

motor vehicle, residential/home equity, manufactured housing and commercial mortgage backed transactions, as described in this section, are collectively referred to herein as "Designated Transactions."

Motor Vehicle Loan Transactions

34. In a typical motor vehicle transaction, "AAA" rated senior certificates are issued that might represent approximately 90% or more of the principal balances of the certificates, with "A" rated subordinated certificates issued that might represent the remaining 10% or less of the principal balance of the certificates. The total level of credit enhancement from all sources, including excess spread, typically averages approximately 7% of the initial principal balance of certificates issued by prime issuers and 14% for subprime issuers in order to obtain an "AAA" rated certificate. Credit support equaling 3% for prime issuers is usually required in order to obtain an "A" or better rating on the subordinated certificates. Typical types of credit support used in auto transactions are subordination, reserve accounts, excess spread and financial guarantees from "AAA" rated monoline insurance companies. Transactions with subprime sponsors generally use surety bonds as credit enhancement, so there is no subordinated class.

Residential/Home Equity Mortgage Transactions

35. In a typical prime residential mortgage transaction, "AAA" rated senior Securities might be issued which represent approximately 95% of the principal balances of the Securities; "AA" rated subordinated Securities might comprise 2%; "A" rated subordinated 1%; "BBB" rated subordinated 1% and junior subordinated Securities might constitute 1%. The total level of credit enhancement from all sources averages about 4% in order to obtain "AAA" rated Securities, 2% for an "AA" rating, 1.5% for an "A" rating and 1% for a "BBB" rating. Subordination is the predominant type of credit support used in traditional prime residential mortgage transactions.

In a typical "B&C home/equity loan" transaction (loans made primarily to B and C quality borrowers for consolidating credit card and other consumer debt or refinancing mortgage loans), "AAA" rated senior certificates might be issued which represent 80% of the principal balances of the certificates; "AA" rated subordinated certificates might comprise 11%; "A" rated subordinated 6%; "BBB" or lower rated

subordinated certificates might constitute 3%. The total level of credit enhancement from all sources averages about 13% in order to obtain "AAA" rated certificates, 10% for an "AA" rating, 7% for an "A" rating and 3% for a "BBB" rating.

In a typical HLTV ratio (*i.e.*, above 100%) second-lien loan transaction, "AAA" rated senior certificates might be issued which represent approximately 76% of the principal balances of the certificates; "AA" rated subordinated certificates might comprise 10%; "A" rated subordinated 3%; "BBB" rated subordinated 4% and junior subordinated certificates might constitute 7%. The total level of credit enhancement from all sources averages about 24% in order to obtain "AAA" rated certificates, 14% for an "AA" rating, 10% for an "A" rating and 7% for a "BBB" rating. Typical types of credit support used in home equity transactions are subordination, reserve accounts, excess spread, overcollateralization and in transactions which do not use subordination, financial guarantees from "AAA" rated monoline insurance companies or highly rated sponsors.

Manufactured Housing Transactions

36. In a typical manufactured housing transaction, "AAA" rated senior certificates might be issued which represent approximately 80% of the principal balances of the certificates; "AA" rated subordinated certificates might comprise 6%; "A" rated subordinated 5%; "BBB" rated subordinated 5% and junior subordinated certificates might constitute 4%. The total level of credit enhancement from all sources including excess spread averages about 15%–16% in order to obtain "AAA" rated certificates, 10%–11% for an "AA" rating, 7.5%–8.5% for an "A" rating and 3.5%–9% for a "BBB" rating. Typical types of credit support used in manufactured housing transactions are subordination, reserve accounts, excess spread, overcollateralization and financial guarantees from "AAA" rated monoline insurance companies or highly rated sponsors. Overcollateralization is also used as credit support for the subordinated certificates once the seniors have been paid. Because the coupon rate on manufactured housing loans is substantially higher than that charged on traditional residential mortgages, there is a large amount of excess spread (typically more than 300 bps) that can be used for credit support of both senior and subordinated tranches. In other structures, the excess spread is trapped

into a reserve fund which provides the credit support for the subordinated tranches. In still other cases, credit support is provided to an investment-grade subordinated tranche through a junior subordinated tranche which receives principal only after the more senior subordinated tranches are paid. Sponsor guarantees are also used as credit support.

Commercial Mortgage-Backed Securities (CMBS)

37. In a typical CMBS transaction, two classes of "AAA" rated certificates might be issued which represent approximately 78% of the principal balances of the certificates (one such "AAA" class will be issued with a shorter, and the other "AAA" class with a longer, expected maturity); "AA" rated subordinated certificates might represent 5%; "A" rated subordinated 5%; "BBB" rated subordinated 5% and junior subordinated certificates 7%. The total level of credit enhancement from all sources averages about 23% in order to obtain "AAA" rated certificates, 18% for an "AA" rating, 13% for an "A" rating and 7% for a "BBB" rating. Subordination is generally the only type of credit support used in CMBS transactions.

The servicer function in a CMBS transaction is particularly important because not only does the servicer or servicers fulfill the normal functions of collecting and remitting loan payments from borrowers to securityholders and advancing funds for such purposes, but the servicer may also become responsible for activities relating to defaulted or potentially defaulting loans (which are more likely to be restructured than in non-commercial transactions where the loans are usually liquidated). If a servicer advances funds, its credit rating cannot be more than one rating category below the highest rated tranche in the securitization and no less than "BBB" unless it has a qualifying back-up advancer. All entities servicing CMBS transactions must be approved by the rating agencies.

An additional responsibility of the servicer is ensuring that insurance is maintained by each borrower covering each mortgaged property in accordance with the applicable mortgage documents. Insurance coverage typically includes, at a minimum, fire and casualty, general liability and rental interruption insurance but may include flood and earthquake coverage depending on the location of a particular mortgaged property. If a borrower fails to maintain the required insurance coverage or the mortgaged property defaults and becomes an asset