Industry Study

DBRS Structured Finance 2007 Rating Transition Study

MARCH 2008

Insight beyond the rating.

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DBRS Structured Finance 2007 Rating Transition Study

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Introduction

DBRS's second structured finance rating transition study covers DBRS rating history from 1990 up to and including January 1, 2008. The ratings herein represent securities issued primarily in Canada and the United States in addition to Europe within the following sectors: asset-backed securities (ABS), commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS) and collateralized debt obligations (CDOs).

DBRS structured finance ratings have continued to demonstrate stable performance over one-,two,- and three year time horizons with the transition rates for AAA ratings very stable at 99.9%, 100.0% and 100.0% respectively. DBRS AA ratings have also continued to show more positive migration to AAA at levels commensurate with 2006 results. Compared with last year, transition rates moderately increased at the "A", BBB and BB rating levels.

The U.S. market has shown stable transition performance in the non-mortgage ABS market including credit card receivables, auto loans and leases and student loans. Although asset pressures have been observed as delinquencies and charge-offs across the major credit card issuers have trended up over the past year, the current levels remain within DBRS expectations. Recent performance data indicates that prime auto ABS has begun to experience a modest degree of distress and, as expected, sub-prime auto ABS is experiencing more severe negative performance. Overall, however, both auto ABS sectors are performing within DBRS expectations, albeit at the higher ranges of losses and delinquencies. ABS trust performance on securities backed by Federal Family Education Loan Program loans has remained stable despite rising delinquencies that have trended upward over the past 12 months and in some cases extraordinarily higher bond interest costs associated with auction-rate securities. Despite deterioration in these metrics, overall ABS performance has remained stable owing to the limited loss exposure on loans reinsured for default by the U.S. Department of Education.

Securities issued in the U.S. residential mortgage-backed market experienced negative transition performance due to the continued deterioration in U.S. housing market fundamentals. Securitization performance continues to be adversely affected by declining home prices, risk layering and from the surge in early payment and second-lien defaults with the 2007 vintage across all sectors exhibiting considerably higher delinquency rates than any other recent vintages. Similar performance issues have also negatively affected the performance of the prime and near-prime sectors.

Within the Canadian market, DBRS has not observed a significant deterioration in any segment including the relatively small Canadian sub-prime residential mortgage market. Canada's sub-prime mortgage market has performed better than its U.S. counterpart largely as a result of overall lower levels of leverage and continued strong housing price appreciation. In addition, overall asset performance in Canadian markets remained strong during 2007 in terms of low default and loss rates. While there were certain instances of higher loss trends, overall performance across all asset classes remained within expected ranges.

While this Study relates to long-term ratings only, DBRS notes that in tandem with the challenges in global credit markets, there were liquidity issues in the Canadian asset-backed commercial paper (ABCP) market in 2007 that impacted several DBRS-rated trusts issuing ABCP. As was the case for other areas within the global credit markets, the Canadian structured finance market was dramatically impacted in August 2007. That month marked the beginning of a global contraction of ABS-related markets which started with concerns about exposure to U.S. sub-prime residential mortgages and quickly spread to worries about exposure to CDOs and other structured financial assets. In Canada, this resulted in a sharp and substantial decline in demand for ABCP. The resulting liquidity issues led to the arrangement of a standstill agreement and ongoing restructuring negotiations amongst investors, asset providers, conduit sponsors and other parties for approximately CAD35 billion in ABCP issued by mostly non-bank sponsored conduits and has become known as the Montréal Accord.

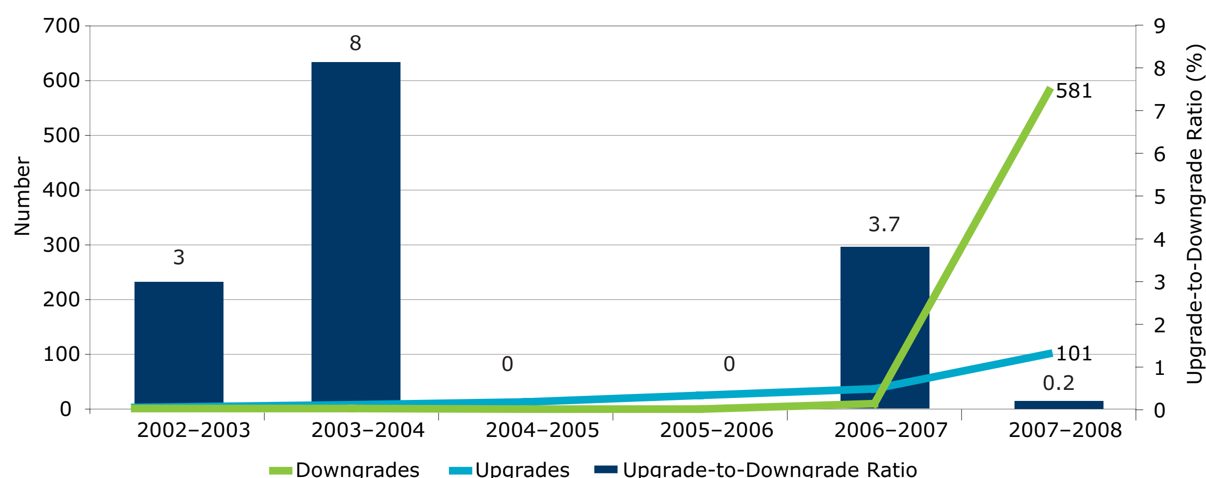
DBRS has modest rating volume in Europe and expects issuance volume to be slow consistent with global fixed income markets. For the purpose of this study, there were no rating transitions in Europe.

