FitchRatings

Fitch Downgrades FTPYME Bancaja 3, FTA's Class B Notes

Ratings Endorsement Policy
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Fitch Ratings-London-11 July 2013: Fitch Ratings has downgraded FTPYME Bancaja 3, FTA's class B notes and affirmed the others, as follows:

EUR4.1m Class A3(G) (ISIN ES0304501028): affirmed at 'AA-sf'; Outlook Negative
EUR12.4m Class B (ISIN ES0304501036): downgraded to 'A+sf' from 'AA-sf'; Outlook Stable
EUR20.0m Class C (ISIN ES0304501044): affirmed at 'Bsf'; Outlook Negative
EUR8.2m Class D (ISIN ES0304501051): affirmed at 'CCCsf'; Recovery Estimate 5%

KEY RATING DRIVERS
The affirmation of the class A3(G), C, and D notes reflects adequate levels of credit enhancement which offset the deterioration in portfolio performance since the last review. Loans in arrears of more than 90 days have increased to 8.9% of the total portfolio, from 8.7% in June 2012. The balance of defaulted assets in the portfolio has risen to EUR10.7m from EUR7.0m in June 2012. Recoveries have been minimal since June 2012 and consequently the reserve fund has been depleted.

The downgrade of the class B notes reflects their exposure to payment interruption risk in the case of servicer disruption. Since the reserve fund is depleted, the class B notes would have no source of liquidity while collections from the portfolio are not forthcoming during the servicer replacement period. The highest achievable rating for the note is therefore limited to 'A+sf' (see 'Criteria for Rating Caps and Limitations in Global Structured Finance Transactions', dated 12 June 2013, for more details). The Stable Outlook on the class B notes reflects the high level of credit enhancement available to the notes.

Payment interruption risk for the class A3(G) notes is mitigated by the prefunded liquidity facility (guarantee fund) which forms part of the guarantee mechanism available to the class A3(G) note. Fitch only gave credit to the guarantee fund held in the issuer's treasury account and did not give credit to disbursements by the guarantor in rating scenarios above the rating of the guarantor.

The class A3(G) notes benefit from a guarantee from the Kingdom of Spain (BBB/Negative/F2), which covers payment of accrued interest and principal for the note when due. A claim is submitted under the guarantee whenever the trustee determines that the transaction has insufficient funds to pay principal and interest due on the class A3(G) notes on a particular payment date. The Kingdom of Spain will make a disbursement under the guarantee three months after the claim is submitted. Disbursements under the guarantee are a liability of the SPV and rank pari passu with the class A3(G) notes.

At closing, the issuer entered into a liquidity facility agreement with Caja de Ahorros de Valencia, Castellon y Alicante (Bancaja; now part of Bankia S.A., BBB/RWN/F2) to mitigate the impact of the three-month payment lag under the guarantee. The liquidity line is used on any payment date when the issuer would otherwise be unable to pay all interest and principal due on the class A3(G) notes. The liquidity line drawings are then repaid from the corresponding guarantee disbursements.

Following the downgrade of the liquidity facility provider below 'F1', the issuer drew the entire available amount of the liquidity facility and deposited the funds in the treasury account, currently held at Barclays Bank plc (A/Stable/F1). On the June 2013 payment date, a guarantee fund drawing of EUR1.3m was made to pay principal due on the class A3 (G) notes. The remaining balance of the guarantee fund is EUR2.8m.

The transaction has already experienced principal shortfalls in 2010 and 2011. However, no principal was due on the class A3(G) notes and hence the guarantee mechanism was not triggered at that time.

FTPYME Bancaja 3, FTA, is a granular cash flow securitisation of a static portfolio of secured and unsecured loans granted to Spanish small- and medium-sized enterprises by Bancaja.

RATING SENSITIVITIES
Applying a 1.25x default rate multiplier to all assets in the portfolio would not result in a downgrade of the notes.

Applying a 0.75x recovery rate multiplier to all assets in the portfolio would result in a downgrade of the notes by at most one notch.

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Additional information is available on www.fitchratings.com

Source of information: The information used to assess these ratings was sourced from periodic investor reports and the trustee.

Applicable criteria 'Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)', dated 28 March 2013; 'Counterparty Criteria for Structured Finance and Covered Bonds', dated 13 May 2013; 'Criteria for Rating Caps and Limitations in Global Structured Finance Transactions', dated 12 June 2013 are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Criteria for Rating Granular Corporate Balance-Sheet Securitisations (SME CLOs)
Counterparty Criteria for Structured Finance and Covered Bonds
Criteria for Rating Caps and Limitations in Global Structured Finance Transactions

Additional Disclosure
Solicitation Status