

InFront

RMBS Early Performance Snapshot
September 2009

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RISK INSIGHT + SOLUTIONS

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Table of Contents

Overview of Trends	Page 5
Losses in the Current Environment	Page 7
All Vintage Collateral Summary	Page 13
Subprime Monthly Dashboard	Page 14
Subprime Performance Summary	Page 15
Subprime Loss Severities	Page 16
Subprime Liquidations	Page 17
Subprime REO Inventory (1 st Liens)	Page 18
Subprime Cures and Rolls for the last 24 months by Product Type	Page 17
Subprime Rolls and Cures by Delinquency Bucket	Page 18
Subprime Current Loan Rolls	Page 19
Subprime 30 Days Delinquent Rolls and Cures	Page 20
Subprime 60 Days Delinquent Rolls and Cures	Page 21
Subprime 90 Days Delinquent Rolls and Cures	Page 22
Subprime Foreclosure Rolls and Cures	Page 23
Alt-A Vintage Collateral Summary	Page 24
Alt-A Monthly Dashboard	Page 25
Alt-A Performance Summary	Page 26
Alt-A Loss Severities	Page 27
Alt-A Liquidations	Page 28
Alt-A REO Inventory (1 st Liens)	Page 28
Alt-A Cures and Rolls for the last 24 months by Product Type	Page 28
Alt-A Rolls and Cures by Delinquency Bucket	Page 29
Alt-A Current Loan Rolls	Page 30
Alt-A 30 Days Delinquent Rolls and Cures	Page 31
Alt-A 60 Days Delinquent Rolls and Cures	Page 32
Alt-A 90 Days Delinquent Rolls and Cures	Page 33
Alt-A Foreclosure Rolls and Cures	Page 34

Appendix

Glossary of Terms	Page 36
Explanations of Graphs	Page 37
Leading States Activity	Page 38
Active Balance as a Percentage of Delinquent Balance	Page 40