The rating transitions presented in this study reflect the historical performance of DBRS's structured finance long-term ratings and may not indicate future performance with regards to upgrades, downgrades or transition rates.

Rating Activity for 2007

Rating activity for DBRS's universe of structured finance ratings in 2007 resulted in 105 upgrades, 591 downgrades and no changes to 5,809 classes of debt resulting in a 0.2 to 1 upgrade to downgrade ratio. Upgrades were concentrated in both the U.S. and Canadian asset-backed markets within the auto loan and lease sector, commercial mortgage-backed securities and certain issuers within the residential mortgage-backed securities markets. Downgrades were concentrated in the U.S. sub-prime residential mortgage-backed securities and structured credit sectors.

DBRS Structured Finance Historical Upgrades and Downgrades and Ratios



DBRS Rating Actions by Structured Finance Industry – 2007*

	No Change	Upgrades	Downgrades	Withdrawn	Total
Auto Loans and Leases	124	13	0	18	**155**
Structured Credit	63	0	2	0	**65**
CMBS	964	38	0	13	**1,015**
Credit Card/Consumer Lending	1108	0	0	13	**123**
Equipment Loans and Leases	32	0	0	4	**36**
RMBS	4,315	51	589	1	**4,956**
Student Loans	176	3	0	2	**181**
Other	25	0	0	3	**28**
Total	**5,809**	**105**	**591**	**54**	**6,559**

* Rating actions are based on whole-category rating transitions.

U.S. Structured Finance

CREDIT CARDS AND CONSUMER LENDING

Performance for credit card ABS has shown signs of deterioration in the fourth quarter of 2007 and into the first quarter of 2008, but on the whole credit card ABS has performed well. Although charge-offs and delinquencies across the major card issuers have trended up over the past year, the current levels remain within DBRS expectations. Since the effect of The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 was felt in late 2005 into early 2006, when charge-offs dropped to lows in the 2% to 4% range, charge-offs have continued to rise and are approaching the levels that persisted for several years before the reform bill was passed, in the range of 4% to 6%. In 2007, delinquencies trended lower for the first half of the year and then accelerated upwards throughout the second half of the year to levels not experienced since 2005. Upon review of early performance in 2008, and given the economic slowdown already taking effect, delinquencies appear destined to challenge historical highs among many of the major credit card issuers.

Weighing against these negative factors are comfortable levels of excess spread, in the 7% to 9% range, stemming from yields pushing roughly 17% to 18%, and stable payment rates ranging from 16% to 20%. Also, issuers continue to proactively re-underwrite portfolios to manage risk. Most large card issuers maintain broad geographic diversification to limit concentration in areas of the country harder hit by housing and employment woes. Through 2008, across the credit card ABS sector, DBRS expects collateral performance to show signs of continued weakness; however, ratings are expected to remain stable.

AUTO LOANS AND LEASES

Recent performance data indicates that prime auto ABS has begun to experience a modest degree of distress and, as expected, sub-prime auto ABS is experiencing more severe negative performance. Overall, however, both auto ABS subsectors are performing within DBRS expectations, albeit at the higher ranges of losses and delinquencies.

Over the past six months, DBRS has observed either consistent or periodic increases in pool characteristics such as repossessions, extensions/deferrals, use of long-term loans, and loan-to-value ratios, all which reflect a deteriorating credit environment. Charge-offs within both prime and sub-prime asset-backed securities has increased roughly two-fold since mid-2007. Net losses on prime ABS approached 1% by the end of the year and roughly 8% on sub-prime. Delinquencies in ABS pools have also increased in the second half of 2007, rapidly eclipsing the 0.5% threshold for prime and 3.5% level for sub-prime auto loans. Although the increase in delinquencies in sub-prime ABS has been at a greater magnitude than prime ABS, both current levels are within historical ranges observed since 2000.

