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### Moodys Email from Nicolas Weill to Raymond McDaniel and Brian Clarkson re 2005 Closed End Seconds

Raymond McDaniel

Nicholas Weill

Brian Clarkson

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**From:** McDaniel, Raymond  
**Sent:** Thursday, July 5, 2007 2:49 PM (GMT)  
**To:** Weill, Nicolas <Nicolas.Weill@moodys.com>; Clarkson, Brian <Brian.Clarkson@moodys.com>  
**Cc:** Laserson, Fran <Fran.Laserson@moodys.com>  
**Subject:** RE: 2005 Closed End Seconds

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Very helpful. Couple of comments.

-----Original Message-----

**From:** Weill, Nicolas  
**Sent:** Wednesday, July 04, 2007 11:52 AM  
**To:** McDaniel, Raymond; Clarkson, Brian  
**Cc:** Laserson, Fran  
**Subject:** RE: 2005 Closed End Seconds

Ray

Thank you for your email.

In the past few years we have reviewed entire shelves (all Ameriquest or CSFB of 2003 and 2004 for example) or entire vintages (jumbo review of all jumbo deals from 2004). In addition we have also reviewed transactions that had a rating implied lower or higher than their current rating.

At the end of 2006 we started to put a few transactions of 2006 on watch as we saw performance deteriorating. This was a very unusual situation as never before had we put on watch deals rated in the same calendar year. Here is an example: in November 2006 we put the SocGen deal with Fremont collateral on watch. It did attract a lot of questions from issuers and investors like "how did you pick this specific deal/ isn't the 2006 issue a systemic issue?". We were able to answer the questions easily in light of the extreme performance of this deal. Over the course of the following weeks we continued to put **selected** non performers on watch.

However when you get to the point where you have significant number of transactions that all perform below expectations but similarly across their peer group we felt that it made a lot more sense to review broader vintages together and the market has received this quite well. Putting together your comments from the last two paragraphs, it looks like the story is: early rating actions on the 2006 vintage were related to specific originators whose pools were performing below peers; more recently, system-wide deterioration has led to rating actions being applied to the vintage rather than to a few outlying originators...

On your specific questions regarding the 2005 Closed End Second review here are the answers I would suggest:

1. Indeed we reviewed all the CES 2006 about two weeks ago (over 250 downgrades and no upgrade) as they were performing dramatically below expectations and we issued press releases on the entire vintage together with a general press release explaining the issues on the specific vintage. This was well received and understood by investors, issuers and the press. It did make sense to cover 2006 first in light of the urgency.
2. The 2005 vintage was the next priority as the mid to end of 2005 exhibits some of the weaknesses similar to the 2006 vintage (aggressive origination process and lack of home price appreciation). The statistics are more balanced between upgrades and downgrades and the downgrades are not as severe and limited to Baa's and Ba's. The 2005 CES press releases will be accompanied by a general press release covering statistics and general comments on the CES 2005. It will cover the %s as you describe them in your email. I will circulate the press release to the sub prime group and senior management prior to release. Thanks.
3. The 2004 vintage has been reviewed last year with a significant number of upgrades (better origination criteria, more prepayments and better home price appreciation). I will be happy to send you statistics on that front as well. Thanks.

In light of all these points I don't expect negative feedback on "what's next in the closed end second universe". I do however expect questions like "now that CES have been covered what is next?". As you know we will be presenting to you the results of our 2006 first lien comprehensive analysis that we will conclude tomorrow. We are also drafting a detailed press release on the 2006 first liens explaining our process.

Please let me know if this addresses your questions and concerns or if you would like to discuss further today. I look forward to presenting more on the 2006 vintage tomorrow.

Thank you

Nicolas

-----Original Message-----

**From:** McDaniel, Raymond  
**Sent:** Wednesday, July 04, 2007 10:24 AM  
**To:** Clarkson, Brian; Weill, Nicolas  
**Cc:** Subprime Working Group - Jim Badenhausen; Laserson, Fran  
**Subject:** FW: 2005 Closed End Seconds

Brian,

Questions I think we might get:

- o How unusual is it to do these grouped rating actions by vintage? (I know we did this a few weeks ago, but I'm not close enough to the customary process. If a departure from normal procedure, do we need to explain why?)
- o Why we are releasing rating actions on the 05's and only the 05's? Given the number of rating actions on the 05's, hard to believe that ratings on earlier vintages + the 06's are all stable... For example, do we say on Thursday that rating actions on the 06's will be coming next week? And then what do we say about earlier vintages?
- o Why only closed end seconds affected? (I guess this goes to the monitoring process itself. Taking rating actions on 05 closed end seconds implies that we monitor by class of asset – e.g. closed seconds – and by vintage, and that we release rating action updates on a rolling basis according to that monitoring process? If so, should we confirm that process? And people will then ask what's next on the monitoring list, what's after that, etc etc?)

Should we include in our communication the total \$\$ volume subject to rating actions vs. the total \$\$ volume rated in 05? If the percentage is small, helps to keep things in perspective.

I'm available at 12:30 and 3 PM or later on Thursday if you and Nicolas are. Bunch of meetings in the morning (and I'm going over to see Geithner from the NY Fed at 11:30. You're welcome to join me if you have time).

Ray

-----Original Message-----

**From:** Clarkson, Brian  
**Sent:** Wednesday, July 04, 2007 8:10 AM  
**To:** McDaniel, Raymond  
**Subject:** RE: 2005 Closed End Seconds

Nicolas and I will update you Thursday. Is there a time that works for you?

-----Original Message-----

From: McDaniel, Raymond

Sent: Tuesday, July 03, 2007 7:01 PM

To: Clarkson, Brian

Subject: Re: 2005 Closed End Seconds

Brian, I'll take a look at everything in the AM. On my way to Quogue. Will be in the office Thurs AM. Ray

-----Original Message-----

From: Clarkson, Brian

To: McDaniel, Raymond; Huber, Linda; Dering, Jeanne; Goggins, John; Mahoney, Christopher; Murray, Chester; Laserson, Fran

CC: Kirnon, Noel; Robinson, Claire

Sent: Tue Jul 03 16:03:02 2007

Subject: Fw: 2005 Closed End Seconds

Here is our plan for the 2005 vintage closed end seconds. We plan to release this on thursday of this week in advance of actions on the 2006 vintage of 1st leins. We don't want to confuse the market by combining the 2. Since the upgrades and downgrades are fairly balanced we don't think we will be taken to task for putting this out this week. I would like others views on this including RLM's. We are reviewing every 2006 first lein tranche on thursday and friday with plan to issue our findings tuesday with a teleconference on thursday. Again thoughts appreciated.

-----Original Message-----

From: Weill, Nicolas

To: Clarkson, Brian

CC: Kanef, Michael; Robinson, Claire; Snailer, Joseph

Sent: Tue Jul 03 14:16:20 2007

Subject: 2005 Closed End Seconds

We plan on releasing a press releasing on Thursday morning including the following comprehensive rating actions on the 2005 universe of closed end second liens backed deals.

Here is the breakdown of rating actions :

- \* 127 tranches with actions
- \* 52 Upgrades
- \* 52 downgrades (27 of those include review for further downgrade)
- \* 23 tranches just placed on review for downgrade
- \* All tranches downgraded or placed on review for downgrade are Baa or lower.

We will also be issuing a press release commenting on the actions.

Brian: Please let me know if you would like to forward this information to Ray, Linda and senior management as well as Fran and communication.

Nicolas