

Rating Action: Moody's takes multiple rating actions on four Spanish ABS SME transactions

Global Credit Research - 22 Mar 2013

Frankfurt am Main, March 22, 2013 -- Moody's Investors Service has today downgraded by three notches Class B and Class C in FTPYME BANCAJA 2, Fondo de Titulización de Activos (FTPYME BANCAJA 2), downgraded three notches Class C of PYME BANCAJA 5, Fondo de Titulización de Activos (PYME BANCAJA 5) and upgraded Class B in FTPYME BANCAJA 3, Fondo de Titulización de Activos (FTPYME BANCAJA 3). Concurrently, Moody's confirmed all the notes in PYME BANCAJA 7, Fondo de Titulización de Activos (PYME BANCAJA 7). Insufficient credit enhancement to address sovereign risk and exposure to counterparty risk has prompted the downgrades, while high credit enhancement has driven the upgrade. This rating action concludes the review for downgrade initiated by Moody's on 2 July 2012. All four affected transactions are Spanish asset-backed securities (ABS) transactions backed by loans to small and medium-sized enterprises (SME). Bancaja, which is now part of Bankia (Ba2 uncertain/NP), originated the transactions. See towards the end of the ratings rationale section of this press release for a detailed list of affected ratings.

RATINGS RATIONALE

Today's downgrades primarily reflect the insufficiency of credit enhancement to address sovereign risk, while the upgrade reflected the presence of adequate credit enhancement (i.e., 54.8%) to offset this risk. The introduction of new adjustments to Moody's modelling assumptions to account for the effect of deterioration in sovereign creditworthiness has, to varying degrees, affected all of the Spanish SME ABS included in today's rating action. This action also reflects the revision of key collateral assumptions and increased exposure to lowly rated counterparties. At the same time, Moody's confirmed the ratings of securities whose credit enhancement and structural features provided enough protection against sovereign and counterparty risk.

The determination of the applicable credit enhancement that drives today's rating actions reflects the introduction of additional factors in Moody's analysis to better measure the impact of sovereign risk on structured finance transactions (see "Structured Finance Transactions: Assessing the Impact of Sovereign Risk", 11 March 2013). This report is available on www.moodys.com and can be accessed via the following link: (http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF319988)

-- Additional Factors Better Reflect Increased Sovereign Risk

Moody's has supplemented its analysis to determine the loss distribution of securitised portfolios with two additional factors, the maximum achievable rating in a given country (the local currency country risk ceiling) and the applicable portfolio credit enhancement for this rating. With the introduction of these additional factors, Moody's intends to better reflect increased sovereign risk in its quantitative analysis, in particular for mezzanine and junior tranches.

The Spanish country ceiling is A3, which is the maximum rating that Moody's will assign to a domestic Spanish issuer including structured finance transactions backed by Spanish receivables. The portfolio credit enhancement represents the required credit enhancement under the senior tranche for it to achieve the country ceiling. By lowering the maximum achievable rating, the revised methodology alters the loss distribution curve and implies an increased probability of high loss scenarios.

Under the updated methodology incorporating sovereign risk on ABS transactions, loss distribution volatility increases to capture increased sovereign-related risks. Given the expected loss of a portfolio and the shape of the loss distribution, the combination of the highest achievable rating in a country for structured finance transactions and the applicable credit enhancement for this rating uniquely determine the volatility of the portfolio distribution, which the coefficient of variation (CoV) typically measures for ABS transactions. A higher applicable credit enhancement for a given rating ceiling or a lower rating ceiling with the same applicable credit enhancement both translate into a higher CoV.

-- Moody's Revises Key Collateral Assumptions

Moody's maintained its default and recovery rate assumptions for the four transactions, which it updated on 18 December 2012 (see "Moody's updates key collateral assumptions in Spanish ABS transactions backed by loans to SMEs" http://www.moody's.com/research/Moodys-updates-key-collateral-assumptions-in-Spanish-ABS-transactions-backed-PR_262512). According to the updated methodology, Moody's increased the CoV, which is a measure of volatility, in three of the four transactions.

For FTPYME BANCAJA 2, the current default assumption is 20.0% of the current portfolio and the assumption for the fixed recovery rate is 60.0%. Moody's has increased the CoV to 72.4% from 58.0%, which, combined with the revised key collateral assumptions, resulted in a portfolio credit enhancement of 23.8%.

For FTPYME BANCAJA 3, the current default assumption is 23.9% of the current portfolio and the assumption for the fixed recovery rate is 45.0%. Moody's has increased the CoV to 54.4% from 37.0%, which, combined with the revised key collateral assumptions, resulted in a portfolio credit enhancement of 30.9%.

For PYME BANCAJA 5, the current default assumption is 25.2% of the current portfolio and the assumption for the fixed recovery rate is 45.0%. Moody's has increased the CoV to 56.6% from 45.0%, which, combined with the revised key collateral assumptions, resulted in a portfolio credit enhancement of 32.1%.

For PYME BANCAJA 7, the current default assumption is 31.6% of the current portfolio and the assumption for the fixed recovery rate is 40.0%. Moody's has decreased the CoV to 57.3% from 60.0%, which, combined with the revised key collateral assumptions, resulted in a portfolio credit enhancement of 43.5%. The drop in CoV stems from a decrease of the current default assumption as a percentage of the portfolio at closing.

