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**Ratings Roundup:**

# Monoline And Financial Institution Rating Volatility Drive Fourth-Quarter U.S. ABS Downgrades

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# Monoline And Financial Institution Rating Volatility Drive Fourth-Quarter U.S. ABS Downgrades

Rating activity among U.S. asset-backed securities (ABS) in the fourth quarter of 2008 was predominantly negative, and was fueled by significant downgrades among student loan, asset-backed commercial paper, manufactured housing, and single-issue synthetic sectors. Standard & Poor's Ratings Services initiated 328 downgrades in the fourth quarter, which represents the most lowered ratings in a single quarter since the second quarter of 2008 and was a 187% increase in downgrade activity from the previous quarter. Not all of the quarter's rating activity was negative, as we also raised 13 U.S. ABS ratings, which mostly benefited auto loan and single-issue synthetic transactions. The 13 upgrades, however, represent a slight dip from the 14 upgrades we initiated in the third quarter of 2008.

We lowered a record 1,209 ratings on U.S. ABS assets in 2008, more than double the previous record of 578 in 2003 and 772% more than the 136 downgrades in 2007. We attribute the record year for downgrades to the significant rating volatility among the monoline bond insurers, as 897 of the lowered ABS ratings (76% of the total) were related to monoline downgrades. Another 263 lowered ratings (22% of the total) were the result of some other type of weak-link relationship. Only 27 of the downgrades in 2008 (2% of the total) can be attributed to deterioration in collateral performance.

The year's downgrades affected 22 asset types, but student loan (371 downgrades; 31% of the total) and single-issue synthetic (369 downgrades; 31% of the total) transactions experienced nearly two-thirds of the total downgrades. Other asset types affected include auto loans (74 downgrades; 6% of the total), new assets (58 downgrades; 5% of the total), manufactured housing (55 downgrades; 5% of the total), rental car (37 downgrades; 3% of the total), and 16 others. The average number of notches per downgrade was 2.59, up from 2.24 in 2007 and 1.90 in 2006. The 1,209 downgrades included nine defaults that affected four asset types: manufactured housing, 12b-1, single-issue synthetics, and future flow.

We raised 62 ratings on U.S. ABS assets in 2008, down significantly from the record 317 upgrades in 2007. The year's upgrades represent the fewest annual upgrades since 2002, when we raised only 41 ratings. Twenty-six of the upgrades (42% of the total upgrades) were attributable to collateral performance and 36 (58% of total upgrades) were due to weak-link relationships. The upgrades affected four asset classes: single-issue synthetics (36 upgrades; 58% of the total), auto loans (23 upgrades; 37% of the total), student loans (two upgrades; 3% of the total) and aircraft (one upgrade; 2% of the total). The average number of notches per upgrade was 2.26, down from 3.23 in 2007 and 2.56 in 2006.

The fourth quarter upgrade-to-downgrade ratio of 0.04:1 was the lowest since the second quarter of 2008, when the ratio was 0.03:1. Similarly, the upgrade-to-downgrade for all of 2008 was not much better at 0.05:1. This is a significant shift from the upgrade-to-downgrade ratio in 2007, which was 2.33:1.

