communicate a more refined differentiation as to servicers' relative servicing ability and servicing stability.

Moody's SQ ratings represent our view of a servicer's ability to prevent or mitigate asset pool losses across changing markets. Since Moody's started rating servicers in 2001, the securitization markets have continued to expand and evolve. In certain ways, the servicing industry has become more complex for various asset classes. For example, the increased regulatory focus on "predatory servicing" — most notably in residential mortgages — has prompted many servicers to strengthen their oversight procedures.

In addition, the amount of data we are receiving from servicers today allows us to perform more detailed analyses and differentiate servicing risk at a finer, more granular level than would have been possible with the amount and quality of data the servicers were providing when we began rating servicers in 2001.

Moody's performs a full review of all of its rated servicers annually. This review includes a site visit and a comprehensive analysis of the qualitative and quantitative factors affecting the rating. Servicers with existing SQ ratings will be rated with the new rating scale that includes modifiers at the time of their next annual review.

CLARIFICATION OF RATING DESCRIPTIONS WILL MORE ACCURATELY CONVEY THE MEANING OF SQ RATINGS

Moody's SQ ratings are based on a servicer's combined servicing ability and servicing stability. Servicing ability includes factors such as customer service, collections, loss mitigation, and repossession and/or liquidation or redeployment of collateral for secured obligations. Servicing stability combines financial stability with operational stability and includes factors such as ownership, profitability, earnings diversity, legal and regulatory risks, compliance and oversight. In addition, factors such as management, staff, and information technology systems are also important to a servicer's servicing ability and stability.

This update to Moody's SQ rating definitions reinforces and clarifies the concept that our SQ ratings represent our assessment of a servicer's combined "servicing ability" and "servicing stability" attributes. It is unusual for any servicer to be completely "strong", "above average", "average", or "weak" for every area of review. For example, a servicer that is particularly strong in servicing ability and average in servicing stability is not precluded from being rated **SQ1** or **SQ1-**.

UPDATED SQ RATING DEFINITIONS

- SQ1** **Strong** combined servicing ability and servicing stability
SQ2 **Above average** combined servicing ability and servicing stability
SQ3 **Average** combined servicing ability and servicing stability
SQ4 **Below average** combined servicing ability and servicing stability
SQ5 **Weak** combined servicing ability and servicing stability

Where appropriate, a "+" or "-" modifier will be appended to the SQ2, SQ3, and SQ4 rating category and a "-" modifier will be appended to the SQ1 rating category. A "+" modifier indicates the servicer ranks in the higher end of the designated rating category. A "-" modifier indicates the servicer ranks in the lower end of the designated rating category.

APPENDIX

Related Research

Moody's Approach to Rating Residential Mortgage Servicers (January 2001)

Residential Mortgage Servicer Quality ("SQ") Ratings in EMEA: Moody's Methodology (October 2003)

Credit Card Servicer Quality Rating Methodology (June 2004)

Residential Mortgage Servicer Quality ("SQ") Ratings in Australia: Moody's Methodology (August 2004)

2004 Review and 2005 Outlook: US Servicer Ratings (January 2005)

Asset-Backed Servicer Quality ("SQ") Ratings in EMEA: Moody's Methodology (April 2005)

Doc ID# SF55926

© 2010 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S INVESTORS SERVICE, INC.'S ("MIS") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MIS DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MIS ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpre-