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Cash CDO of Spanish SME Loans Presale Report

EdT FTPYME PASTOR 3, FONDO DE TITULIZACIÓN DE ACTIVOS

€520 Million Floating-Rate Notes

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Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support (%)	Interest	Legal final maturity
A1	AAA	365.9	13.55	Three month-EURIBOR plus a margin	Jan. 19, 2039
A2 (G)**	AAA	100.0	13.55	Three month-EURIBOR plus a margin	Jan. 19, 2039
B***	AAA	38.7	6.11	Three month-EURIBOR plus a margin	Jan. 19, 2039
C	BB	15.4	3.15	Three month-EURIBOR plus a margin	Jan. 19, 2039

**The rating on each class of securities is preliminary as of Nov. 21, 2005 and subject to change at any time. Final credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion. Standard & Poor's ratings address timely interest and ultimate principal on the notes.*
***The class A2 (G) notes will be protected by a €100 million guarantee from the Kingdom of Spain. The standalone preliminary rating on the class A2 (G) notes is 'AAA'.*
****The class B notes will be protected by a €38.7 million guarantee from the European Investment Fund.*

Transaction Profile	
Originator	Banco Pastor, S.A.
Arrangers	JPMorgan Securities Ltd. and Europea de Titulización, SGFT, S.A.
Trustee	Europea de Titulización, SGFT, S.A.
Administrator	Banco Pastor, S.A.
Interest swap counterparty	Banco Pastor, S.A.
GIC and bank account providers	Banco Pastor, S.A.
Paying agent	Banco Pastor, S.A.
Guarantors	Ministry of Economy, Kingdom of Spain and the European Investment Fund
Underwriters	Banco Pastor S.A., JPMorgan Securities Ltd., and Deutsche Bank AG

Supporting Ratings	
Institution/role	Ratings
Banco Pastor, S.A. as GIC and bank account provider	A/Stable/A-1
Kingdom of Spain as guarantor of the class A2 (G) notes	AAA/Stable/A-1+
European Investment Fund as guarantor of the class B notes	AAA/Stable/A-1+

Transaction Key Features*	
Expected closing date	December 2005
CDO asset type	Loans
Structure type	Cash
Portfolio composition	Spanish SME loans
Purpose of transaction	Balance sheet
Rating approach	Actuarial
Portfolio management type	Static
Liability structure	Fully funded
Collateral description	Loans to SMEs
Weighted-average maturity of assets (years)	6.87
Weighted-average seasoning of assets (years)	0.92
Principal outstanding (Mil. €)	557.40
Country of origination	Spain
Concentration	Largest 10 obligors (12.1% of provisional pool); regional concentration (17.85% in Catalonia region); and industrial concentration (54.84% in real estate and construction)
Average loan size balance (€)	245,549
Loan size range (€)	1.18 to 8,000,000
Weighted-average interest rate (%)	3.72
Arrears	Up to 30 days at closing
Redemption profile	Amortizing/bullet
Excess spread at closing** (%)	0.95
Cash reserve (Mil. €)	16.38
*Pool data as of Nov. 5, 2005. **Available through the interest swap agreement.	

Transaction Summary

Preliminary credit ratings have been assigned to the €520 million floating-rate notes to be issued by EdT FTPYME PASTOR 3, FONDO DE TITULIZACIÓN DE ACTIVOS (PASTOR 3).

PASTOR 3 is a "fondo de titulización de activos" created for the sole purpose of purchasing the unsecured loans and the mortgage certificates from Banco Pastor, S.A., issuing the notes, and carrying on related activities. The assets are insulated from the insolvency of the originator and the trustee ("*sociedad gestora*").

