

**Hecho Relevante de VALENCIA HIPOTECARIO 4 Fondo de Titulización de Activos**

En virtud de lo establecido en el apartado 4.1.4. del Módulo Adicional a la Nota de Valores del Folleto Informativo de **VALENCIA HIPOTECARIO 4 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 **Fitch Ratings** ("**Fitch**"), con fecha 15 de febrero de 2011, comunica que ha confirmado la calificación de la siguiente Serie de Bonos emitidos por **VALENCIA HIPOTECARIO 4 Fondo de Titulización de Activos**:

- **Serie D:** **CCsf**

Asimismo, Fitch comunica que ha bajado las calificaciones de las restantes Series de Bonos:

- **Serie A:** **A-sf**, perspectiva estable (anterior **AAAsf**, observación negativa)
- **Serie B:** **Bsf**, perspectiva negativa (anterior **A-sf**, observación negativa)
- **Serie C:** **CCCsf** (anterior **BBsf**, observación negativa)

Se adjunta la comunicación emitida por Fitch Ratings.

Madrid, 16 de febrero de 2011.

Mario Masiá Vicente  
Director General



**Fitch Downgrades Three Valencia Hipotecario Tranches; Affirms Others**  
**15 Feb 2011 12:46 PM (EST)**

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Fitch Ratings-London-15 February 2011: Fitch Ratings has downgraded three tranches of Valencia Hipotecario 4 and affirmed all other tranches of four Spanish RMBS transactions originated by Banco de Valencia. In addition, the agency has revised the Outlook on one tranche to Negative. A full list of rating actions is below.

In Fitch's view, although the four collateral pools share similar characteristics, the transactions' performance varies markedly because of the different origination years of the underlying loans. 93% of the current loan balance for Valencia Hipotecario 1 was originated before 2003, whereas 85% of the current loan balance for Valencia Hipotecario 4 was originated in 2006 or 2007.

As a result, when the macro-economic environment deteriorated in Spain, the later transactions had been given less time to deleverage and therefore borrowers struggled more with affordability. Although loan-to-value ratios (LTV) were comparable across the four transactions, it is likely that borrowers in the later transactions faced higher initial mortgage instalments. This is because of the strong house price appreciation in Spain up until 2007, and therefore for a given LTV, the amount borrowed was higher. Similarly, in Fitch's opinion, it is likely that the later vintages will see lower recoveries.

The downgrade of Valencia Hipotecario 4's class A, B and C notes reflects the problems that the transaction continues to experience. To date, it has experienced high cumulative defaults, at 4.9% of the initial collateral balance, and a higher proportion of delinquent loans than would typically be expected for a Spanish prime RMBS transaction. The below par performance and low level of gross excess spread mean that the reserve fund has been fully utilised, to help provision for defaulted loans. Whilst the provisioning mechanism, applicable in these transactions after loans have been delinquent for 18 months, is designed to assist a transaction, Valencia Hipotecario 4 has been unable to cope with the volume of defaults. This has led to the continued rise in unprovisioned loans to EUR22.92m, which is a concern. In January 2011, the interest on the class C note was deferred for the first time, as a support for the more senior notes.

Valencia Hipotecario 2 and 3 also have low levels of gross excess spread, and are therefore also exposed to an increase in period defaults, which has been the trend across all four transactions. The increase in period defaults in 2010 was the result of borrowers who fell into arrears in 2008 and 2009 migrating through the arrears buckets into a state of 18 months in arrears. In both transactions, gross excess spread has been insufficient to fully provision defaulted loans, and consequently the reserve fund of each transaction has been drawn. However, unlike Valencia Hipotecario 4, neither of the reserve funds has diminished by more than 20% to date, and it is currently expected that recoveries on unsold repossessions will be sufficient to replenish both reserve funds to their target level. Nonetheless, Fitch will continue to carefully monitor this trend of rising defaults, and the 3.37% level of credit enhancement leaves the class B note of Valencia Hipotecario 3, rated 'A+sf', vulnerable to further deterioration in performance, hence the revision of the Outlook to Negative.