DBRS expects delinquency and annualized loss rates to trend higher throughout 2008, perhaps even to the levels eclipsing the previous highs experienced since 2000, and for the cyclical declines traditionally seen in auto ABS performance reflecting the seasonal pattern of the sector to be lower. The most significant driver of how well performance rebounds within this traditional cycle will be the state of the U.S. economy. Should consumers continue to be pressured the periodic decline in delinquencies and losses could be minimal and short-lived. Overall, DBRS expects the auto ABS sector to continue to perform well relative to other ABS sectors and within expectations despite foreseeable stress.

STUDENT LOANS

Performance in the student loan ABS sector has been relatively resilient despite the pressures faced by U.S. consumers. However, similar to other consumer assets classes, ABS performance deteriorated through the fourth quarter of 2007 and is expected to continue to deteriorate throughout the coming months as a result of the weak U.S. economy.

Loan pools backed by loans originated under the Federal Family Education Loan Program (FFELP) have been largely immune to the effects of obligor defaults as a result of the 97% to 98% loan-level guarantee and federal government reinsurance on the loans. The 2% to 3% risk share held by ABS issuers has not been threatened because solid servicing platforms experience extremely low rejection rates on defaulted loan claims filed with loan guaranty agencies.

ABS trust performance on bonds backed by FFELP loans has remained stable despite rising delinquencies that have trended upward over the past 12 months and in some cases extraordinarily higher bond interest costs associated with auction-rate securities. The quarterly default rate for ABS backed by 100% FFELP consolidation loans reached a record high of 0.42%, indicating an annualized rate approaching 2%. Sixty-day delinquencies on those same trusts rose to nearly 7%, also a record high. Despite deterioration in these metrics, overall ABS performance has remained stable owing to the limited loss exposure on reinsured loans and healthy excess spread. The benefit of excess spread stems from the fact that all of the collateral that has been securitized to date consists of loans originated before October 1, 2007, and enjoy higher special allowance payments to support the loan yield to the trusts.

Nevertheless, the risk to FFELP-backed trusts stems from significantly higher funding costs of auction-rate securities, which has reached "failed auction" levels of 75 to 150 basis points over LIBOR. In trusts with heavy concentrations of auction-rate debt outstanding, extraordinarily high bond interest costs will continue to erode excess spread and negatively affect trust performance should auctions continue to fail. The trusts most at risk are those with asset-to-liability, or parity, ratios of less than 100%.

Private student loan portfolios are more vulnerable to traditional obligor performance behaviour due to the unsecured, credit underwritten nature of the collateral. The Fourth Quarter 2007 Private Student Performance Report, issued by DBRS on January 31, 2008, registered a modest increase in gross defaults (<.01%) over the previous quarter and mixed results on delinquencies and forbearance rates. Proactive servicing and the profusion of co-signed loans to high credit quality borrowers have helped limit the deterioration in private loan pools. In anticipation of the weak credit environment, lenders have already begun to tighten underwriting standards on new originations and further improve servicing procedures in order to mitigate future performance concerns.

Overall, DBRS expects performance in the private loan subsector to deteriorate modestly through the first half of 2008 due to the weak U.S. economy and any weakness in the performance of the federal loan subsector to be seen in trusts with continued exposure to the frozen auction-rate securities market.

RESIDENTIAL MORTGAGE-BACKED SECURITIES

The second half of 2007 was one of the most tumultuous periods in the history of the U.S. residential mortgage industry. Affected by a deepening global liquidity crisis, many mortgage originators were forced to exit the market voluntarily or involuntarily. RMBS issuance across the entire credit spectrum came to a near standstill towards the end of 2007.

With the continued deterioration of the securitization market, agency RMBS (Fannie Mae, Freddie Mac and Ginnie Mae) has grown significantly since late 2006. As for production channels, retail origination has performed better than wholesale originations as a result of better pricing power and tighter underwriting and operational controls. Additionally, financially strong lenders were better able to withstand the weakening market conditions than smaller institutions given their advantage in both funding and balance sheet capacity.