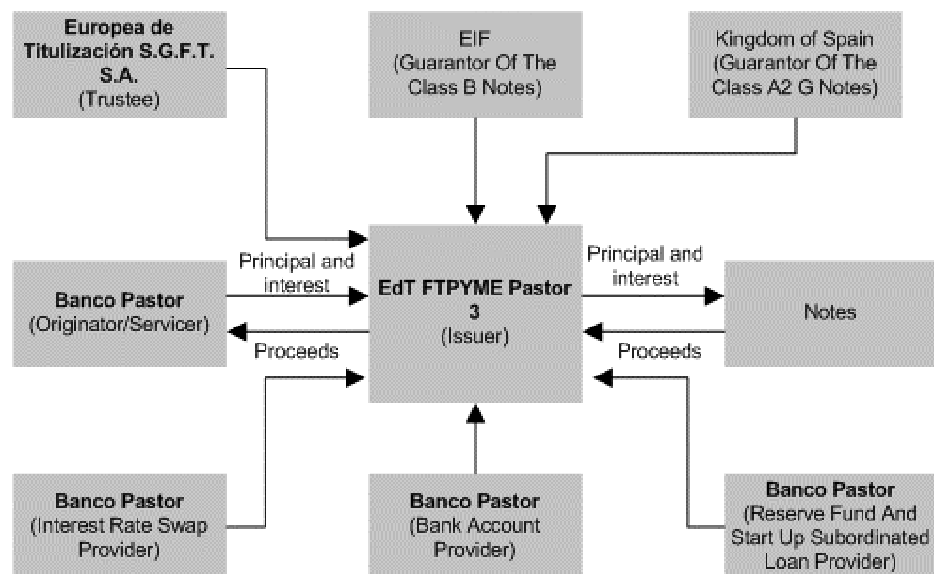
At closing, the originator, Banco Pastor, will sell to PASTOR 3 a €520 million closed portfolio of secured and unsecured loans granted to Spanish SMEs.

Europea de Titulización, SGFT, S.A., as trustee, will issue four classes of floating-rate quarterly paying notes on behalf of PASTOR 3 to fund this purchase. The class A2 (G) notes, rated 'AAA', are guaranteed by the Kingdom of Spain (AAA/Stable/A-1+) and the class B notes, rated 'AAA', are guaranteed by the European Investment Fund (EIF; AAA/Stable/A-1+).

The ratings on the notes to be issued by PASTOR 3 reflect the subordination of the respective classes of notes below them, the reserve fund, the presence of the interest-rate swap (which provides excess spread of 95 bps), comfort provided by various other contracts, and the ratings on Banco Pastor (A/Stable/A-1).

Banco Pastor is the seventh largest bank in Spain and holds a leading position in Galicia, its traditional market.

Chart 1
EdT FTPYME Pastor 3
Transaction Structure



Notable Features

PASTOR 3 is the sixth CLO completed by Banco Pastor of its loans originated to SME corporate clients. The transaction uses a similar structure to Banco Pastor's previous SME transactions.

This transaction qualifies for both the FTPYME treasury program and the EIF guarantees. Under the terms of the guarantees, the Spanish treasury and the EIF irrevocably and

unconditionally guarantee interest and principal payments under the class A2 (G) and B notes, respectively.

Standard & Poor's based its analysis on the credit quality of the pool, the structural features of the transaction, and added the benefit of the guarantee on the class B notes.

Strengths, Concerns, And Mitigating Factors

Strengths

- Two classes of notes benefit from guarantees provided by the Kingdom of Spain and the EIF.
- Banco Pastor is an experienced originator and servicer, with five previous SME loan transactions.
- Historical information has been provided.
- Of the outstanding amount, 60.9% comprises mortgage loans, of which 94.3% are first-ranking.
- There is currently a low weighted-average LTV ratio of 60.2% for the first lien mortgages and some seasoning is present because the weighted-average seasoning is 10.7 months.
- A swap agreement hedges the interest-rate risk and leaves a spread of 95 bps in the transaction. The notional of the swap is the outstanding amount of the notes.
- The loans are artificially written off when in arrears for more than 18 months, which enables trapping of excess spread and the redemption of the notes up to the outstanding amount of these loans.

