Hecho Relevante de EdT FTPYME PASTOR 3 FONDO DE TITULIZACIÓN DE ACTIVOS

En virtud de lo establecido en el Folleto Informativo de **EdT FTPYME PASTOR 3 FONDO DE TITULIZACIÓN DE ACTIVOS** (el "**Fondo**") se comunica a la COMISIÓN NACIONAL DEL MERCADO DE VALORES el presente hecho relevante:

- La Agencia de Calificación **Standard & Poor's Ratings Services ("S&P")**, con fecha 18 de julio de 2019, comunica que ha elevado la calificación asignada a la siguiente Serie de Bonos emitidos por el Fondo:

  - **Serie C**: **A+ (sf)** (anterior **BBB+ (sf)**)

  Se adjunta la comunicación emitida por S&P.

Madrid, 23 de julio de 2019.

EDT FTPYME PASTOR 3's Class C SME CLO Notes Rating Raised

July 18, 2019

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OVERVIEW

- We have reviewed EDT FTPYME PASTOR 3's performance, using data from the July 2019 management company report.
- Following our review, we have raised to 'A+ (sf)' from 'BBB+ (sf)' our rating on the class C notes.
- EDT FTPYME PASTOR 3 is a Spanish cash flow CLO transaction that closed in December 2005 and securitizes loans to SMEs. The collateral pool comprised both secured and unsecured loans at closing.

LONDON (S&P Global Ratings) July 18, 2019--S&P Global Ratings today raised its credit rating to 'A+ (sf)' from 'BBB+ (sf)' on EDT FTPYME PASTOR 3, FONDO DE TITULIZACION DE ACTIVOS' class C notes.

Today's upgrade follows our assessment of the following factors:

- The transaction's performance using the available management company reports;
- Our analysis of the class C notes' current outstanding balance compared with the current performing collateral balance and the reserve account; and
- The portfolio's concentrated nature as it continues to amortize.

We considered all of these factors in accordance with our criteria for European collateralized loan obligations (CLOs) backed by small and midsize enterprises (SMEs) and other relevant criteria (see "Related Criteria").

RATING RATIONALE

Since our last review in December 2018, the transaction has continued to delever as the underlying receivables' amortization has been used to repay the class C notes. According to our analysis, the class C liabilities have reduced by €872,000 via a similar reduction in underlying receivables.

While the deleveraging of the transaction has improved credit enhancement levels, this has resulted in the underlying portfolio becoming more concentrated. This is reflected in the fact that there are currently only 39 unique obligors remaining, with the largest obligor accounting for approximately 11% of the aggregate portfolio balance.

The class C notes' aggregate outstanding balance stands at €3.805 million, and their credit enhancement has increased to 51.3% from 29.54% since our last review (see "Rating Raised On EDT FTPYME PASTOR 3's Class C SME CLO Notes Following Review," published Dec. 10, 2018).

The current credit enhancement level also factors in the reserve account's balance outstanding at €4 million, which has remained constant since our last review (there is no mismatch between liabilities and assets in order to draw on the reserve, for example). Additionally, the reserve account can now cash-collateralize the class C notes' remaining balance. In our view, this means that the rating on the notes is significantly reliant on--and therefore closely linked to--the rating on the cash reserve bank account provider, Banco Santander S.A. (A/Stable/A-1).

While the transaction continues to be supported by the underlying receivables' performance (see "Credit Risk" for further details), we consider the portfolio's heavy concentration as a limiting factor in upgrading the notes to higher rating levels. Further, the portfolio is likely to become more concentrated as it continues to season. Considering this, we have reflected the benefit of the underlying portfolio with a one-notch uplift from the rating on the cash reserve bank account provider. We are therefore raising our rating on the class C notes to 'A+' from 'BBB+'.

CREDIT RISK

We have performed our credit analysis of the portfolio by taking into account the receivables and borrowers' features. We have determined our default and recovery rate expectations for the portfolio by applying our criteria for European SME CLOs (see "European SME CLO Methodology And Assumptions," published on Jan. 10, 2013). However, given the high level of obligor concentration in the pool, the European SME criteria represented the starting point for the purpose of this review.