RMBS securitization performance continues to be adversely affected by declining home prices, risk layering and from the surge in early payment and second-lien defaults. The 2007 vintage across all sectors has exhibited considerably higher delinquency rates[1] than any other recent vintages. In the sub-prime

1. The delinquency statistics in this section are sourced from *Intex*.

sector, the 60+ day delinquencies for the 2007 vintage reached 22.6% in 13 months, approximately 44% and 195% higher than for the 2006 and 2005 vintages, respectively. A similar trend holds true for the prime and near-prime sectors. Of all the mortgage products in these two sectors, the 2007 near-prime 3/1 adjustable-rate mortgages (ARM) have demonstrated the most alarming deterioration, with 60+ day delinquencies reaching 16%. In addition, while ARM and interest-only (IO) loans in recent vintages have performed in line with the fixed-rate and non-IO mortgages, the 2007 vintage ARMs and IOs are now significantly underperforming these counterparts.

Since mid-2007, there has been constant regulatory and political intervention regarding the use of loan modifications as a potential solution for distressed borrowers. Most recently, the American Securitization Forum published its fast-track modification guidance for securitized sub-prime ARMs in December 2007. Large-scale modifications may provide relief to borrowers, yet they are not without their pitfalls. Some of these include the unrecoverable costs to servicers, the potential adverse impact this can have on sub-prime bond performance and the moral and legal hazards with any selection process enacted. DBRS continues to monitor the potential impact of massive loan modifications on transaction performance.

DBRS expects pool performance to continue declining across all credit sectors in 2008. The sub-prime, near-prime hybrid ARM and Option ARM securitizations are the most susceptible to losses due to higher-than-expected loss expectations relative to the existing credit support. DBRS believes that the 2006 and 2007 sub-prime and near-prime vintages remain the most vulnerable to write-downs in the higher parts of the capital structure. As an example, first-lien sub-prime transaction average write-downs may reach a portion of the DBRS-rated "A" rated bonds based on a review of current delinquency pipelines.

COMMERCIAL MORTGAGE-BACKED SECURITIES

DBRS rated six new U.S. CMBS transactions in 2007 with new transaction volume by far the greatest with over $230 billion of issuance making the 2007 vintage more than a quarter (27.2%) of all outstanding CMBS. Some of that increased volume was spurred by large acquisitions such as EOP-Blackstone, however, most was due to increased leverage created by competition in the market matched with great demand for CMBS bonds from structured investment vehicles (SIVs), asset-backed commercial paper conduits, hedge funds and other players that employed a CDO exit or arbitrage strategy. The competition led to a greater percentage of loans structured without amortization and a decline in loan underwriting standards. By the end of the year, the investors demand had waned and it was no longer accepted practice to make interest-only loans. Most origination shops began to revert to traditional underwriting standards. The 2007 vintage of CMBS is anticipated to under-perform due to lack of amortization and aggressive underwriting standards across many shelves.

Within its existing rated portfolio, DBRS upgraded 24 classes in five of the CMBS transactions it rated between 2004 and 2006. Defeasance was a large driver of the upgrades ranging from 9.6% to 100% of the transaction balance. No downgrades took place during 2007. Delinquencies in the DBRS CMBS portfolio were low in 2007 and remain low as of February 2008 at 0.19% (delinquency number includes those that are 30 days or greater delinquent). This compares favorably to the overall market delinquency rate of 0.4%.[2] However, when looking at delinquencies as a percentage, one must consider that the denominator used to calculate that percentage has grown substantially in the past two years, artificially keeping the percentages of delinquency low. The delinquency percentage of 0.4% is expected to rise given the lack of new issuance in 2008. There are expectations that it will be difficult for existing conduit borrowers to refinance in 2008 due to lack of capital flow from the conduits/capital markets. That said, many of the loans maturing in 2008 were originated back in 1998. These loans benefited from amortization and property price appreciation; therefore it will primarily be an access to capital issue limiting their ability to refinance at the maturity date. Going forward, loans originated in 2006 and 2007 may have difficulty as volumes and leverage likely to be manageable in metropolitan markets was applied indiscriminately, making large loans in small markets more vulnerable.

2. Trepp, LLC.

In 2007, not only was there an abundance of interest-only loans with aggressive underwriting but properties were leveraged to debt levels in excess of replacement costs. In a year where market participants are expecting property valuations to decline by 10% to 15% due to a gradual increase in capitalization rates, this excess leverage can cause borrowers to be upside down on their equity position. If borrowers view their equity as having been eroded, any excess cash flow that they get during the loan term which they might otherwise use to reinvest in the property will be allocated toward other projects and the investor is at risk of having a property that is not well kept or has deferred maintenance issues. When loan amounts exceed replacement costs, default probabilities and losses will be exacerbated.