Concerns

- Risk is incurred because the assets are concentrated in some industrial sectors, at the obligor level, and in Galicia (where 14.75% of the assets are located).
- Several features increase commingling risk: uneven monthly collections may occur because nearly half of the pool pays either quarterly (46.28%), or semi-annually (2.07%), rather than monthly. Bullet loans also make up 31.95% of the outstanding balance of the collateral. Furthermore, Banco Pastor may hold up to one month's worth of collections.
- Of the outstanding balance of the pool, 25.5% was granted as a bridge financing to acquire land for future house development. This type of loans are typically bullets, which in itself may challenge the borrowers' ability to pay the full amount of the debt under a stressful economic environment and incorporate refinancing risk, dependant on the future real estate market evolution. The performance of these loans is not fully incorporated in the historical data provided, because Banco Pastor only started to offer this type of financing from the second quarter of 2003.
- The issuer could experience an imbalance in its cash flows because interest rates are capped on the asset side for a portion of the pool.

Mitigating factors

- Standard & Poor's analysis takes into account the concentration at the obligor level and the industrial concentration. The real estate and construction sectors, which represent 54.84% of the portfolio are significant in the SME economy and this proportion is in line with Banco Pastor's SME portfolio concentration. The geographical concentrations in Galicia are to be expected because Galicia is Banco Pastor's historical market.
- Standard & Poor's has incorporated the added commingling risk in its analysis. If Banco Pastor is downgraded, it will sweep any collections daily into the 'A-1' rated treasury account held in the name of the issuer to reduce the commingling risk exposure. Should the amounts held in the 'A-1' rated bank account exceed 20% of the outstanding balance of the notes, the excess will be transferred to an 'A-1+' rated bank account, opened on behalf of the issuer.
- Standard & Poor's has incorporated the additional risk from the bridge financing loans in its analysis. None of these loans will imply construction risk for the SPE.
- The interest rate swap mitigates concerns on interest rates in this transaction.

Collateral Pool Characteristics

As of Nov. 5, 2005**,** the provisional pool consisted of 2,270 secured and unsecured loans. Total borrowers amounted to 1,989. The pool was originated between second quarter 2004 and second quarter 2005. The weighted-average seasoning is 10.7 months.

Of the outstanding amount of the pool, 57.4% is secured by a first-lien mortgage over properties and commercial premises situated in Spain, an additional 3.49% have a second-lien as a guarantee, and the remainder is being treated as unsecured loans.

The pool is reasonably atomized, with none of the obligors representing more than 1.55% of the value of the pool. The largest obligor represents 1.52% of the provisional pool and the largest 10 obligors represent 12.1%, combined. Standard & Poor's will review concentrations in the final pool to be securitized to ensure that they do not affect the ratings on the notes.

The weighted-average LTV ratio of the first-lien mortgage pool is 60.2% (see table 1).

Table 1: LTV Ratio Of First-Lien Mortgage Loans

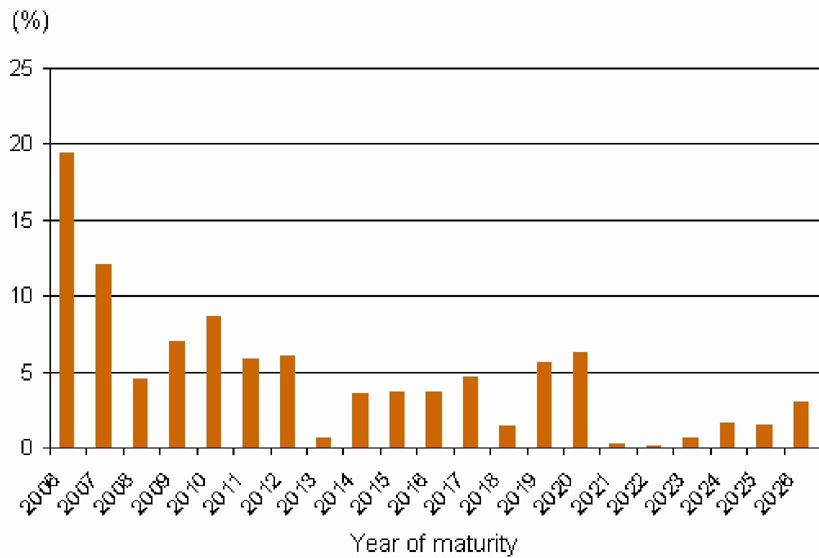
LTV ratio (%)	Percentage of the total pool
1 to 19.99	1.38
20 to 39.99	5.14
40 to 59.99	18.85
60 to 79.99	28.57
80 to 99.99	2.7
Over 100	0.76
Total	57.4

