STANDARD & POOR'S

STRUCTURED FINANCE

Publication Date: Feb. 1, 2006
Media Release

CRIF Risk Scale Impact On Italian RMBS: Lower Loss Estimates And Credit Enhancement Provisos

Contacts:
Victoria Johnstone, London (44) 20-7176-3864, victoria_johnstone@standardandpoors.com; Alain Carron, Paris (33) 1-4420-7337
alain_carron@standardandpoors.com; Alberto Nobili, Milan (39) 02-72111-261, alberto_nobili@standardandpoors.com
Group e-mail address: StructuredFinanceEurope@standardandpoors.com

LONDON (Standard & Poor's) Feb. 1, 2006—Standard & Poor's Ratings Services said today that its approach to rating Italian RMBS transactions has changed significantly, as a result of a substantial change 18 months ago.

"Since September 2004, if the originator supplies the CRIF Decision Solutions Mortgage Risk Scale (CRIF scale) for the loans in a mortgage portfolio, it can substantially lower loss estimates, among other things, when included as an input to our credit analysis," said Victoria Johnstone, a director in the Structured Finance group.

The credit information provided by the CRIF scale allows for a superior assessment of the credit risk of an Italian mortgage portfolio, and hence allows us to make more accurate and predictive loss estimations. This improvement has resulted in lower estimates of portfolio loss in all transactions where the CRIF scale is made available. When the CRIF scale is not made available, we must continue to make cautious assumptions about future loan credit performance.

The CRIF scale is a credit score that measures the portion of borrower risk that is directly related to past credit performance. Investigations by both ourselves and CRIF have demonstrated strong empirical evidence that the CRIF scale is predictive of Italian mortgage delinquency and default. When the score is unavailable, the traditional rating approach is used. (For our criteria involving the CRIF scale see information below in the last paragraph.)

We have rated nine Italian RMBS transactions since the CRIF scale became available as part of our credit analysis. Of these nine transactions, five have supplied the CRIF scale as a characteristic to be analyzed for a proportion of the mortgage loans in the portfolio to be securitized. The loan proportion in each portfolio that had an associated CRIF scale ranged from 50% to 95%.

For the five transactions that supplied the CRIF scale, the estimated loss amounts (i.e., applied at each rating level as part of our Italian RMBS credit criteria), were calculated including the CRIF scale as an input. To investigate the effect of the credit score information on the loss estimates, their estimates were also calculated using the traditional criteria that excluded the CRIF scale as an input.

When the CRIF scale was included in the analysis the loss estimates at each rating level were substantially lower than when it was excluded.

The decrease ranged between 10% and 35% over the five transactions, with an average reduction of 20%. On each transaction, the decrease in the loss estimate, following the inclusion of the CRIF scale, lowered our credit enhancement requirements. In some cases, we were able to assign higher ratings because the CRIF scale was available.