Canadian Structured Finance

CREDIT CARDS AND CONSUMER LENDING

Credit card securitization outstandings decreased to approximately CAD22.7 billion as of December 31, 2007, a CAD$2.5 billion drop compared to the same period in 2006. This volume decline reflected a difficult market environment in the later part of 2007 for either refinancing or new note issuance. Despite the increasing competition, there was no significant change across all the credit card portfolios in terms of the loss rate, with a weighted average of approximately 3.5% throughout 2007. This loss level has remained stable since 2003. Similar to loss rates, payment rates across all programs remained stable, with a weighted industry average rate above 30% over the past several years. The weighted-average gross yield remained around 18% in 2007, a stable level since 2003 despite the intensifying competition in the market.

DBRS has tabulated the performance statistics over the last three years for all the term credit card ABS issuers in Canada. The overall performance has remained within normalized historic levels during this period. Loss rates have remained stable with an average rate of 3.5% during 2007, consistent with previous periods. The maximum losses (annualized on a monthly basis) ranged between 5.5% and 6.0% with the minimum around 2.0% to 2.25%. Payment rates break into three separate bands and reflect the target market of the credit card issuer. With payment rates of over 35%, the high end of the payment spectrum reflects credit cards that are used as a convenient medium of payment, while the low end of the range at 10% to 15% reflects the use of the card as a higher cost line of credit. Payment rates have remained stable with the minimum payment rates around 10% and the maximum in the 40% to 50% range and an industry average of around 35%, all consistent with previous years. Finally, the average gross yield has remained around 18% for the past number of years despite increasing competition

As discussed, no material deviation relative to historical performances was observed in 2007. This may be explained in part by the conservative behaviour of Canadian consumers in general and consistent credit and collection policy of the card issuers. It is anticipated that some of these performance metrics may migrate towards the lower end of the historical performance ranges (or higher if you consider gross yield) as the Canadian economy slows during 2008. It is not anticipated at this time that the slow down will cause performance to deviate substantially from historical bands in light of the overall conservative nature of underwriting and collections in conjunction with the Canadian consumer behaviour.

AUTO LOANS AND LEASES

Consistent with experiences in the rest of the ABS market in 2007, the issuance of public-term ABS backed by auto loans and leases witnessed a decline in 2007 as significantly higher credit spreads caused planned issuances to either be postponed, funded through the ABCP market or in some cases alternatively funded.

Cumulative losses in 2006 for prime auto loan and lease transactions are higher than previous vintages witnessed by higher losses earlier in the life of the pool. The results in 2006 are most notably impacted

by one large transaction that had higher losses than normal in the fourth to twelfth month causing a steeper curve in 2006 than in previous years. The performance of this pool in 2007 has seen these losses return to a more normalized rate. Adjusting for this transaction, the 2006 loss curve has actually performed better than its 2004 and 2005 vintages. It is also evident that the 2007 loss curve has also returned to levels that are within the range of DBRS's expectations.

On a more general basis the rate of loss varies somewhat by vintage; however, the post-2001 vintages exhibit higher losses than their predecessors. This is largely explained by the lower recovery value of collateral received in Canada following the appreciation in the Canadian dollar from early 2003 to par today. For several years, the incremental value of remarketing a vehicle in the U.S. market, coupled with a favourable exchange rate, was greater than the transportation costs associated with shipping the vehicles south. As this arbitrage opportunity disappeared, Canadian aftermarket volumes grew, causing values to decline. The overlap of the 2003 and 2004 vintages illustrates the stabilization of recovery values thereafter. Current market dynamics in the Canadian economy (specifically the Canadian dollar parity noted above) continue to apply pricing pressure on new model pricing and resale pricing. During 2007 and early in 2008 we have seen most automotive manufacturers offering a variety of incentives and price decreases across their model line-up. Price decreases on new cars add pressure to the resale value of pre-owned cars that were sold prior to the new model price decreases.

In summary, DBRS believes that auto securitizations continue to be a stable asset class notwithstanding the current turmoil in the credit markets and continued economic uncertainty, variance in losses continues to be across vintages.

EQUIPMENT LOANS AND LEASES

There were no new ABS term transactions for this asset class in 2007; however, DBRS continues to see activity in ABCP conduits by a number of originators. The underpinning pool of leases and loans relating to agriculture and construction are diversified across regions, recovery rates continue to remain stable as the originators have a strong focus on their credit and collection policy that operates autonomously from the manufacturing parent.