Of the outstanding balance of the loans, 25.5% is formed by bullet loans granted for the acquisition of land. By the end of 2008, all these loans are expected to be refinanced into real estate developer loans for the construction of houses (see table 2).

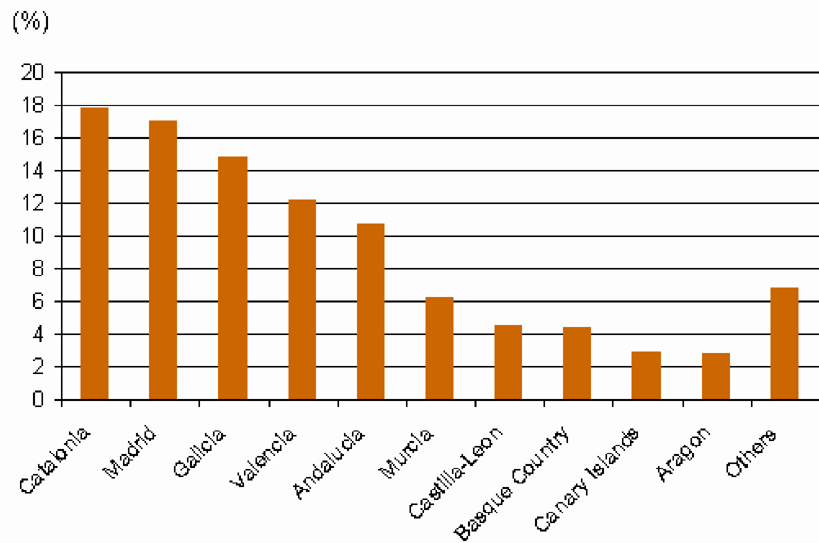
Table 2: Amortization Of Bullet Loans For The Acquisition Of Land

End of year	Percentage amortized
2006	59.40
2007	32.95
2008	7.65
Total	100

The weighted maturity of the pool is 6.87 years, with 71.32% of the pool maturing within the next 10 years (up to the start of 2016) (see chart 2)



Of the pool, 17.85% is concentrated in Catalonia, 16.96% in Madrid, and 14.75% in the Galicia region, Banco Pastor's historical market (see chart 3).



The largest industry concentration is in real estate and construction activities, which represent a combined 54.84% of the pool. The third highest concentration is in hotels and restaurants (5.77%).

At closing, the pool will not have outstanding arrears greater than 30 days.

Of the outstanding amount of the pool, 89.51% is indexed to floating interest rates (mostly to one-year EURIBOR and three-month EURIBOR). The interest rates range from 2.1% to 8.9%. The assets have a weighted-average interest rate of 3.72% and the floating rate loans have a weighted-average margin of 1.34% over the various indices.

Some loans in the pool have caps and/or floors, as follows:

- Of the outstanding balance of the pool, 21.6% has a cap on interest. The most common caps are at 9.75% (14.21% of the pool) and 11.75% (6.15% of the pool).
- Of the outstanding balance of the pool, 77.53% has a floor on interest. The most common floors are between 3.5% and 4.5% (47.65% of the pool).

The interest rate risk introduced by the caps is mitigated by the interest rate swap (see "*Interest swap agreement*").

