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July 18, 2007, 12:19 p.m. ET

S&P Downgrades \$3.8 Billion In Mortgage-Backed Debt

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By DANIELLE REED

Standard & Poor's kept worries about mortgage credit in focus Thursday by announcing downgrades of 418 classes of bonds backed mainly by so-called "piggyback" loans.

Some of the roughly \$3.8 billion in bonds downgraded were from higher-rated investment grade tranches, including eight classes of AAA-rated bonds from three transactions. A New Century-affiliated issuer was responsible for three of the AAA classes downgraded.



Scorecard

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Piggyback loans are second mortgages typically taken out by borrowers who can't otherwise come up with a 20% down payment to buy their home. Borrowers will take out a first mortgage for 80% of the purchase price and then a second, or piggyback, mortgage for much or all of the remainder.

But with less of a financial stake in their homes, borrowers are more at risk when interest rates rise and home prices fall than are borrowers who have made a full down payment.

S&P said in a press release that smaller down payments as well as in some cases lower credit scores for some borrowers raise loss and default probabilities. Specifically, the rating agency said it was increasing its default and loss assumptions for loans where borrowers had less than a 5% down payment and loans to borrowers with credit scores at or below 660.

"These are the loan characteristics we currently believe are most predictive of the higher defaults and losses in the transactions being downgraded," S&P said.

In total, nearly 80% of the lowered ratings on the 418 classes of bonds were from classes rated BBB+ or lower, S&P said. There were also 17.19% from the A category, 3.15% from AA and 0.73% from AAA.

In addition, ratings on 19 classes of mortgage bonds backed by piggyback loans were affirmed and removed from credit watch, S&P said. A total of 10 bond classes from five different transactions of three different issuers remain on credit watch.

Write to Danielle Reed at danielle.reed@dowjones.com

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The U.S. and China introduced a new round of sanctions against North Korea at the United Nations that the U.S. said would significantly impede the development of Pyongyang's nuclear and missile programs, in response to its test last month of an atomic bomb.

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