

**Rating Action: Moody's reviews for downgrade EMEA RMBS and ABS transactions due to swap counterparty risks**

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Global Credit Research - 14 Nov 2013

Madrid, November 14, 2013 -- Moody's Investors Service has today placed on review for downgrade the ratings of 150 notes in 48 residential mortgage-backed securities (RMBS) and 17 notes in 14 asset-backed securities (ABS) due to swap counterparty exposure. At the same time, Moody's placed on review for upgrade three tranches in two RMBS transactions. The determination of the linkage between swap counterparties and the credit quality of the notes reflects Moody's updated approach to assessing linkage to swap counterparties in structured finance cash flow transactions: "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cash Flow Transactions" published on the 12th November 2013.

Please click on this link [http://www.moodys.com/viewresearchdoc.aspx?docid=PBS\\_SF347639](http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF347639) for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

Methodologies/Methodological Approaches and Models used

Person approving the credit rating

Releasing office

Further details on the impact of the revised swap approach on UK RMBS Master Trusts is available in the special comment "UK RMBS Master Trusts: Revised Swap Approach Leads to Downgrade Review for 35 FX Notes" published today.

**RATINGS RATIONALE**

Today's rating action reflects the impact of exposure to generally weaker swap counterparties, following the introduction of the rating agency's updated approach to assessing swap counterparty linkage in structured finance transactions. This updated approach determines the rating impact on notes exposed to swap counterparties based on various factors. These factors include 1) the rating of the counterparty; 2) the rating trigger provisions in the swaps; 3) the type and tenor of the swap; 4) the amount of credit enhancement supporting the notes; 5) the size of the relevant note; and 6) the rating of the notes before linkage.

The majority of the affected notes are in transactions issued out of Italy, Spain, the Netherlands and the UK. While affected transactions in Italy and Spain have swap counterparties rated Baa2 and below, most of the affected Dutch and UK transactions benefit from swap counterparties rated in the medium-to-low A range providing significant hedging support such as cross currency swaps or fixed floating swaps under swap contracts. We have assumed that UK Master Trusts have isolated loss swaps and so following a swap counterparty default the relevant FX note bears the full loss.

Moody's placed on review for upgrade three tranches in two RMBS transactions, as these ratings already incorporated an assessment of the swap counterparty exposure. This assessment was more conservative than the approach outlined in the updated approach described in the methodology report. As a result of the application of this updated approach, the ratings on the notes have been positively affected.

As part of its review, Moody's will incorporate the risk of additional losses on the notes in the event of them becoming unhedged following a swap counterparty default. Moody's will take into account structural features of the transactions that may reduce the impact of such disruption and any remedies or protection mechanisms implemented during the review period.

Key modeling assumptions, sensitivities, cash-flow analysis and stress scenarios for the affected transactions have not been updated as the rating action has been primarily driven by the assessment of counterparty exposure.

**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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Maria Turbica Manrique  
Asst Vice President - Analyst  
Structured Finance Group  
Moody's Investors Service Espana, S.A.  
Calle Principe de Vergara, 131, 6 Planta  
Madrid 28002  
Spain  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Carole Gintz  
Senior Vice President/Manager  
Structured Finance Group  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Christophe de Noailat  
MD-Structured Finance  
Structured Finance Group  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service Espana, S.A.  
Calle Principe de Vergara, 131, 6 Planta  
Madrid 28002  
Spain  
JOURNALISTS: 44 20 7772 5456

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