After closing, the loans in the collateral can renegotiate margin, change from floating- to fixed-rate interest and increase term if the appropriate conditions are met. Standard & Poor's will maintain periodic surveillance on future potential loan variations and substitutions.

Collateral Risk Assessment

Standard & Poor's conducted an actuarial analysis on historical data provided by the originator to assess the credit risk of the pool, following the methodology explained in "*Securitizing Spanish-Originated Loans to Small and Midsize Enterprises*" (see "*Related Articles*"). With the historical data provided by the originator, Standard & Poor's could determine a foreclosure probability and a loss rate at each rating level.

The product of these two variables gives an estimate of the required loss protection during the life of the collateral, in the absence of additional mitigating factors. The higher the targeted rating, the higher is the required enhancement level.

Chart 4 shows historical levels of loans that became delinquent after arrears amounting to 90 days and that have not recovered in the first quarter of default.

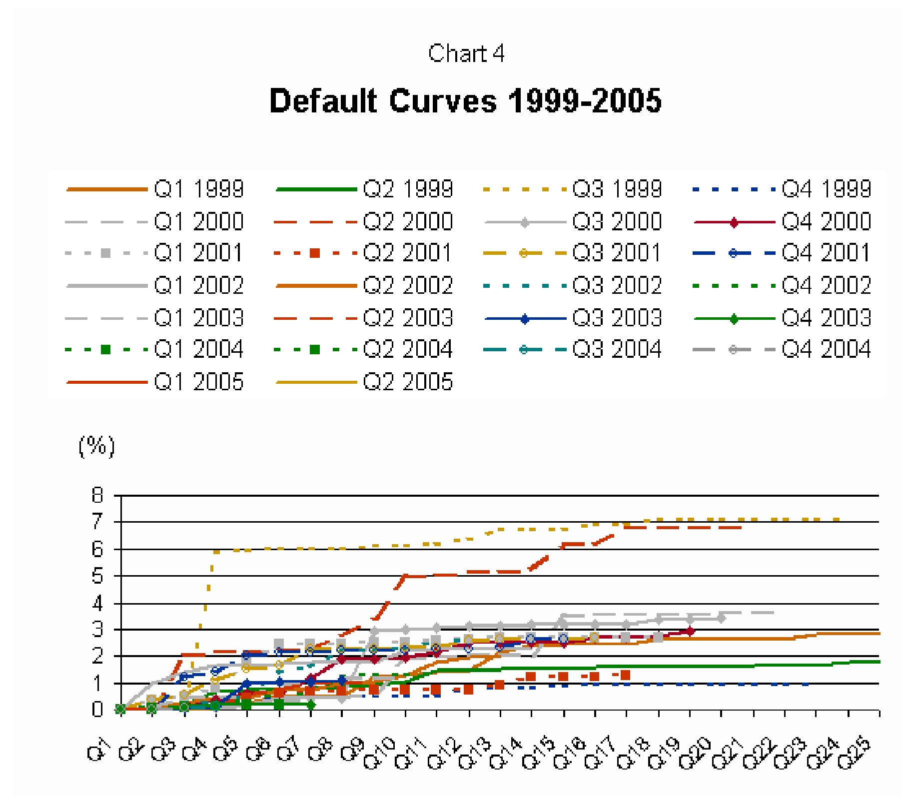
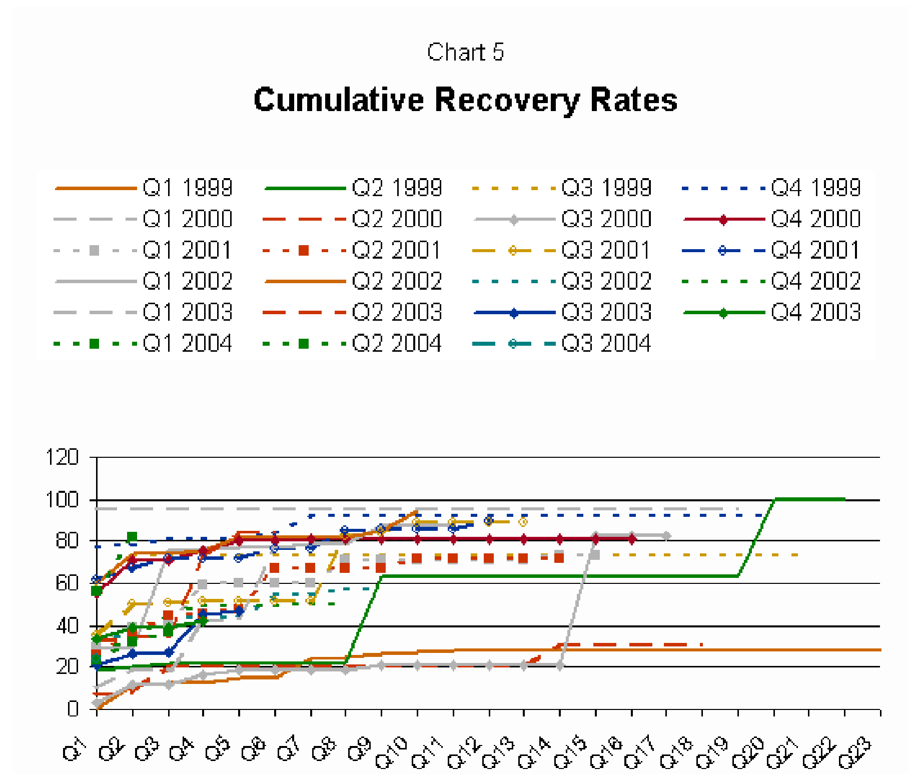