The performance of these assets has been stable. Leases and loans related to the agricultural industry have exhibited more stability compared to those related to the construction industry. In a typical public pool the latter industry concentration is relatively small. Other equipment tranches funded in ABCP conduits have performed well. The stringent eligibility criteria which limit obligor and geographic concentration, the maximum loan and lease size and term to maturity with no or minimal residual value exposure has contributed to the stable performance of this asset class.

RESIDENTIAL MORTGAGES

According to the Bank of Canada, outstanding Canadian residential mortgages reached CAD819 billion at the end of 2007, of which 98% is split evenly between insured mortgages and conventional mortgages and 2% is non-conventional mortgages. Conventional mortgages are first-line residential owner occupied dwellings with loan to values (LTV) of no more than 80% generally underwritten by one of the major financial institutions while insured mortgages relate to loans provided by banks with LTVs in excess of 80% with the full amount of the mortgage insured. The non-conventional mortgage market in Canada was composed of Alt-A (usually higher credit scores without full documentation) with a smaller component of sub-prime for lesser rated borrowers.

Within the residential mortgage securitization market of CAD24.4 billion, 50.4% were conventional mortgages, 17.6% were insured mortgages and the remaining 32.0% were non-conventional mortgages. While non-conventional and in particular sub-prime mortgages in the U.S. have experienced a significant deterioration in performance, that has not been the case in Canada, a fact which can be linked to a number of factors:

(1) Consumer Behaviour: Canadians tend to be financially conservative with lower household debt to total income than in the United States. This is in part due to more creditor friendly laws in Canada and a societal aversion to bankruptcy filings.

(2) Regulation and Taxation: Mortgage interest is not deductible for tax purposes, providing an incentive to pay down outstanding levels to reduce long-term costs. Also, lenders in most Canadian jurisdictions have recourse to both the property and the individual should there be any shortfall on payment.

(3) Product and Underwriting: Over 60% of mortgages are held by major financial institutions that source the mortgages through their extensive branch networks. Less than 30% of all mortgages are originated through brokerage channels. These facts improve the standard of underwriting applied to each application. In addition, Canada has been more conservative in their product offerings, with products such as Option ARM loans not being offered, and the maximum LTV set at 107% versus up to 125% for the United States.

COMMERCIAL MORTGAGE-BACKED SECURITIES

Canadian CMBS issuance in 2007 totalled $3.6 billion. There were eight transactions brought to market through September 2007. Issuance of new CMBS was non-existent in the fourth quarter in large part due to lack of demand by investors. Issuance in 2007 experienced a greater amount of interest-only loans with three transactions having above 15% concentration. Interest-only debt works in cases where there is a clear exit strategy and not in instances where debt per unit exceeds replacement costs, thereby placing undue reliance on low cost of capital at maturity. As such, DBRS credit enhancement levels are relatively higher to reflect the lack of amortization of loans lacking a clear exit strategy. Even so, the use of the interest-only structure was limited to a few large loans and therefore the 2007 vintage of Canadian CMBS is not nearly as vulnerable as its U.S. counterpart, where it was common to have greater than 50% of the transaction subject to interest-only loans.

Performance of Canadian CMBS remained strong in 2007 as no transactions were subject to downgrade through the year end. DBRS upgraded 59 classes in 11 transactions. The upgrades reflect an increased amount of defeasance within transactions and overall stable performance of the remaining loans. Delinquencies inched up in several transactions, however the delinquency rate at year-end 2007 was still low at 0.16% compared to 0.05% last year.[3] The cause of the increase can be attributed primarily to two loans that defaulted earlier this year: Skeena Mall in British Columbia and Cookstown Mall in Ontario. Both of these have larger loans than the average default, with current balances of $7.1 million and $18 million, respectively. The Cookstown property was expected to defease in the first quarter 2008, resulting in no losses and the Skeena Mall is still in the process of being resolved while the borrower works to secure tenants at the property.

DBRS anticipates lower issuance volumes for 2008 due to the ongoing disruption in the capital markets despite no changes in commercial real estate fundamentals and continued strong performance. Loans maturing in existing CMBS transactions may be extended, but in general due to loan amortization and continued property and cash flow appreciation, the refinance profile looks promising. As a result, upgrades will continue to outpace downgrades in 2008.

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3. Trepp, LLC.

COLLATERALIZED DEBT OBLIGATIONS

Prior to 2007, the performance of CDO transactions rated by DBRS had been very stable. Over time, the cushion between the required transaction credit enhancement and actual credit enhancement levels increased for many transactions due to shortening exposure periods. During 2007, DBRS recorded no upgrades and two downgrades. Prior to 2007, there were no CDO ratings downgrades with a small number of transactions restructured.