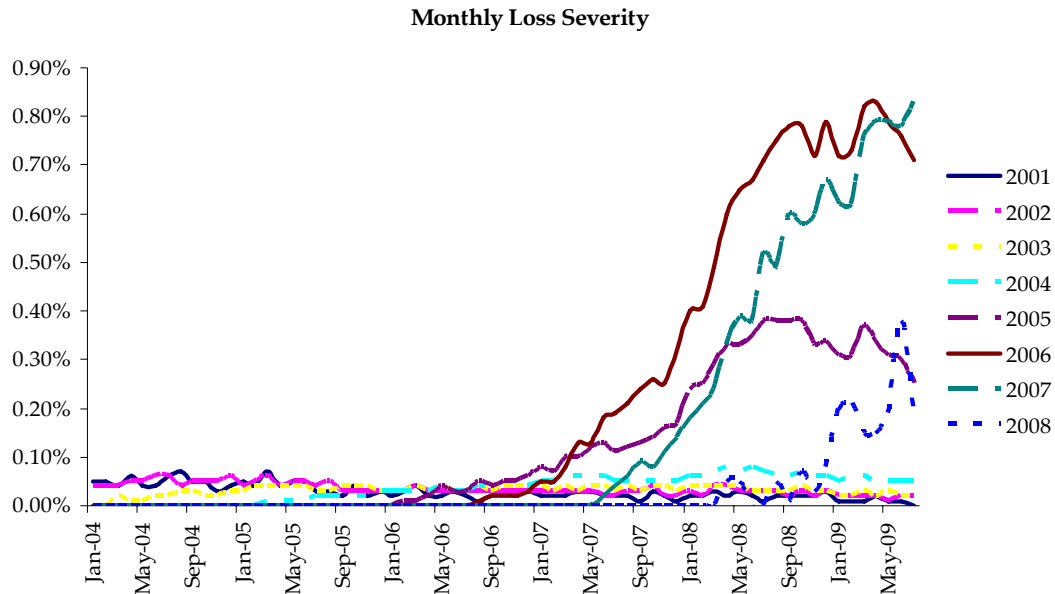
Overview of Trends

Overview of Trends

- Subprime [60+ delinquency rates](#) continued to rise across all vintages for first liens; however, second liens saw a decrease for most vintages, in excess of 13 percent. Alt-A first liens increased in [60+ delinquency rates](#) in July, with the exception of the 2005 vintage, which saw a decrease of 26 percent. Alt-A second liens decreased across all vintages, from 12 to 14 percent.
- The one month CPR for subprime first liens was mixed across the vintages, ranging from a decrease of 25 percent to an increase of 10 percent observed in July. [Subprime second liens](#) were mixed as well, from a 42 percent decrease to a 12 percent increase. [Alt-A first and second liens](#) saw mixed results for the one month CPR as well, with changes ranging from a decrease of 64 percent to an increase of 34 percent in first lien portfolios, and from a decrease of 76 percent to an increase of nearly eight percent in second lien portfolios.
- [Roll rates](#) decreased overall from June in both subprime first and second lien portfolios. Marginal decreases were observed for first liens, and the second lien 2002 vintage underwent the largest decrease of nearly 65 percent. Alt-A first lien roll rates increase for most vintages, in excess of 33 percent. [Alt-A second lien roll rates](#) decreased in July in excess of 35 percent.
- [Cure rates](#) were mixed for both subprime first and second liens. The first lien portfolios saw ranges from a decrease of 11 percent to an increase of five percent. Second liens cure rates changed in July between a decrease of 10 percent to an increase of nearly 18 percent. [Alt-A cure rates](#) increased across nearly all vintages in July, in excess of 50 percent for first liens and 68 percent for second liens.

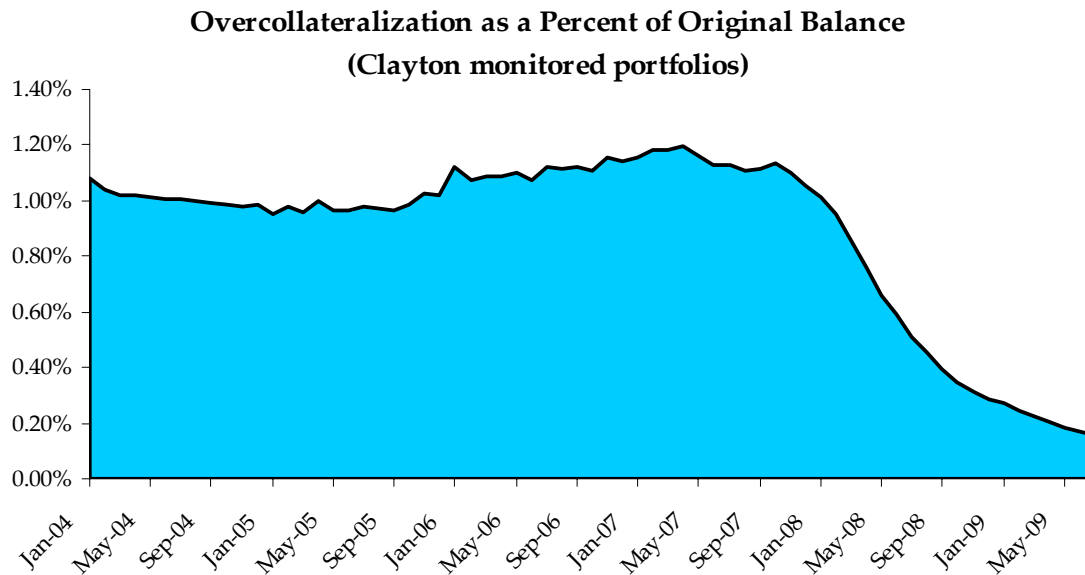
Losses in the Current Environment

Increases in loan loss frequency and severity are a direct consequence of housing prices declines and the resulting rise of delinquencies and foreclosures in the U.S. mortgage market. As shown below, an analysis of the Clayton's monitored portfolio shows a particularly strong impact upon the 2005 through 2008 vintages.



