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Rating Lowered On SME CLO Transaction EDT FTPYME PASTOR 3's Class C Notes; Rating Affirmed On Class B Notes

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OVERVIEW

- We have reviewed the performance of EDT FTPYME PASTOR 3, using data from the April 2013 trustee report, and have performed our credit and cash flow analysis applying our updated European SME CLO criteria.
- Following our review, we have lowered to 'CCC- (sf)' from 'BB (sf)' our rating on the class C notes and affirmed our 'AAA (sf)' rating on the class B notes.
- EDT FTPYME PASTOR 3 is a cash flow CLO transaction that securitizes loans to SMEs. The collateral pool comprises both secured and unsecured loans. The transaction closed in December 2005.

LONDON (Standard & Poor's) June 26, 2013--Standard & Poor's Ratings Services today lowered to 'CCC- (sf)' from 'BB (sf)' its credit rating on EDT FTPYME PASTOR 3, FONDO DE TITULIZACION DE ACTIVOS' class C notes. At the same time, we have affirmed our 'AAA (sf)' rating on the class B notes, which are guaranteed by the European Investment Fund.

Today's rating actions follow our assessment of the transaction's performance using the latest available trustee report (dated April 2013) and portfolio data from the servicer, as well as the application of our updated criteria for European collateralized loan obligations (CLOs) backed by small and midsize enterprises (SMEs) and other relevant criteria (see "Related Criteria").

CREDIT ANALYSIS

Based on our review of the current pool and since our previous review of the capital structure in July 2011, the pool has experienced further defaults and the obligor concentration risk has increased due to the continued deleveraging of loans (see "Ratings Affirmed In Spanish CLO Of SMEs Transaction EDT FTPYME PASTOR 3 Following Review," published on July 7, 2011).

The underlying pool is highly seasoned with a pool factor (the percentage of the pool's outstanding aggregate principal balance compared with the closing date) of 5.46%. According to the April 2013 trustee report, 12+ months cumulative defaults account for 4.17% of the closing pool balance (compared with 2.43% at our July 2011 review). The recovery rates reported on these defaults are in the range of 10% to 11%.

Even though the minimum required level of the reserve fund is expected to be €16.38 million, the reserve fund was further depleted since our July 2011 review and is currently €2.9 million.

However, the full amortization of the class A1 and A2(G) notes and partial amortization of class B notes since our July 2011 review has increased available credit enhancement for the class B notes.

We have applied our updated European SME CLO criteria to determine the scenario default rates (SDRs) for this transaction.

We categorize the originator as moderate (based on tables 1, 2, and 3 in our criteria), which factored in Spain's Banking Industry Country Risk Assessment (BICRA) of 6 (as the country of origin for these SME loans is Spain). 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 three notches to the 'b' credit quality assessment, which we based on our review of the current pool characteristics, compared with the originator's other transactions. As a result, our average credit quality assessment of the pool to derive the portfolio's 'AAA' SDR was 'ccc'.

We have applied this approach as the issuer did not provide us with the internal credit scores upon request. We therefore assumed that each loan in the portfolio had a 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.

As a result of this analysis, our 'B' SDR is 20%.

The SDRs for rating levels between 'B' and 'AAA' are interpolated in accordance with our European SME CLO criteria.

RECOVERY RATE ANALYSIS

At each liability rating level, we assumed a weighted-average recovery rate (WARR) by considering the asset type (secured/unsecured), its seniority (first lien/second lien), and the country recovery grouping (see table 7 in "European SME CLO Methodology And Assumptions"). We also factored in the actual recoveries from the historical defaulted assets, to derive our recovery rate assumptions to be applied in our cash flow analysis.

As a result of this analysis, our WARR assumption in a 'AAA' scenario was 18.42%. The recovery rates at more junior rating levels were higher (in line with our criteria).

CASH FLOW ANALYSIS

We subjected the capital structure to various cash flow scenarios, incorporating different default patterns, recovery timings, and interest rate curves to generate the minimum break-even default rate (BDR) for each rated tranche in the capital structure. The BDR is the maximum level of gross defaults that a tranche can withstand and still fully repay the noteholders, given the assets and structure's characteristics. We then compared these BDRs with the SDRs outlined above.

SUPPLEMENTAL TESTS

Our rating on the class C notes was constrained by the application of the largest obligor default test. Accordingly, we have lowered to 'CCC- (sf)' from 'BB (sf)' our rating on the class C notes.

COUNTERPARTY RISK

The transaction features an interest rate swap. CECABANK S.A. (BB+/Negative/B) is the swap counterparty. Under our 2012 counterparty criteria, we have defined it as a "derivative" counterparty (see "Counterparty Risk Framework Methodology And Assumptions," published on Nov. 29, 2012). We have reviewed the swap counterparty's downgrade provisions, and, in our opinion, they do not fully comply with our 2012 counterparty criteria.

As the swap counterparty does not fully comply with our 2012 counterparty criteria, we have tested scenarios where we give no benefit to the counterparty--applying a yield compression stress in our cash flow analysis. We have observed that the portfolio contains a wide range of spreads. We consider that there is a risk that, should defaults affect the highest-paying loans, the pool's yield would tend to decrease over time. This could limit the transaction's ability to service the rated notes.

Following our assessment of the transaction's performance and the application of our relevant criteria, our cash flow results indicate that the available credit enhancement for the class B notes supports a lower rating than currently assigned.

However, the class B notes are guaranteed by the European Investment Fund (EIF; AAA/Negative/A-1+). In accordance with our 2008 guarantee criteria, our rating on this class of notes is weak-linked to our long-term rating on the EIF (see "European Legal Criteria For Structured Finance Transactions," published on Aug. 28, 2008). We have therefore affirmed our 'AAA (sf)' rating on the class B notes.

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STANDARD & POOR'S 17G-7 DISCLOSURE REPORT

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at <http://standardandpoorsdisclosure-17g7.com>

RELATED CRITERIA AND RESEARCH

Related Criteria

- European SME CLO Methodology And Assumptions, Jan. 10, 2013
- Counterparty Risk Framework Methodology And Assumptions, Nov. 29, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Update To Global Methodologies And Assumptions For Corporate Cash Flow And Synthetic CDOs, Sept. 17, 2009
- European Legal Criteria For Structured Finance Transactions, Aug. 28, 2008

Related Research

- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011
- Ratings Affirmed In Spanish CLO Of SMEs Transaction EDT FTPYME PASTOR 3

Following Review, July 7, 2011

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