The majority of CDOs held in Canadian conduits are synthetically structured transactions backed primarily by investment-grade corporate obligations; however, a small number are CDOs comprised of asset-backed securities, such as U.S. RMBS. Globally, 2007 was a difficult year for the CDO sector, in particular for CDOs with exposure to U.S. non-prime RMBS. In November 2007, DBRS downgraded Apsley Trust (Apsley) as a result of the performance of one of the underlying CDOs held by Apsley, which had 100% exposure to non-prime U.S. RMBS. Apsley became the first Canadian conduit to be downgraded below its initial rating level, dropping as the Series A Class Floating-Rate Notes were downgraded. In December 2007, DBRS downgraded the Class B Notes of a publicly rated CDO transaction with significant exposure to U.S. RMBS. Due to the ongoing deterioration of non-prime U.S. RMBS, more downgrades of CDOs with U.S. RMBS exposure are expected in the coming year.

Corporate bond spreads have widened considerably over the past year, placing pricing pressure on CDO tranches. The pricing volatility affects leveraged super senior (LSS) CDOs, many of which require further collateralization for specified declines in the mark-to-market (MTM) value of the referenced CDO tranche. It is important to note that nearly all DBRS-rated CDO tranches referencing corporate obligations are rated AAA from a probability of default perspective, notwithstanding current pricing volatility. No corporate CDOs were downgraded by DBRS during 2007, and no credit events occurred with respect to corporate entities referenced by DBRS-rated CDOs. Furthermore, the majority of DBRS-rated CDO portfolios referencing corporate obligations have not yet experienced any losses.

DBRS expects significant reductions in CDO issuance in 2008, as the market continues to adjust to a difficult period in credit markets following the benign period of years past. Although corporate downgrades will likely far outpace upgrades in 2008, most of the DBRS-rated CDOs benefit from a large cushion between the actual subordination and the subordination required to achieve a particular rating. As a result, DBRS expects that most DBRS-rated corporate CDOs will maintain their current ratings in 2008.

Transition Rates

DBRS ratings are opinions based on quantitative and qualitative indicators that reflect an issuer's ability and willingness to make timely payments on outstanding obligations with respect to the terms of an obligation. The following tables summarize the one-, two- and three-year historical migration experience for DBRS structured finance credit ratings exclusive of discontinued ratings. For comparison purposes, the Appendix on page 15 contains the one-, two- and three-year historical migration experience for DBRS structured finance credit ratings inclusive of discontinued ratings. DBRS classifies ratings as discontinued in cases when a security pays in full or when DBRS withdraws a rating. Within each of the tables, the vertical axis represents the percentage of issues outstanding, with a beginning-of-period rating that remains or migrates to each potential end-of-period rating, as indicated on the horizontal axis. For example, the second row of the One-Year Rating Transitions table indicates that 92.8% of AA-rated notes remained in that rating category over the one-year transition period while 4.7% of AA-rated notes were upgraded to AAA and 2.5% were downgraded to below "A".

DBRS structured finance ratings have continued to demonstrate stable performance over one-,two,- and three year time horizons with the transition rates for AAA ratings very stable at 99.9%, 100.0% and 100.0% respectively. DBRS AA ratings have also continued to show more positive migration to AAA at levels commensurate with 2006 results. Compared with last year, transition rates moderately increased at the "A", BBB and BB rating levels.

One-Year Transitions (Exclusive of Discontinued Ratings)

Rating at Period Start	End-of-Period Rating									
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D
AAA	99.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	4.7%	92.8%	1.7%	0.3%	0.2%	0.1%	0.0%	0.0%	0.2%	0.0%
A	0.6%	2.7%	89.5%	4.2%	2.3%	0.3%	0.0%	0.0%	0.3%	0.0%
BBB	0.1%	0.3%	2.1%	80.9%	9.4%	5.9%	0.0%	0.0%	1.3%	0.0%
BB	0.0%	0.0%	0.0%	3.0%	77.4%	16.8%	0.0%	0.0%	2.9%	0.0%
B	0.0%	0.0%	0.0%	0.0%	1.5%	96.8%	0.0%	0.0%	1.7%	0.0%
CCC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%
D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%

Two-Year Transitions (Exclusive of Discontinued Ratings)

Rating at Period Start	End-of-Period Rating									
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	12.5%	86.7%	0.5%	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
A	1.8%	5.7%	89.5%	2.3%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	0.1%	0.8%	5.3%	83.0%	7.0%	3.1%	0.0%	0.0%	0.6%	0.0%
BB	0.0%	0.0%	0.0%	7.6%	78.5%	10.1%	0.0%	0.0%	3.8%	0.0%
B	0.0%	0.0%	0.0%	0.0%	3.9%	94.7%	0.0%	0.0%	1.3%	0.0%
CCC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%
D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%