These vintages have experienced greater severity much sooner than the preceding vintages which were originated from 2001 through 2004.

This environment of rising losses affects all parties to the mortgage market in a negative fashion. Clayton's traditional client base of MBS issuers has always been concerned with losses; however, as the mortgage market has worsened, losses have become of paramount concern due the erosion of the credit enhancements initially put in place to protect investors. The severity and swiftness of the deterioration of the real estate and mortgage markets adversely affects other industry participants including; individual investors, bond insurers, and whole-loan portfolio owners.



Asset price deflation in the real estate market has been particularly damaging as it robs both junior and senior liens of equity, and minimizes loss recoveries expected from taking a property through the foreclosure process.

Limiting Exposure to Losses

Clayton has long been adept at helping to mitigate losses that were passed through to its clients when it was signed on as Credit Risk Manager within the securitization documents of an MBS. Clayton was able to monitor loans throughout their lifespan to ensure that servicers engaged in sound servicing practices that decrease losses such as stopping the advancement of principal and interest when appropriate, and reviewing fees and advances made during the liquidation process.

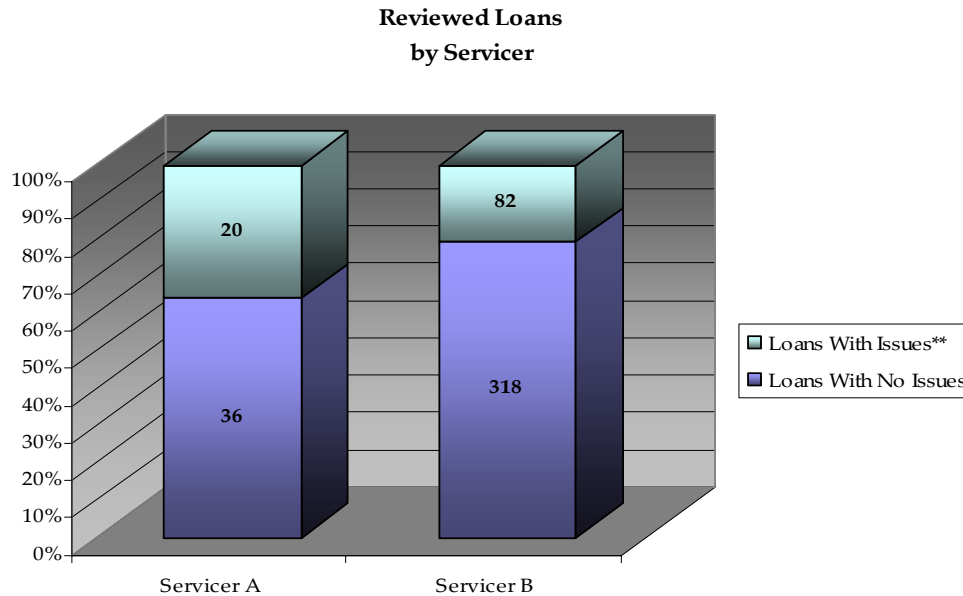
New challenges have presented themselves as Clayton is engaged to mitigate losses on behalf of clients who were unable to include Clayton as a Credit Risk Manager during securitization. In these cases, losses must be mitigated post-liquidation, although Clayton frequently finds circumstances where servicers must reimburse affected parties for the funds.

Loss Reviews from Outside the Trust

To further explain the challenges associated with reviewing losses in this scenario, it is necessary to understand the loss review process. The first stage of a loss review is to collect raw documents and data concerning the composition of each loss. Next, a set of thresholds or rules are set up to determine if each loss contains irregularities indicating a possible recovery. Finally, each loss breaching the established thresholds is reviewed to ensure that the validity of each possible issue is in fact recoverable and did not arise from legitimate servicing practices. If it is determined that an error has been found on a given loan then Clayton recovers those funds belonging to its clients.