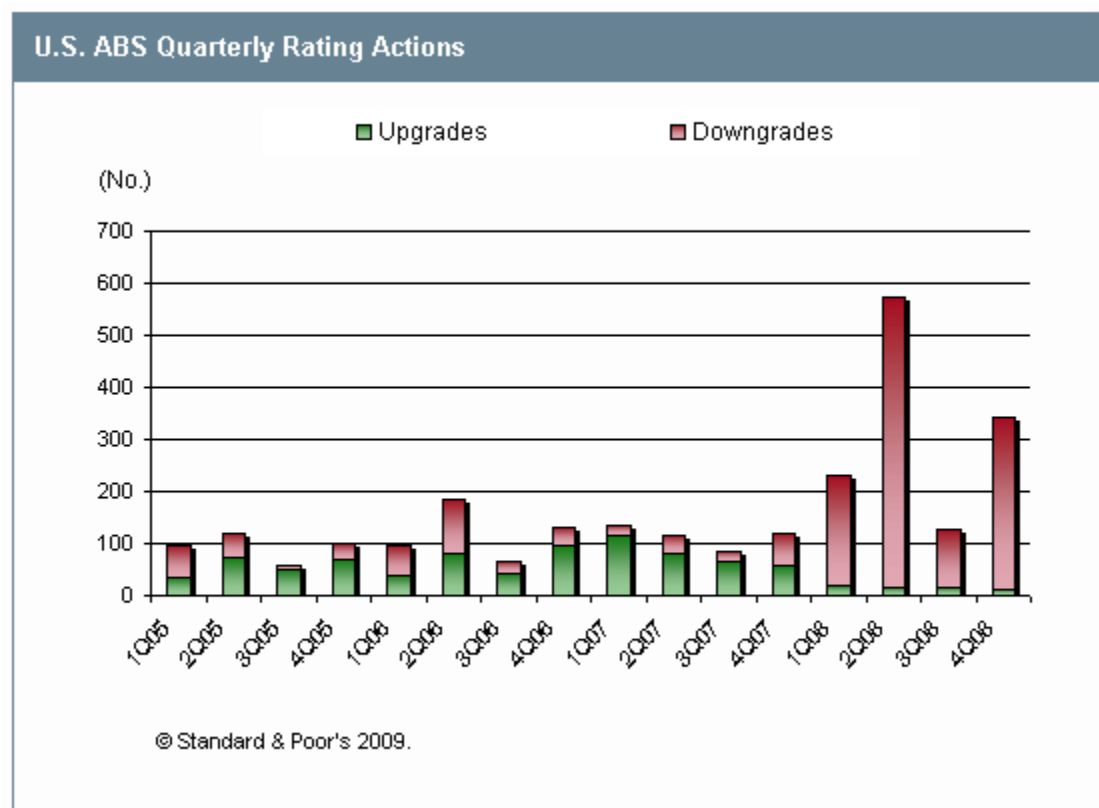
**Table 1**

<b>U.S. ABS Upgrade-To-Downgrade Ratio (Historical)</b>				
<b>Year</b>	<b>Downgrades</b>	<b>Upgrades</b>	<b>Total</b>	<b>Upgrade to downgrade ratio</b>
1985 through 1999	209	103	312	.49:1
2000	183	63	246	.34:1
2001	245	75	320	.31:1
2002	541	41	582	.08:1
2003	578	101	679	.18:1
2004	567	81	648	.15:1
2005	146	219	365	1.50:1
2006	222	255	477	1.15:1
2007	136	317	453	2.33:1
2008	1209	62	1271	.05:1
Life to date (since 1985)	4,036	1,317	5,353	.33:1

**Table 2**

<b>U.S. ABS Upgrade-To-Downgrade Ratio (By Quarter)</b>				
<b>Quarter</b>	<b>Downgrades</b>	<b>Upgrades</b>	<b>Total</b>	<b>Upgrade to downgrade ratio</b>
Q105	60	36	96	.60:1
Q205	46	74	120	1.61:1
Q305	9	49	58	5.44:1
Q405	31	68	99	2.19:1
Q106	59	37	96	.63:1
Q206	104	80	184	.77:1
Q306	26	41	67	1.58:1
Q406	33	97	130	2.94:1
Q107	19	115	134	6.05:1
Q207	37	80	117	2.16:1
Q307	19	64	83	3.37:1
Q407	61	58	119	.95:1
Q108	211	19	230	.09:1
Q208	559	16	575	.03:1
Q308	114	14	128	.13:1
Q408	328	13	341	.04:1
Q105 through Q408	1,716	861	2,577	.50:1

Chart 1



The 328 downgrades in the fourth quarter brought the total for 2008 to 1,209. The 328 lowered ratings affected 15 asset classes. There were 127 single-issue synthetic (39% of the total) downgrades and 90 student loan (27% of the total) downgrades in the fourth quarter, accounting for two-thirds of the total downgrades. In addition, ABCP (5%), manufactured housing (5%), new assets (5%), and aircraft (4%) received another 19% of the total downgrades. The other 15% was spread across the auto loan, floor plan, credit card, railcar/container, and commercial/other asset classes.