Three-Year Transitions (Exclusive of Discontinued Ratings)

Rating at Period Start	End-of-Period Rating									
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D
AAA	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	28.2%	70.8%	0.5%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
A	3.4%	14.1%	82.0%	0.3%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
BBB	1.3%	0.7%	15.0%	81.4%	1.3%	0.3%	0.0%	0.0%	0.0%	0.0%
BB	0.0%	0.0%	0.0%	17.4%	80.6%	1.3%	0.0%	0.0%	0.6%	0.0%
B	0.0%	0.0%	0.0%	0.0%	8.3%	90.8%	0.0%	0.0%	0.8%	0.0%
CCC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Methodology

The structured finance transition study is based on information obtained from DBRS's proprietary ratings database from 1990 up to and including December 31, 2006. As of January 1, 2007, DBRS's database comprised approximately 8,000 structured finance rating events, which included no defaults. The rating transitions represent historical rating changes and may not reflect future ratings migration patterns. DBRS will continue to refine its methodology, which may produce different results in the future.

DATA SET

The study was limited to long-term (greater than one year) public and Rule 144A structured finance ratings. Corporate debt, sovereign debt, public finance and municipal finance debt were excluded for the purposes of the analysis. Ratings migration was tracked at the issue level.

TRANSITION RATE CALCULATIONS

Transition rates for each given period were calculated by aggregating the number of issues that held a specific rating at the beginning of the relevant period of study. The distribution of the ratings of these same issues at the end of the period was used to determine a transition rate. The transition rates represent a quotient whereby the numerator is the subset of issues that held a specific beginning-of-period rating and currently hold a specific end-of-period rating. The denominator represents the number of issues that held the specific beginning-of-period rating. In the 2007 study, DBRS includes ratings that were in existence for less than one year in the data set as compared to the 2006 study which included ratings that were in existence for at least one full year.

Appendix

One-Year Transitions (Including Discontinued Ratings)

Rating at Period Start	End-of-Period Rating										
	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
AAA	96.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	3.9%
AA	4.6%	91.5%	1.7%	0.3%	0.2%	0.1%	0.0%	0.0%	0.2%	0.0%	1.4%
A	0.6%	2.6%	86.5%	4.1%	2.2%	0.3%	0.0%	0.0%	0.3%	0.0%	3.4%
BBB	0.1%	0.3%	2.0%	79.4%	9.2%	5.8%	0.0%	0.0%	1.3%	0.0%	1.8%
BB	0.0%	0.0%	0.0%	3.0%	77.1%	16.7%	0.0%	0.0%	2.8%	0.0%	0.4%
B	0.0%	0.0%	0.0%	0.0%	1.5%	96.8%	0.0%	0.0%	1.7%	0.0%	0.0%
CCC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%
D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NR	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Two-Year Transitions (Including Discontinued Ratings)

End-of-Period Rating

Rating at Period Start	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
AAA	93.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.4%
AA	12.1%	84.1%	0.5%	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	3.0%
A	1.7%	5.3%	83.1%	2.1%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	7.1%
BBB	0.1%	0.8%	5.2%	80.1%	6.8%	3.0%	0.0%	0.0%	0.6%	0.0%	3.6%
BB	0.0%	0.0%	0.0%	7.6%	78.1%	10.0%	0.0%	0.0%	3.8%	0.0%	0.5%
B	0.0%	0.0%	0.0%	0.0%	3.9%	94.7%	0.0%	0.0%	1.3%	0.0%	0.0%
CCC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NR	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Three-Year Transitions (Including Discontinued Ratings)

End-of-Period Rating

Rating at Period Start	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
AAA	86.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	13.4%
AA	26.8%	67.3%	0.5%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	4.9%
A	2.9%	12.2%	71.3%	0.3%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	13.0%
BBB	1.2%	0.6%	13.8%	75.2%	1.2%	0.3%	0.0%	0.0%	0.0%	0.0%	7.7%
BB	0.0%	0.0%	0.0%	17.4%	80.6%	1.3%	0.0%	0.0%	0.6%	0.0%	0.0%
B	0.0%	0.0%	0.0%	0.0%	8.3%	90.8%	0.0%	0.0%	0.8%	0.0%	0.0%
CCC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CC	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
C	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
D	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
NR	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Note:
Numbers within the transition tables may not fully add to 100% due to rounding.

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