



SATURDAY, MAY 17, 2008

A Sorry Tale of A Second Lien Security

by Tanta

[Floyd Norris](#) thinks this Merrill Lynch subprime second lien security issued a year ago this month is "a candidate for the title of worst ever." I suspect there are measurably worse deals out there whatever criteria you happen to be using, but Norris's observation that this one closed right at the time when a number of ugly facts--like the bankruptcy of the major originator and Merrill's involvement in it--were actually all over the newspapers (not to mention the blogs) is quite relevant. If you were reading the daily paper, not to mention your Bloomberg terminal, you knew about the problem. But somebody bought this dog anyway.

If you care to know, the deal in question is Merrill Lynch Mortgage Investors Trust, [Series 2007-SL1](#). Norris runs down the list of ugly characteristics of this deal, but here are a few additional uglies:

- 81% of the loans were purchase-money.
- Nearly 98% of them were fixed-rate loans (only slightly more than 2% were HELOCs).
- The weighted average Debt-to-Income ratio was 44.27%. As the overwhelming majority of the loans were stated income, and as it is likely that the first-lien mortgage payment used to calculate the DTI was based on a teaser-rate ARM, you can confidently assume that the true average DTI was significantly higher than that.
- The weighted average loan age was 7 months when the deal closed in May of 2007, meaning that most of the loans were originated in Q4 2006. By and large, this pool of loans would have had most of the "EPDs" (Early Payment Defaults) selected out of it.
- The A classes originally had 45.20% credit support and were rated Aaa by Moody's. As of last week, the A-1 bond is rated B3 and the A-2 bond is rated Caa1.

How fast did it all unwind? That, I think, is an interesting question given the reports we've seen in the last few days of an acceleration in losses on HELOC pools. Cumulative losses for the pool for its first twelve remittance months were: 0.00 0.01 0.01 0.15 0.95 2.70 5.50 7.81 10.59 13.37 16.00 19.40.

But nobody could have seen this coming.

Posted by Tanta at 6:49 AM

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