The fourth-quarter downgrades affecting student loan securitizations, ABCP conduits, manufactured housing deals, and new asset transactions were primarily driven by monoline or weak-linked party downgrades within the structures. The 13 aircraft-related downgrades were due to our concerns regarding older aircraft types within the collateral pools, historically higher fuel prices, and deteriorating economic conditions.

Table 3

U.S. ABS Downgrades												
Asset class	2002	2003	2004	2005	2006	2007	1Q2008	2Q2008	3Q2008	4Q2008	2008	Total
12b-1	41	9	1	6	26	8	21	5	2	3	31	122
ABCP	NA	NA	NA	NA	NA	3	1	4	5	17	27	30
Aircraft	NA	NA	NA	NA	NA	6	10	10	10	13	43	49
Auto lease	1	-	-	1	2	-	-	-	-	-	-	4
Auto loans	1	18	-	-	-	2	31	34	1	8	74	95
Consumer - other	20	6	-	-	-	1	-	1	-	-	1	28

Table 3

U.S. ABS Downgrades (cont.)												
Commercial - other	-	-	-	-	-	-	-	4	-	8	12	12
Credit card	49	47	2	-	2	3	8	6	8	5	27	130
Dealer floorplan	-	-	-	-	-	-	-	-	-	9	9	9
Equipment lease	1	2	6	-	-	-	6	3	2	1	12	21
Franchise loans	54	30	17	2	-	-	-	14	-	2	16	119
Manufactured housing	174	258	432	42	100	49	6	30	1	15	52	1,107
New assets	7	4	11	14	2	10	14	23	7	14	58	106
Railcar/container	-	-	-	-	-	-	5	13	-	9	27	27
Rental car	6	-	-	4	-	-	16	15	-	6	37	47
Recreational vehicle	1	5	3	4	4	-	3	3	2	-	8	25
Small business loans	-	3	19	8	-	9	-	5	-	1	6	45
Structured settlements	-	-	-	-	-	-	-	15	-	-	15	15
Student loans	-	-	-	-	-	-	3	272	6	90	371	371
Timeshare	-	-	-	-	-	-	9	3	-	-	12	12
Tobacco	-	90	-	-	-	-	-	-	-	-	-	90
Trade receivables	1	1	-	1	-	-	3	-	-	-	3	6
<b>Total ABS downgrades</b>	<b>356</b>	<b>473</b>	<b>491</b>	<b>82</b>	<b>136</b>	<b>91</b>	<b>136</b>	<b>460</b>	<b>44</b>	<b>201</b>	<b>841</b>	<b>2,470</b>
Single-issue synthetics	185	105	76	64	86	45	75	96	70	127	368	929
<b>Total ABS downgrades including single-issue synthetics</b>	<b>541</b>	<b>578</b>	<b>567</b>	<b>146</b>	<b>222</b>	<b>136</b>	<b>211</b>	<b>556</b>	<b>114</b>	<b>328</b>	<b>1,209</b>	<b>3,399</b>

The 10 auto loan transaction upgrades in the fourth quarter affected five transactions from three issuers: WFS Financial, Wachovia Auto Loan Owner Trust, and Credit Acceptance Auto Dealer Loan Trust. Each of the upgrades was primarily attributable to increased credit enhancement (as a percentage of the amortizing pool balances).

Overall, U.S. ABS upgrades declined steeply in 2008. Auto loans experienced 26 upgrades (42% of the total) and single-issue synthetics saw 36 upgrades (58% of the total). Auto loan ABS transactions have experienced nearly 40% of all U.S. ABS upgrades since 2002.

