

**Rating Action: Moody's downgrades three Spanish RMBS in consideration of exposure to Banco de Valencia**

---

Global Credit Research - 16 Dec 2011

Madrid, December 16, 2011 -- Moody's Investor Service has reviewed all transactions exposed to Banco de Valencia and has today downgraded the ratings of three senior tranches in three Spanish residential mortgage-backed securities (RMBS) transactions. Today's rating action follows the downgrade of Banco de Valencia to Ba1 in March 2011 and to Ba2 in October 2011. The rating action concludes the review for downgrade of these three tranches initiated by Moody's on March 2011.

A detailed list of the rating actions appears at the end of this press release.

**RATINGS RATIONALE**

Today's rating action reflects: (i) the lack of back-up servicer (BUS) in the transactions serviced by Banco de Valencia in order to support payments on the rated tranches in the event of servicer disruption, (ii) the increased commingling risk in the structures where Banco de Valencia acts as collections account bank, (iii) the failure of Banco de Valencia to find a replacement swap counterparty in two of the transactions.

**--SERVICER DISRUPTION RISK**

Banco de Valencia services 6 RMBS transactions rated by Moody's, 5 as sole servicer and one (Bancaja-BVA VPO 1) as part of a multi-servicer deal, 86% of the pool currently administered by former Bancaja (now Bankia Baa2/P-2 on Review for Possible Downgrade) and 14% by Banco de Valencia. In none of these transaction there is a back-up servicer in place.

Moody's has concluded that for the 5 RMBS transactions solely serviced by Banco de Valencia, the maximum achievable rating is A1(sf). Moody's has not taken action on Valencia Hipotecario 4 and 5 in which senior tranche ratings are rated A3(sf) and A2(sf) respectively. No action was taken on the multi-servicer deal Bancaja-BVA VPO 1 either given limited exposure to Banco de Valencia and available liquidity.

The downgrade takes into account the current level of liquidity in the transactions. An additional mitigant to payment disruption risk is the role of Europea de Titulización, the management company, that will coordinate the appointment of a replacement servicer if Banco de Valencia is not able to perform its duties. The management company also acts as an independent cash manager and will be able to use available funds, including the reserve fund, to support timely payments on the notes in case of a temporary servicer disruption.

Uncertainty mainly stems from the lack of a back-up servicer in these transactions. Banco de Valencia was intervened by Bank of Spain as of 21 November 2011. Although this helps mitigate servicer disruption in the short term, there is high uncertainty as of the future of the entity. If the rating of Banco de Valencia is downgraded further while no back-up agreement is in place, the ratings would be negatively affected.

**--COMMINGLING RISK**

Collections are transferred daily from Banco de Valencia to the treasury account held by a P-1 entity in all the deals. Moody's has assessed commingling risk in the transactions and concluded that the increased commingling risk following the downgrade of Banco de Valencia did not affect the ratings of the notes. This is due to the current available credit enhancement in the case of Valencia Hipotecario 1, 2, 3 and 4.

In the case of Valencia Hipotecario 5 and Bancaja-BVA VPO 1 there are dedicated commingling reserves in place.

Uncertainty mainly stems from the exposure to Banco de Valencia as the collection account bank. If the rating of Banco de Valencia is downgraded further, in absence of other mitigants to commingling risk, the ratings of the transactions concerned would be negatively affected

#### --SWAP COUNTERPARTY EXPOSURE

Moody's has assessed swap counterparty risk for two transactions for which Banco de Valencia continues to act as swap counterparty (Valencia Hipotecario 1 and 2). According to the transaction documents Banco de Valencia should have been replaced as basis swap counterparty or its obligations guaranteed by an eligible party at loss of its A3/P-2 ratings. Collateral is being weekly posted to the fund but no replacement has taken place as of today. This exposure was not the driver of today's rating action given the limited credit support provided by the swap (basis swap) and the level of credit enhancement present in the structure.

Uncertainty mainly stems from the exposure to Banco de Valencia as swap provider. If the rating of Banco de Valencia is downgraded further, in absence of a replacement to take over the role of swap provider, the ratings in the five transactions would be negatively affected.

As noted in Moody's comment 'Rising Severity of Euro Area Sovereign Crisis Threatens Credit Standing of All EU Sovereigns' (28 November 2011), the risk of sovereign defaults or the exit of countries from the Euro area is rising. As a result, Moody's could lower the maximum achievable rating for structured finance transactions in some countries, which could result in rating downgrades.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS in Europe, Middle East, and Africa," published in October 2009. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Other Factors used in this rating are described in "Global Structured Finance Operational Risk Guidelines: Moody's Approach to Analyzing Performance Disruption Risk" published in June 2011.

In rating 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 that are then weighted considering the probabilities of the lognormal distribution assumed for the portfolio default rate. In each default scenario, the corresponding loss for each class of notes is calculated given the incoming cash flows from the assets and the outgoing payments to third parties and note holders. Therefore, the expected loss for each tranche is the sum product of (i) the probability of occurrence of each default scenario; and (ii) 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.

List of affected ratings:

Issuer: Valencia Hipotecario 1, FTA

...EUR 140.13M A Notes, Downgraded to A1 (sf); previously on March 25, 2011 Aaa (sf) Placed Under Review for Possible Downgrade

Issuer: Valencia Hipotecario 2, FTH

...EUR 415M A Notes, Downgraded to A1 (sf); previously on March 25, 2011 Aa1 (sf) Placed Under Review for Possible Downgrade

Issuer: Valencia Hipotecario 3, FTA

....EUR 503.38M A2 Notes, Downgraded to A1 (sf); previously on March 25, 2011 Aa1 (sf) Placed Under Review for Possible Downgrade

## REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moodys.com](http://www.moodys.com).

The ratings have been disclosed to the rated entities or their designated agent(s) and issued with no amendment resulting from that disclosure.

Information sources used to prepare each of the rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

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.

Moody's considers the quality of information available on the rated entities, obligations or credits satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Moody's Investors Service may have provided Ancillary or Other Permissible Service(s) to the rated entity or its related third parties within the two years preceding the credit rating action. Please see the special report "Ancillary or other permissible services provided to entities rated by MIS's EU credit rating agencies" on the ratings disclosure page on our website [www.moodys.com](http://www.moodys.com) for further information.

Please see the ratings disclosure page on [www.moodys.com](http://www.moodys.com) for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on [www.moodys.com](http://www.moodys.com) for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on [www.moodys.com](http://www.moodys.com) for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website [www.moody's.com](http://www.moody's.com) for further information.

Please see [www.moody's.com](http://www.moody's.com) for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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

Barbara Rismondo  
VP - Senior Credit Officer  
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  
SUBSCRIBERS: 44 20 7772 5454



© 2011 Moody's Investors Service, Inc. and/or its licensors and affiliates (collectively, "MOODY'S").  
All rights reserved.

**CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT**

**CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.**

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable, including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moodys.com](http://www.moodys.com) under the heading "Shareholder Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969.

This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.