D RMBS Bondholder Protections

Multiple layers of protections

Sell the Asset (e.g. House, Car, etc)	▪ The Loan to Valuation (LTV) ratio of the assets securing the bond forms the first line of defence. ▪ If the LTV ratio is 70%, the asset value must fall by approximately 25% for the potential of loss.
Claim on LMI (only RMBS)	▪ RMBS may contain Lenders Mortgage Insurance (LMI). ▪ In the event of loss (after selling the asset) the lender can claim on LMI.
Excess Interest tops up Bond holders	▪ Excess Spread is the originator's profit which they collect each month. ▪ Assuming the sale of the asset is not sufficient to cover the loss, and LMI is not payable bond holders are paid from Excess Interest (i.e. the originator's profit). ▪ Excess Interest is available to cover between 60bps – 110bps pa of first losses on Prime RMBS.
Non-rated bonds suffer, followed by next lowest rated, and so on	▪ For bonds to be impacted; asset sales, LMI and Excess Interest must not have covered losses. ▪ S&P has never lowered the rating to D (Default) on any RMBS transaction in Australia.