Article Title: ARCHIVE | Criteria | Structured Finance | RMBS: Methodology: U.S. RMBS Servicer Advance Transactions With 30-Year, Or Longer, Legal Final Maturities Data: (EDITOR'S NOTE: — This article was fully superseded by "Methodology For Rating Servicer Advance Securitizations Backed By U.S. Residential Mortgage Loan Advance Receivables," published Oct. 30, 2014. , We originally published this criteria article on Nov. 6, 2009. We're republishing this article following our periodic review completed on May 27, 2014. As a result of our review, we updated the author contact information. This article partly amends "Methodology: U.S. RMBS Servicer Advance Transactions," published April 6, 2009.) 1. Standard & Poor's Ratings Services is refining and adapting its methodology for U.S. RMBS servicer advance transactions with 30-year, or longer, legal final maturities. We are publishing this article to help market participants better understand our approach to reviewing servicer advance transactions with 30-year, or longer, legal final maturities. This article is related to our criteria article, "Principles-Based Rating Methodology For Global Structured Finance Securities," which we published on May 29, 2007. SCOPE OF THE CRITERIA 2. Standard & Poor's is updating its criteria for U.S. RMBS servicer advance transactions to clarify several areas. The clarification focuses on the methodology we use to analyze servicer advance transactions with a legal final maturity of 30 years or longer. SUMMARY OF CRITERIA UPDATE 3. This article partly amends "Methodology: U.S. RMBS Servicer Advance Transactions," published April 6, 2009. Notable changes include: The introduction of the concept of late-term recoveries, which refers to recoveries that exceed the established unrecoverable percentages of servicer advances and that are expected to occur later in the transaction's life. The inclusion of late-term recoveries for the analysis of U.S. RMBS servicer advance transactions with a 30-year, or longer, legal final maturity. The introduction of a set of unrecoverable percentages to be used with the late-term recoveries. The introduction of rating category-specific assumptions for the period in which the late-term recoveries begin. IMPACT ON OUTSTANDING RATINGS 4. There won't be any impact on outstanding ratings since we do not currently rate any transaction with a 30-year, or longer, legal final maturity. EFFECTIVE DATE AND TRANSITION 5. These criteria are effective immediately for all new servicer advance transactions with a 30-year, or longer, legal final maturity. METHODOLOGY 6. The article "Methodology: U.S. Servicer Advance Transactions" published April 6, 2009, discussed the concept of unrecoverable advances. In that discussion, we intended to address the likelihood of advances that would not be recovered before the legal final maturity of the transaction, which has typically been between seven and nine years. 7. Under our existing criteria, the expected recoveries are truncated through the application of unrecoverable percentages (either observed or our minimum), and rating category-specific minimum unrecoverable percentage multiples. The effect is that no credit is given for the later part of the expected recovery curves when the curves reach the resulting unrecoverable percentage. We established the unrecoverable percentages in light of the short-term revolving nature of the typical servicing advance transaction. 8. Because of their longer time horizon, transactions with a 30-year, or longer, legal final maturity are more likely than shorter term transactions to recover a higher percentage of each advance securitized over the life of the transaction. We are implementing new criteria to be used with transactions of 30 –year legal final maturity or longer. 9. The new criteria allow, for transactions with a 30-year, or longer, legal final maturity, for the inclusion of some of the recoveries that were deemed unrecoverable under the existing criteria. We still determine the expected recoveries through our statistical analysis of the historical recovery data that we receive from the servicer, meaning that we continue to base an expected recovery curve upon the observed data that the servicer submits. However, the timing and ultimate unrecoverablility is driven by additional lags and the determination of late-term unrecoverable percentages. Late-Term Unrecoverable Percentages 10. We will base the late-term unrecoverable percentage of servicer advances upon the observed cumulative late-term recoveries, our late-term unrecoverable floors, and late-term unrecoverable percentage multiples. The late-term unrecoverable percentage multiples are applied to the greater of the observed cumulative late-term recoveries and the applicable late-term unrecoverable floor. We will use the observed late-term unrecoverable percentage from the expected cumulative recoveries, as determined by our statistical analysis, six months prior to the most recent observed recoveries. We'll use the six-month look-back period so that we have what we consider a reasonable amount of seasoned recovery experience supporting our statistical analysis; we believe this will enable us to determine a reasonable expected late-term cumulative recovery percentage. 