The underlying pool is highly seasoned with a pool factor (the percentage of the pool's outstanding aggregate principal balance compared with that as of the closing date) of about less than 1%. According to the management company reports, the cumulative defaults account for 4.67% of the closing pool balance, which is unchanged since our previous review.

We have applied our European SME CLO criteria to determine the scenario default rates (SDRs) for this transaction. The SDR is the minimum level of portfolio defaults we expect each CLO tranche to withstand and still be able to support the specific rating level using our CDO Evaluator.

In accordance with our previous review, and with no additional information received since then, we categorize the originator as moderate (based on tables 1, 2, and 3 in our European SME CLO criteria), which factored in Spain's Banking Industry Country Risk Assessment (BICRA) of 4 (as the country of origin for these SME loans). This resulted in a downward adjustment of one notch to the 'B+' archetypical European SME average credit quality assessment to determine loan-level rating inputs and applying the 'AAA' targeted corporate portfolio default rates. As a result, our average credit quality assessment of the pool is 'B'.

We further applied a portfolio selection adjustment of minus one notch to the 'B' credit quality assessment, in accordance with our previous review and absent any mitigating data. As a result, our average credit quality assessment of the pool to derive the portfolio's 'AAA' SDR was 'B-'. We therefore assumed that each loan in the portfolio had credit quality that is equal to our average credit quality assessment of the portfolio.

We have assessed Spain's current market trends and developments, macroeconomic factors, and the way these factors are likely to affect the loan portfolio's creditworthiness to determine our 'B' SDR. Considering the transaction's performance and the default trends we have observed in past years, we have maintained the 'B' SDR assumption we made at our previous review.

We interpolate the SDRs for rating levels between 'B' and 'AAA' in accordance with our European SME CLO criteria.

PAYMENT STRUCTURE AND CASH FLOW MECHANICS

We ran our credit analysis results and additional transaction-specific stresses through our cash flow model, which reflects the capital structure. In our cash flow analysis, we applied our European SME CLO criteria and applied standard stresses. These stresses relate to default timing and patterns, interest rate and basis risk, recovery timing, the reinvestment rate, servicing fees and other expenses, yield compression, and commingling and liquidity stress. The class C notes pass our credit and cash flow analysis at the 'AAA' rating level.

COUNTRY RISK

Our long-term unsolicited rating on Spain is 'A-'. Our updated criteria for rating single-jurisdiction securitizations above the sovereign require the tranches to have sufficient credit enhancement to pass stress levels to qualify to be rated above the sovereign (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," Jan. 30, 2019).

COUNTERPARTY RISK

The transaction has an interest rate swap. Cecabank S.A. (BBB+/Stable/A-2) is the swap counterparty. We have reviewed the swap counterparty's downgrade provisions under our current counterparty criteria, and, in our opinion, they do not fully comply with these criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). Because our long-term rating on Cecabank is lower than our passing rating level on the class C notes, we did not give credit to the swap provider in our cash flow analysis.

Related Criteria

- Guidance | Criteria | Structured Finance | CDOs: Global Methodology And Assumptions For CLOs And Corporate CDOs, June 21, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- Criteria | Structured Finance | CDOs: European SME CLO Methodology And Assumptions, Jan. 10, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010

Related Research

- Rating Raised On EDT FTPYME PASTOR 3's Class C SME CLO Notes Following Review, Dec. 10, 2018

- Banking Industry Country Risk Assessment Update: October 2018, Oct. 26, 2018
- Spain 'A-/A-2' Ratings Affirmed; Outlook Positive, Sept. 21, 2018
- 2017 EMEA Structured Credit Scenario And Sensitivity Analysis, July 6, 2017
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Rating Raised On SME CLO Transaction EDT FTPYME PASTOR 3's Class C Notes Following Review, Nov. 21, 2016