Chart 5 shows historical levels of recoveries, from the default quarter.



Main Transaction Participants

Sociedad gestora (trustee)

The Ministry of Economy and Treasury authorized the creation of the trustee on Jan. 19, 1993. Under the legislation for mortgage securitization in Spain, the day-to-day operations of the issuer are managed by the trustee, which represents and defends the interests of the noteholders. The main responsibilities of the trustee will be to create the issuer, issue the notes, calculate the interest rate on the notes, notify noteholders of any relevant information applicable to the notes and assets, and organize the annual audit.

Europea de Titulización, as trustee, will enter into certain contracts (GICs, a swap agreement, two guarantees, and subordinated loan agreements) on behalf of the issuer. These contracts are needed to protect the issuer against certain credit losses and liquidity shortfalls that are assumed to arise in connection with holding the loans.

Originator review

With €19.2 billion in total assets as of Sept. 30, 2005, Banco Pastor is a midsize bank, ranking as the 18th largest financial institution and the seventh largest banking group in Spain. It holds a relatively small market share, about 1% of Spain's deposits and loans, but enjoys an outstanding regional presence in its traditional home market, Galicia.

Banco Pastor has developed strong ties and relationships with Galicia's industrial and rural communities, achieving a dominant 18.5% market share in the region. Penetration levels with local SMEs, the bank's main target client until fairly recently, are much higher.

Galicia represents 47% of the bank's branches and 19% of its lending activities are originated there. However, Banco Pastor has begun to expand outside Galicia. Its outlets are mostly located in neighboring regions (accounting for 11% of the network), and the populous, wealthy cities of the regions of Madrid and Catalonia (7% in each region).

Banco Pastor now focuses on both SMEs and individuals. The range of products offered aims to cover the entire spectrum of clients' financial needs. Residential mortgages for individuals and credit lines to fund the working capital needs of SMEs are its core lending activities. The bank's manageable size, the excellent quality of its information management systems, and the top management's close involvement in the bank's day-to-day operations are important competitive strengths.

The bank operates a large and growing branch network (569 outlets as of September 2005). It introduced telephone and Internet banking (Oficina Directa and Pastornet) channels to service clients, primarily those based outside its core region and with more sophisticated financial needs.