-- Counterparty Exposure Has Prompted Action

The conclusion of Moody's rating review also takes into consideration the exposure to 1) Bankia, which acts as the servicer and collection account bank in all four transactions and swap counterparty in FTPYME BANCAJA 2 and FTPYME BANCAJA 3; 2) Barclays Bank PLC (A2/P-1), which acts as issuer account bank and paying agent in FTPYME BANCAJA 2, FTPYME BANCAJA 3 and PYME BANCAJA 5; and 3) Banco Santander S.A. (Baa2/P-2), which acts as issuer account bank and paying agent in PYME BANCAJA 7.

Today's rating action incorporates increased exposure to commingling risk because of weakened counterparty creditworthiness. In its role as servicer for FTPYME BANCAJA 2, FTPYME BANCAJA 3 and PYME BANCAJA 5, Bankia transfers the collections from portfolios weekly (daily in the case of PYME BANCAJA 5) from the collection account to the Barclay's account. In the case of PYME BANCAJA 7, Bankia transfers cash daily to the Santander (Baa2/P-2) account, where the reserve fund is also kept.

As part of its analysis, Moody's also assessed the exposure to Bankia as swap counterparty in FTPYME BANCAJA 2 and FTPYME BANCAJA 3. Based on the provided information, Bankia has been posting cash collateral on a weekly basis. The revised ratings of the notes, which reflect the insufficiency of credit enhancement to address sovereign risk, are consistent with this exposure. The swap counterparty is JP Morgan Chase Bank (Aa3/P-1) in PYME BANCAJA 5 and PYME BANCAJA 7.

-- Other Developments May Negatively Affect the Notes

In consideration of Moody's new adjustments, any further sovereign downgrade would negatively affect structured finance ratings through the application of the country ceiling or maximum achievable rating, as well as potentially increased portfolio credit enhancement requirements for a given rating.

As the euro area crisis continues, the ratings of structured finance notes remain exposed to the uncertainties of credit conditions in the general economy. The deteriorating creditworthiness of euro area sovereigns as well as the weakening credit profile of the global banking sector could further negatively affect the ratings of the notes.

Moody's describes additional factors that may affect the ratings in its Rating Implementation Guidance report, "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines", 18 March 2013; and the Request for Comment, "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cashflow Transactions: Request for Comment", 02 July 2012.

In reviewing these transactions, Moody's used ABSROM to model the cash flows and determine the loss for each tranche. The cash flow model evaluates all default scenarios, which Moody's then weights considering the probabilities of the inverse-normal distribution assumed for the portfolio default rate. In each default scenario, Moody's calculates the corresponding loss for each class of notes given the incoming cash flows from the assets

and the outgoing payments to third parties and noteholders. Therefore, the expected loss for each tranche is the sum product of the probability of occurrence of each default scenario; and the loss derived from the cash flow model in each default scenario for each tranche.

As such, Moody's analysis encompasses the assessment of stressed scenarios. When remodelling the transaction(s) affected by today's rating action(s), Moody's has adjusted some inputs to reflect the new approach described above.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating CDOs of SMEs in Europe", published in February 2007. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

The revised approach to incorporating country risk changes into structured finance ratings forms part of the relevant asset class methodologies, which Moody's updated and republished or supplemented on 11 March 2013, along with the publication of its Special Comment "Structured Finance Transactions: Assessing the Impact of Sovereign Risk".

Moody's describes other factors used in these ratings in its Rating Implementation Guidance report, "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines", 18 March 2013.

LIST OF AFFECTED RATINGS

Issuer: FTPYME BANCAJA 2, Fondo de Titulización de Activos

...EUR199.5MA3(G) Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

...EUR32M B Notes, Downgraded to Baa3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

...EUR11.8M C Notes, Downgraded to Caa2 (sf); previously on Jul 2, 2012 B2 (sf) Placed Under Review for Possible Downgrade

Issuer: FTPYME BANCAJA 3, Fondo de Titulización de Activos

...EUR153.9MA3(G) Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

...EUR28.9M B Notes, Upgraded to A3 (sf); previously on Jul 2, 2012 Baa1 (sf) Placed Under Review for Possible Downgrade

...EUR46.7M C Notes, Affirmed Caa2 (sf); previously on Jan 27, 2010 Downgraded to Caa2 (sf)

Issuer: PYME BANCAJA 5, Fondo de Titulización de Activos

...EUR618.2MA3 Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

...EUR62.7M B Notes, Confirmed at Ba3 (sf); previously on Jul 2, 2012 Ba3 (sf) Placed Under Review for Possible Downgrade

...EUR24.1M C Notes, Downgraded to Ca (sf); previously on Jul 2, 2012 Caa1 (sf) Placed Under Review for Possible Downgrade

Issuer: PYME BANCAJA 7, Fondo de Titulización de Activos

...EUR837.6MA Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

...EUR119.4M B Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 A3 (sf) Placed Under Review for Possible Downgrade

....EUR143M C Notes, Confirmed at Baa3 (sf); previously on Jul 2, 2012 Baa3 (sf) Placed Under Review for Possible Downgrade

REGULATORY DISCLOSURES

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of these transactions in the past six months.

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