11. Regardless of the observed late-term unrecoverable percentage, we will also assume a late-term minimum unrecoverable percentage. Because late-term recoveries are more likely to be recovered from general collections according to the underlying pooling and servicing agreements, we tie the minimum unrecoverable percentages we assume for late-term recoveries to the minimum percentages we established for shorter-term U.S. RMBS servicer advance transactions, with the exception of corporate advances. Because the composition of corporate advances ties them more directly to liquidation, the recovery of corporate advances may occur much later in the advancing cycle, adding a layer of risk. To account for this additional risk, we established higher minimum late-term unrecoverable percentages for corporate advances (see table 1). 12. We based the rating category for specific late-term unrecoverables upon the late-term unrecoverable percentage and the multiples shown in table 2. Table 1 Late-Term Minimum Unrecoverable Percentage Of Servicer Advances ADVANCE TYPE STATE FORECLOSURE PROCEDURE UNRECOVERABLE PERCENTAGE OF SERVICER ADVANCES (%) P&I; Judicial 0.75 Non-judicial 0.50 T&I; Judicial 0.75 Non-judicial 0.50 Corporate Judicial 1.25 Non-judicial 1.00 P&I;—Principal and interest. T&I;—Taxes and insurance. Table 2 Late-Term Minimum Unrecoverable Percentage Multiples RATING CATEGORY MULTIPLE (X) AAA 8.0 AA 5.0 A 3.5 BBB 2.0 BB 1.5 B 1.0 Timing Of Late-Term Recoveries 13. As mentioned, the shape of the late-term recovery curve will reflect the result of our statistical analysis of the information that the servicer supplies. However, the timing will be based upon rating category-specific months at which the late-term recoveries are expected to begin (see table 3). Table 3 Late-Term Recovery Timing RATING CATEGORY MONTH IN WHICH LATE-TERM RECOVERIES BEGIN AAA 121 AA 109 A 97 BBB 85 BB 73 B 73 14. The significant delay of the late-term recoveries addresses the uncertainty and increased timing risk associated with the late-term recoveries, while still giving credit for the longer term of the notes. The delay in the late-term recoveries is motivated, in part, by the potential adverse selection that may be inherent in late-term recoveries. We do not think it is reasonable to expect that late-term recoveries are of the same nature as early recoveries. We believe that late-term recoveries may be more closely tied to liquidation timelines, since their recovery is less likely to come from the borrower's ability to pay for the arrearages; this, coupled with the elongation of liquidation timelines that is likely to occur at higher rating category stresses, in our view calls for the assumed delays. Liquidity 15. The assumed delays in the timing of late-term recoveries provide additional liquidity stress due to the potential disruption of recoveries until the month in which late-term recoveries are expected to begin. For U.S. RMBS servicer advance transactions, regardless of term, we stress liquidity through: the slowing down and dampening of the expected recoveries with each successively higher rating category; our assumed lags (six or 12 months, depending on the advance type) between the month in which an advance is made and the month in which the first dollar is recovered; and the timing of late-term recoveries. 16. To illustrate the impact of the late-term recovery delays on liquidity, we have run a scenario analysis for select coupons and rating categories, assuming an initial note of $1 billion and for a specific set of expected recovery curves. For combinations of assumed rating categories and coupons and based upon our projected cash flow analysis given certain assumptions, Table 4 shows the cumulative amount of liquidity needed to be made available through a reserve fund without and with our assumed additional delays in late-term recoveries. We present the projected liquidity need on a cumulative basis, and we have not addressed the timing of the periodic shortfalls. Therefore, a replenishible reserve fund's required amount will need to reflect the timing of the periodic shortfalls as well as the availability of excess cash flows needed to replenish the reserve fund. Table 5 presents a comparison of the expected months in which the note will be repaid for each scenario. Table 4 Cumulative Liquidity Need, Including Fees (Mil. $) WITHOUT DELAY IN LATE-TERM RECOVERIES WITH DELAY IN LATE-TERM RECOVERIES Coupon (%) 4.00 5.00 6.00 4.00 5.00 6.00 RATING CATEGORY AAA 29.7 35.5 41.4 40.1 50.3 60.6 AA 28.0 33.9 40.4 28.8 37.3 45.6 A 27.0 33.7 40.4 27.2 33.9 40.5 Table 5 Month Of Expected Payoff WITHOUT DELAY IN LATE-TERM RECOVERIES WITH DELAY IN LATE-TERM RECOVERIES Coupon (%) 4.00 5.00 6.00 4.00 5.00 6.00 RATING CATEGORY AAA 47 47 48 126 127 128 AA 47 48 48 110 110 111 A 48 48 48 54 56 57 RELATED RESEARCH Methodology: U.S. RMBS Servicer Advance Transactions, April 6 2009 Principles-Based Rating Methodology For Global Structured Finance Securities, May 29, 2007 These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.