Guarantor for the class A2 (G) notes

The guarantee program by the Kingdom of Spain was set up in late 1998 to promote access to a more diversified source of financing for the Spanish SME sector. The legal framework for the guarantee has been evolving and the latest amendments took place in April 2003.

The following conditions must be met to access the guarantee program:

- The lending entity must have signed an agreement with the Ministry of Economy.
- The assets to be securitized must not be lent to financial entities.
- The borrowers must comply with the definition of an SME as provided in the European Commission (EC) circular dated April 1996.
- The assets to be securitized must have a maturity greater than one year.
- At least 80% of the portfolio to be securitized must be loans to SMEs.
- The tranche that benefits from the guarantee must be rated at least 'AA' without the guarantee.

Guarantor for the class B notes

The European Investment Fund (EIF) is a financial institution of the EC and acts as the European Investment Bank specialist arm for SME guarantee and venture capital operations. Its mandate is to promote the creation, growth, and development of SMEs in the EU and in accession countries. The mandate is pursued by guaranteeing financial institutions' SME loan portfolios in exchange for a guarantee fee, and through participation in venture capital funds. EIF's mandate is in accordance with the strategy set by the 2000 Lisbon European Council and confirmed at subsequent EU summits, aiming to make the EU a dynamic knowledge-based economy.

EIF shareholders are the European Investment Bank (59.45%), the EC(30%), and a group of 32 public and private European financial institutions (10.55%).

The guarantee from EIF can be used either for interest due on every interest payment date or for principal repayment until the legal final maturity of the notes. The reimbursement of the portion drawn under the EIF guarantee and the payment of the EIF commission is fully subordinated to the class C notes in the priority of payments.

The EIF guarantee can be used to redeem the class B notes before the legal final maturity date if there is an early redemption of the notes, or at the option of EIF, when on a given interest payment date:

- EIF has made a payment to the issuer as a result of the guarantee on any prior interest payment date;
- Any early redemption of the notes event occurs; or
- The trustee does not use the EIF guarantee three months after it has to be exercised.

Payment Priorities

On each quarterly interest payment date, the issuer pays in arrears the interest due to the noteholders. To make the payments, the issuer's available funds include the proceeds of the interest swap, interest earned on the GIC accounts, the reserve fund, and, if necessary, principal received under the loans and any other proceeds received in connection with the loans. For the class A2 (G) and B notes, the issuer will have the guarantees under the FTPYME and EIF programs as additional available funds.

All interest and principal received can be mixed to pay principal and interest due under the notes. A trigger ensures that in a stressful economic environment, the more senior notes are amortized before interest on the subordinated classes of notes is paid.

Interest on the class B and C notes is subject to a deferral on a given payment date to a lower position in the priority of payments in the following situations:

- If the sum of the balance of classes A1 and A2 (G) notes and the amounts to be reimbursed on the A2 (G) notes guarantee would be greater than zero and the cumulative ratio of loans in default over the initial issuance balance exceeds 7.7%, then the payment of interest due on the class B notes will be delayed under the amortization of the notes.
- If the sum of the balance of classes A1, A2 (G), and B notes and the amounts to be reimbursed on the A2 (G) notes guarantee would be greater than zero and the cumulative ratio of loans in default over the initial issuance balance exceeds 5.61%, then the payment of interest due on the class C notes will be delayed under the amortization of the notes.

Once any deferral mechanism is started for one or more classes of notes, it will be maintained until the full amortization of all the higher-ranking notes.

Hedging

Interest swap agreement

The trustee will enter into a swap agreement with Banco Pastor on behalf of PASTOR 3. This swap provides protection against adverse interest-rate resetting and movements.

The issuer pays to the swap counterparty the interest accrued and due during the previous three months on the performing loans and the loans in arrears under 18 months.

The issuer receives from the swap counterparty an amount equivalent to the weighted-average coupon of the notes, 95 bps per year on the balance of the notes, plus the EIF fee.

