

## **Announcement: Moody's updates on Spanish RMBS notes issued by Valencia Hipotecario 5**

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Global Credit Research - 13 Mar 2012

London, 13 March 2012 -- Moody's Investors Service announced today that at this time, the proposed structural amendment will not, in and of itself, result in a reduction or withdrawal of the current ratings on the notes issued by Valencia Hipotecario 5.

The structural amendments relates to an increase in the credit enhancement. The increase was implemented in the current capital structure by increasing the size of the reserve fund. On 10 February 2012 the reserve fund (€7,907,468) was funded by a subordinated loan granted by Banco de Valencia for an amount of €16.977.532.

The reserve fund is used to protect the Series A, B, and C notes against interest and principal shortfall on an ongoing basis. It may be amortised over the life of the transaction so that it amounts to the lesser of the following amounts:

- 1) €24.885.000
- 2) The higher of the following amounts:
  - 12.10% of the outstanding notional balance of the notes
  - €12,442,500

However, amortisation of the reserve fund will cease subject to some performance triggers which remain the same as in the initial documentation.

As the euro area crisis continues, the rating of the structured finance notes remain exposed to the uncertainties of credit conditions in the general economy. The deteriorating creditworthiness of euro area sovereigns as well as the weakening credit profile of the global banking sector could negatively impact the ratings of the notes. For more information please refer to the Rating Implementation Guidance published on 13 February 2012 "How Sovereign Credit Quality May Affect Other Ratings" [http://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC\\_139495](http://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_139495).

Moody's ratings address the expected loss posed to investors by the legal final maturity of the notes. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings only address the credit risk associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

The ratings of the notes take into account the credit quality of the underlying mortgage loan pools, from which Moody's determined the MILAN Aaa Credit Enhancement (MILAN Aaa CE) and the lifetime losses (expected loss). The expected loss and the Milan Aaa CE are the two key parameters used by Moody's to calibrate its loss distribution curve, used in the cash flow model to rate European RMBS transactions.

The methodologies used in this rating were Moody's Approach to Rating RMBS in Europe, Middle East, and Africa published in October 2009, Moody's Updated Methodology for Rating Spanish RMBS published in October 2009, Cash Flow Analysis in EMEA RMBS: Testing Structural Features with the MARCO Model (Moody's Analyser of Residential Cash Flows) published in January 2006, and Revising Default/Loss Assumptions Over the Life of an ABS/RMBS Transaction published in December 2008. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of these methodologies.

In rating this transaction, 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 noteholders. Therefore, the expected loss or EL 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.

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