Valencia Hipotecario 1's weighted average current LTV is 41.17%, and although it is a well seasoned deal, the percentage of loans with arrears greater than 3 months (excluding defaults) has not risen above 0.56% of the outstanding collateral balance. Furthermore, as with all of the transactions, the vast majority of the underlying loans reference a 12-month index, which means that borrowers are expected to feel the effects of a potential rise in interest rate on a lagged basis.

Fitch received clarification from the gestora, Europea de Titulizacion, that the sudden fall in arrears in Valencia Hipotecaria 2, 3 and 4 was the result of an IT correction by Banco de Valencia, following a conversion to a new IT system. This initially caused an overestimation of arrears levels because it failed to include and adjust for the loans that had recovered from an arrears state. This fault was not as pronounced for Valencia Hipotecario 1 as the volume of loans in arrears has consistently been low.

The downgrade of Banco de Valencia to 'BBB-' and its placement on Rating Watch Negative on 4 February 2011 (see "Fitch Downgrades Banco de Valencia" on [www.fitchratings.com](http://www.fitchratings.com)) makes Banco de Valencia ineligible as interest swap provider under Fitch's structured finance counterparty criteria. In this circumstance, the posting of collateral is not considered sufficient to mitigate the counterparty risk. Fitch will contact the issuer and report its actions in due course.

The rating actions are as follows:

Valencia Hipotecario 1, Fondo de Titulizacion de Activos:

Class A (ISIN ES0382744003): affirmed at 'AAAsf'; Outlook Stable; assigned a Loss Severity (LS) Rating 'LS-1'

Class B (ISIN ES0382744011): affirmed at 'AA-sf' ; Outlook Stable; assigned a LS Rating 'LS-2'

Class C (ISIN ES0382744029): affirmed at 'BBB+sf'; Outlook Stable; assigned a LS Rating 'LS-3'

Valencia Hipotecario 2, Fondo de Titulizacion de Hipotecario:

Class A (ISIN ES0382745000): affirmed at 'AAAsf'; Outlook Stable; assigned a LS Rating 'LS-1'

Class B (ISIN ES0382745018): affirmed at 'A+sf'; Outlook Stable; assigned a LS Rating 'LS-2'

Class C (ISIN ES0382745026): affirmed at 'BBB+sf'; Outlook Negative; assigned a LS Rating 'LS-3'

Class D (ISIN ES0382745034): affirmed at 'CCCsfc'; Recovery Rating revised to 'RR3' from 'RR2'

Valencia Hipotecario 3, Fondo de Titulizacion de Activos:

Class A2 (ISIN ES0382746016): affirmed at 'AAAsf'; Outlook Stable; assigned a LS Rating 'LS-1'

Class B (ISIN ES0382746024): affirmed at 'A+sf'; Outlook revised to Negative from Stable; assigned a LS Rating 'LS-3'

Class C (ISIN ES0382746032) affirmed at 'BBBsf'; Outlook Negative; assigned a LS Rating 'LS-3'

Class D (ISIN ES0382746040): affirmed at 'CCCsfc'; Recovery Rating revised to 'RR4' from 'RR3'

Valencia Hipotecario 4, Fondo de Titulizacion de Activos:

Class A (ISIN ES0382717009): downgraded to 'A-sf' from 'AAAsf'; Outlook Stable; off RWN; assigned a Loss Severity (LS) Rating 'LS-1'

Class B (ISIN ES0382717017): downgraded to 'Bsf' from 'A-sf'; Outlook Negative; off RWN; assigned a LS Rating 'LS-3'

Class C (ISIN ES0382717025) downgraded to 'CCCsfc' from 'BBsf'; assigned a Recovery Rating of 'RR4'

Class D (ISIN ES0382717033): affirmed at 'CCsf'; Recovery Rating revised to 'RR6' from 'RR4'

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

Sources of information - in addition to those mentioned in the applicable criteria, the sources of information used to assess these ratings were Investor and Servicer Reports.

Applicable criteria, 'EMEA Residential Mortgage Loss Criteria', and 'EMEA Residential Mortgage Loss Criteria Addendum - Spain', both dated 23 February 2010, are available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable Criteria and Related Research:  
EMEA Residential Mortgage Loss Criteria  
EMEA Residential Mortgage Loss Criteria Addendum - Spain  
EMEA Structured Finance Snapshot - January 2011

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