If the rating on the swap counterparty is downgraded below 'A-1', the counterparty will have 30 days to find a substitute with a short-term rating of at least 'A-1', to find a guarantor with a short-term rating of at least 'A-1', or to post collateral complying with Standard & Poor's requirements.

Finally, if the rating on the swap counterparty is lowered below 'A-3', it would have to find a substitute counterparty or a guarantor rated at least 'A-1'.

Redemption Of The Notes

Unless redeemed earlier, the notes are redeemed at their legal final maturity, 42 months after the maturity of the longest-term loan in the pool.

The amount of principal to be amortized at each payment date will be the difference between the outstanding balance of the notes and the outstanding balance of the non-defaulted loans.

Principal payments to noteholders will start on April 19, 2006, and the notes will be sequentially amortized, unless some conditions are met, for the different classes of notes and pro rata for all the notes belonging to the same class.

The amortization of the class A1 and A2 (G) notes will be pro rata if the outstanding balance of loans delinquent more than 90 days over the balance of the notes is more than 1%.

The subordinated notes will be paid pro rata if:

- The proportion of subordinated notes to the total outstanding level of the notes has doubled from closing;
- The difference between the outstanding balance of the notes and the available funds for amortization is equal to or lower than zero;
- The reserve fund is at its required level;
- The outstanding balance of loans delinquent more than 90 days over the balance of the notes is less than 1%; and
- The outstanding balance of the notes is greater than 10% of the original balance of the transaction.

Standard & Poor's Stress Test

Standard & Poor's analysis included a conservative assessment of the credit risk inherent in the transaction, as described in "*Collateral risk assessment*".

The credit enhancement levels were sized after analyzing the effect that severe stress scenarios would have on the loan collateral. As a result of this analysis, Standard & Poor's estimated the largest amount of potential losses that could occur as a result of these stress scenarios and set the amount of loss protection required on the notes.

A cash flow model simulating the portfolio's performance within the transaction's documented structure was run under certain rating scenarios to stress liquidity and the level of excess spread in the transaction. Prepayment levels, fees and expenses paid by the issuer, the default pattern, and interest rates were the most important parameters stressed in all the runs.

Key Performance Indicators

The key performance indicators in the surveillance of this transaction will be:

- Total and 90-day delinquencies;
- Cumulative realized losses;
- LTV ratios on the secured loans and seasoning;
- Borrower concentration;
- Evolution of loans with bullet maturities granted for the acquisition of land;
- Constant prepayment rates;
- Supporting ratings evolution;
- Loan variations and substitutions; and
- Increases in credit enhancement for the notes.

Continual surveillance will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral will be analyzed. Cash flow triggers will be checked to ensure the postponement of interest in case of worsening performance of the pool. Besides the reports, supporting ratings will be monitored and regular contact will be made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.

Criteria Referenced

- "*CDO Spotlight: General Cash Flow Analytics for CDO Securitizations*" (Published on Aug. 25, 2004).
- "*Global Interest Rate and Currency Swaps: Calculating the Collateral Required Amount*" (published on Feb. 26, 2004).
- "*Standard & Poor's Global Interest Rate and Swap Counterparty Rating Criteria Expanded*" (published on Dec. 17, 2003).
- "*Global Cash Flow and Synthetic Criteria*" (published on March 21, 2002).
- "*Standard & Poor's Rating Methodology for CLOs Backed by European Small- and Midsize-Enterprise Loans*" (published on Jan. 30, 2003).

Related Articles

- "*Ratings Transitions 2004: Upgrades Outnumber Downgrades for First Time in European Structured Finance*" (published on Jan. 17, 2005).
- "*Securitizing Spanish-Originated Loans to Small and Midsize Enterprises*" (published on April 7, 2003).

All criteria and related articles are available on RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. The criteria can also be found on Standard & Poor's Web site at www.standardandpoors.com.

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