Beyond simply returning recoverable dollars to clients, a loss review provides other useful information. These reviews can highlight areas where one servicer struggles in comparison to another or against the industry average. Additionally, if the analysis is performed across multiple portfolios, trends inherent to a collateral type may emerge providing information unique to that particular product.

Clayton recently completed a post-liquidation loss review; the results of which are summarized below. Clayton’s review encompassed 456 losses across 16 MBS, serviced by two servicers. The review indicated that 102, or approximately 22 percent, of the losses reviewed had possible issues.



	Loans With No Issues	Loans With Issues**	Total Reviewed
Servicer A	36	20	56
Servicer B	318	82	400

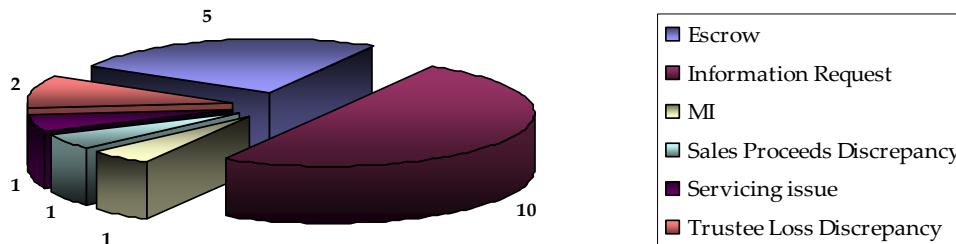
Clayton’s review indicated that the loans serviced by one servicer were less likely to be affected by a loss issue. This information proves useful as it provides a future reference regarding whether certain servicers might be preferred in future securitizations or loan purchases. Additionally, some servicers may be more receptive to indemnification based on loss review findings, and find they may be a preferred servicer for future endeavors.

Of the issues discovered in Clayton’s review, some are more easily recovered from the servicer. For example, the review indicated multiple instances of full REO disposition proceeds not remitted to the trust. These are easier to recover because the servicers have not yet remitted these funds and maintain them in an account awaiting further action. However, if funds have already been remitted, additional prodding of the servicer may be necessary. In this particular review, Clayton found escrow advances included on both the REO HUD-1 at the disposition of the securing property and on the servicer’s loss certificate of advances recovered.

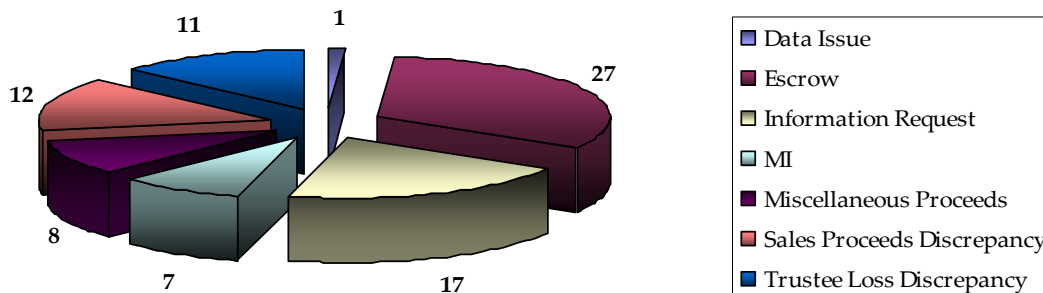
Total Loss Issues		
Issue Type	Count	Possible Recovery to the Client
Escrow	32	\$100,133
Further Information Request	27	\$21,486
MI	8	\$153,473
Miscellaneous Proceeds	8	\$514,837
Sales Proceeds Discrepancy	13	\$485,734
Servicing issue	1	\$1,315
Trustee Loss Discrepancy	13	\$607,602
Total	102	\$1,884,580

Evaluating the results of the review by servicer allows Clayton and its clients to determine the most efficient way to pursue funds. It can prove beneficial to pursue the “low hanging fruit” available with each servicer, rather than attempting to recover multiple smaller dollar amounts.

