

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has downgraded two and affirmed 12 classes of RFC CDO 2007-1 (RFC 2007-1), reflecting Fitch's base case loss expectation of 62.5%. Fitch's performance expectation incorporates prospective views regarding commercial real estate market values and cash flow declines. A detailed list of rating actions follows at the end of this release.

KEY RATING DRIVERS

The performance of the transaction has been in line with expectations over the last year. However, Fitch remains concerned about a default in the payment of timely interest given the significant hedge counterparty payment and increasing concentration of the portfolio. Per Fitch categorizations, commercial real estate loans (CREL) comprise approximately 67.7% of the collateral of the CDO. Approximately 35.5% of the assets are whole loans and 32.2% are B-note. Commercial mortgage backed securities (CMBS) represents 32.3% of the total collateral.

Since the last rating action in July 2013, approximately 6.1% of the underlying CMBS collateral has been upgraded. As of the May 2013 trustee report, 14.8% of the CMBS collateral had a Fitch derived rating in the 'CCC' category and below, compared to 35% at the last rating action. Over this period, the class A-1 notes have received approximately \$10.5 million in principal paydowns.

Under Fitch's methodology, approximately 88.5% of the portfolio is modeled to default in the base case stress scenario, defined as the 'B' stress. Fitch estimates that average recoveries will be 29.4% reflecting the low recovery expectations upon default of the CMBS tranches and real estate loans.

Over the past three years, interest proceeds have consistently been insufficient to pay the interest due on the timely classes and hedge counterparty payments; the interest due on these classes has been paid from principal proceeds. Fitch continues to be concerned about the CDO's ability to make timely interest payments to the A-1/A-1R classes given the diminished amount of interest proceeds and significant swap counterparty payments. The affirmation at 'CCC' reflects the possibility going forward that interest and/or principal proceeds will not be sufficient to pay the timely interest class, especially if there are

further defaults or delinquencies on the underlying collateral. Ultimate recoveries to the class, however, should be substantial.

Since the last rating action, the CUSIP collateral has experienced principal writedowns. This, along with the principal being used to pay interest, has resulted in the class A-2 notes becoming undercollateralized. As a result, the class A-2 notes have been downgraded and the class B through L notes have been affirmed at 'Csf', indicating default is inevitable.

The largest component of Fitch's base case loss is the expected losses on the CMBS bond collateral. The second largest contributor to loss is a B-note (6.5%) on a 314,074 square foot (sf) office tower located in San Diego, CA. The loan is highly leveraged and current income continues to be insufficient to cover the debt service, although, the sponsor has kept it current.

The third largest contributor to loss is a subordinate mortgage participation (5.1%) originally collateralized by four casino/hotel properties located in Atlantic City, NJ, East Chicago, IN, Robinsonville, MS and Tunica, MS. Two of the original properties were released and the remaining two properties are currently real estate owned (REO) assets. The estimated value of the collateral is less than the senior debt amount. Fitch modeled a term default and a full loss on the position.

This transaction was analyzed according to the 'Surveillance Criteria for U.S. CREL CDOs and CMBS Large Loan Floating-Rate Transactions', which applies stresses to property cash flows and debt service coverage ratio (DSCR) tests to project future default levels for the underlying CREL collateral in the portfolio and uses the Portfolio Credit Model for the CMBS collateral. Recoveries for the CREL collateral are based on stressed cash flows and Fitch's long-term capitalization rates.

RATING SENSITIVITIES

The ratings on the class A-1 through B notes may be subject to downgrades if principal proceeds are insufficient to pay the timely interest of the notes.

Fitch has downgraded the following classes:

--\$125,000,000 class A-2 to 'Csf' from 'CCsf'; RE 30%;

--\$25,000,000 class A-2R to 'Csf' from 'CCsf'; RE 30%.

Fitch has affirmed to following classes:

--\$42,186,002 class A-1 at 'CCCsf'; RE 100%;

--\$4,687,334 class A-1R at 'CCCsf'; RE 100%;

--\$86,500,000 class B at 'Csf'; RE 0%;

--\$50,852,882 class C at 'Csf'; RE 0%;

--\$20,231,317 class D at 'Csf'; RE 0%;

--\$16,012,521 class E at 'Csf'; RE 0%;

--\$24,415,745 class F at 'Csf'; RE 0%;

Fitch Downgrades Two and Affirms 12 Classes of RFC CDO 2007-1

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--\$16,363,676 class G at 'Csf'; RE 0%;

--\$26,671,890 class H at 'Csf'; RE 0%;

--\$20,130,182 class J at 'Csf'; RE 0%;

--\$18,884,634 class K at 'Csf'; RE 0%;

--\$12,015,407 class L at 'Csf'; RE 0%.

Additional information is available at ' www.fitchratings.com '.

Applicable Criteria and Related Research:

--'Surveillance Criteria for U.S. CREL CDOs and CMBS Large Loan Floating-Rate Transactions' (Nov. 25, 2013);

--'Global Structured Finance Rating Criteria' (May 20, 2014);

--'U.S. Fixed-Rate Multiborrower CMBS Surveillance and Re-REMIC Criteria' (Dec. 11, 2013);

--'Global Rating Criteria for Structured Finance CDOs' (Sept. 12, 2013).

Applicable Criteria and Related Research:

Surveillance Criteria for U.S. CREL CDOs and CMBS Large Loan Floating-Rate Transactions

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=723059

Global Structured Finance Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=748821

U.S. Fixed-Rate Multiborrower CMBS Surveillance and Re-REMIC Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=724961

Global Rating Criteria for Structured Finance CDOs

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=718027

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=838980

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