Table 4

U.S. ABS Upgrades												
Asset class	2002	2003	2004	2005	2006	2007	1Q2008	2Q2008	3Q2008	4Q2008	2008	Total
12b-1	2	1	0	0	3	0	0	0	0	0	0	6
Aircraft	0	0	0	0	0	0	0	0	1	0	1	1
Auto lease	0	0	0	0	2	3	0	0	0	0	0	5
Auto loans	25	32	48	87	91	116	6	5	2	10	23	422
Consumer	0	7	0	0	0	2	0	0	0	0	0	9
Credit card	0	6	13	30	37	61	0	0	0	0	0	147
Dealer floorplan	0	0	0	0	0	7	0	0	0	0	0	7
Equipment lease	0	8	2	3	12	12	0	0	0	0	0	37
Franchise loans	0	0	0	0	0	1	0	0	0	0	0	1
Insurance premium	0	0	0	0	0	2	0	0	0	0	0	2
Marine	1	0	0	0	0	0	0	0	0	0	0	1

Table 4

U.S. ABS Upgrades (cont.)												
New assets	0	0	1	0	1	2	0	0	0	0	0	4
Manufactured housing	4	27	0	7	0	6	0	0	0	0	0	44
RV	1	1	0	0	0	0	0	0	0	0	0	2
Student loans	4	8	0	18	0	0	0	0	2	0	2	32
Small business loans	0	0	0	3	3	7	0	0	0	0	0	13
Timeshare	0	0	0	3	11	0	0	0	0	0	0	14
Tobacco	2	0	0	9	5	19	0	0	0	0	0	35
<b>Total ABS upgrades</b>	<b>39</b>	<b>90</b>	<b>64</b>	<b>160</b>	<b>165</b>	<b>238</b>	<b>6</b>	<b>5</b>	<b>5</b>	<b>10</b>	<b>26</b>	<b>782</b>
Single-issue synthetics	2	11	17	67	90	79	13	11	9	3	36	302
<b>Total ABS upgrades including single-issue synthetics</b>	<b>41</b>	<b>101</b>	<b>81</b>	<b>227</b>	<b>255</b>	<b>317</b>	<b>19</b>	<b>16</b>	<b>14</b>	<b>13</b>	<b>62</b>	<b>1,084</b>

We lowered three ratings to 'D' in the fourth quarter, which affected two single-issue synthetic related classes and one 12b-1 class.

Including the three fourth quarter defaults, nine classes defaulted in 2008 across 12b-1, manufactured housing, single issue synthetic, and future flow transactions. Including the 2008 defaults, there have been 296 life-to-date defaults among U.S. ABS transactions, 177 (59% of the total) of which have come from the manufactured housing sector and 39 (13% of the total) have come from franchise loans.

Table 5

U.S. ABS Defaults						
Asset class	Pre-2005 defaults	2005 defaults	2006 defaults	2007 defaults	2008 defaults	Total defaults
12b-1	0	6	8	8	3	25
Aircraft	N/A	N/A	N/A	4	0	4
Franchise loans	38	1	0	0	0	39
Small business loans	3	3	0	1	0	7
Single-issue synthetics	12	2	0	1	2	17
Consumer loans	2	0	0	0	0	2
Credit card	4	0	2	3	0	9
Manufactured housing	112	25	19	18	3	177
New assets	2	0	0	0	1	3
Auto loans	2	0	0	0	0	2
Nonperforming loans	9	0	0	0	0	9
Recreational vehicles	0	1	1	0	0	2
<b>Total</b>	<b>184</b>	<b>38</b>	<b>30</b>	<b>35</b>	<b>9</b>	<b>296</b>

As we expected, the continued deterioration across the economic landscape brought further downward pressure on U.S. ABS ratings due to weakness among monoline bond insurers and other third-party financial institutions that play roles within these structured transactions. In addition, we continue to see weakened collateral performance across most asset classes; however, we don't expect this trend to translate into widespread downgrades among U.S. ABS going forward.

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