Servicer A
Loss Issue Count by Type



Servicer B
Loss Issues Count by Type



Losses Going Forward

Prolonged diligence against unnecessary or inappropriate losses will continue to be paramount to all players in the mortgage market. As both default and loss rates continue to rise, servicers will be pushed to the limits of their capabilities for tracking all aspects of a given loan's advances and proceeds. The tremendous increase in volume alone is enough to spark concerns regarding the legitimacy of the losses passed through to investors, who are now, more than ever, feeling the crunch of the mortgage market's well documented failures.

September Analytics Snapshot
(all data as of 8/31/2009)

Appendix

Glossary of Terms

1 Month CPR: The annualized, one-month rate of unscheduled principal payments.

Cure Rate: (Balance of all loans that decreased in delinquency*) / (Total delinquent balance from prior month). *Decrease in delinquency includes the following progressions: 3-C, 6-C, 9-C, F-C, R-C, 6-3, 9-3, F-3, R-3, 9-6, F-6, R-6, F-9, R-9, R-F

Delinquencies: All delinquencies have been calculated using the OTS method.

Foreclosure Roll: Percentage of delinquent loans that rolled into foreclosure status in a given month.

Liquidation: An extinguished loan with an associated loss.

Loss Severity: The total loss amount including interest advances and costs divided by the loan's original principal balance.

MSI: Months since issuance of the security associated with the loan.

Rate Change: Month of first reset date for ARM loans.

Region: As defined by the U.S. Census Bureau.

Roll Rate: Percentage of loans that worsened in delinquency status.

Value Decline: The dollar amount change in property value from the original appraised value, using updated valuation information provided by servicers to Clayton, divided by the original appraised value. Updated valuations include BPOs, Appraisals, REO List Prices and REO Sales Prices.

Vintage: The year the security associated with the loan was issued.

Explanation of Graphs

1st/2nd Lien Loss Severity: A breakdown of average loss severities (loss amount divided the loan's original principal balance) over 12 months by first and second liens.

60+ Delinquencies as a Percentage of Active Balance: The balance of all 60+ delinquent loans (including Bankruptcy, Foreclosure and REO) compared to the active balance of all loans in the Clayton database by vintage and month since issuance.

Average Loss Severity by Vintage: Summary of loss severities by lien position and year the security was issued.

Average Value Decline for Loans with Losses This Month: Provides the top 10 states with the most severe property value declines determined by updated valuations (received by Clayton in monthly servicing data tapes) associated with the underlying property that are liquidating at a loss in the current distribution.

Cumulative Losses as a Percentage of Original Balance: The aggregate loss amounts by lien position compared to the original balance of all loans broken out by as of date and months since issuance.

Cure and Rolls for the Last 24 Months: Compares the cure and roll rates by lien position and product type (Fixed versus ARM) over 24 months.

Delinquency Percentage: Measures the aggregate delinquent balance and count of all loans in Clayton's database against the active balance of all loans in Clayton's database. The chart provides six months of data to show recent trends in loan performance.

Foreclosure Roll Percentage by Region: Measures the amount of delinquent loans in Clayton's database that rolled into foreclosure by region per month over the last 12 months. The 12-month roll provides foreclosure trending across geographic regions.

One Month CPR by Year Portfolio Closed: A one-year comparison of conditional prepayment rates (CPR) by the year the security was issued.

Percentage of Active ARM Loans with Rate Changes by Month: The historical and future percentage of adjustable rate mortgages that have, or are scheduled to, reset.

REO Inventory: An aggregate of all loans in REO status in the top 15 states with REO activity broken down by average loan amount (left side) and percentage of value decline as determined by updated valuations (received by Clayton in monthly servicing data tapes) associated with the underlying property in REO (right side).

Top 10 Value Declines for Subprime Loans with Losses with the Past 12 Months: A breakdown of the top 10 states, counties and cities with value declines as determined by updated valuations (received by Clayton in monthly servicing data tapes) associated with the underlying property.

Value Declines for Loans in Foreclosure: An aggregate of loans in foreclosure status and the average value decline determined by updated valuations (received by Clayton in monthly servicing data tapes) associated with the underlying property by region.