

**Rating Action: Moody's downgrades 17 notes in four Rural Hipotecario Spanish RMBS transactions**

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London, 29 April 2013 -- Moody's Investors Service has today downgraded the ratings of eleven junior and six senior notes in four Spanish residential mortgage-backed securities (RMBS) transactions: Rural Hipotecario VII, FTA, Rural Hipotecario VIII, FTA, Rural Hipotecario IX, FTA, Rural Hipotecario XI, FTA. At the same time, Moody's confirmed the ratings of one senior security in Rural Hipotecario IX, FTA. Insufficiency of credit enhancement to address sovereign risk has prompted today's action.

Today's rating action concludes the review of four notes placed on review on 2 July 2012, following Moody's downgrade of Spanish government bond ratings to Baa3 from A3 on 13 June 2012  
[http://www.moodys.com/research/Moodys-downgrades-to-A3sf-notes-in-328-Spanish-ABS-RMBS--PR\\_249914](http://www.moodys.com/research/Moodys-downgrades-to-A3sf-notes-in-328-Spanish-ABS-RMBS--PR_249914) .  
This rating action also concludes the review of 14 notes placed on review on 23 November 2012, following Moody's revision of key collateral assumptions for the entire Spanish RMBS market  
[http://www.moodys.com/research/Moodys-review-of-Spanish-RMBS-sector-triggers-rating-actions-on--PR\\_260528](http://www.moodys.com/research/Moodys-review-of-Spanish-RMBS-sector-triggers-rating-actions-on--PR_260528).

For a detailed list of affected ratings, see towards the end of the ratings rationale section.

**RATINGS RATIONALE**

Today's rating action primarily reflects the insufficiency of credit enhancement to address sovereign risk. Moody's confirmed the ratings of securities whose credit enhancement and structural features provided enough protection against sovereign and counterparty risk.

The determination of the applicable credit enhancement driving today's rating actions reflects the introduction of additional factors in Moody's analysis to better measure the impact of sovereign risk on structured finance transactions (see "Structured Finance Transactions: Assessing the Impact of Sovereign Risk", 11 March 2013). This report is available on [www.moodys.com](http://www.moodys.com) and can be accessed via the following link  
[http://www.moodys.com/research/documentcontentpage.aspx?docid=PBS\\_SF319988](http://www.moodys.com/research/documentcontentpage.aspx?docid=PBS_SF319988) .

-- Additional Factors Better Reflect Increased Sovereign Risk

Moody's has supplemented its analysis to determine the loss distribution of securitised portfolios with two additional factors, the maximum achievable rating in a given country (the local currency country risk ceiling) and the applicable portfolio credit enhancement for this rating. With the introduction of these additional factors, Moody's intends to better reflect increased sovereign risk in its quantitative analysis, in particular for mezzanine and junior tranches.

The Spanish country ceiling, and therefore the maximum rating that Moody's will assign to a domestic Spanish issuer including structured finance transactions backed by Spanish receivables, is A3. Moody's Individual Loan Analysis Credit Enhancement (MILAN CE) represents the required credit enhancement under the senior tranche for it to achieve the country ceiling. By lowering the maximum achievable rating for a given MILAN, the revised methodology alters the loss distribution curve and implies an increased probability of high loss scenarios.

In all four affected transactions, Moody's maintained the current expected loss and MILAN CE assumptions. Expected loss assumptions remain at 0.80% for Rural Hipotecario VII, 1.90% for Rural Hipotecario VIII, 3.57% for Rural Hipotecario IX and 2.70% for Rural Hipotecario XI. The MILAN CE assumptions remain at 10% for Rural Hipotecario VII, 15% for Rural Hipotecario VIII, 15% for Rural Hipotecario IX and 15% for Rural Hipotecario XI.

-- Exposure to Counterparty Risk

The conclusion of Moody's rating review also takes into consideration the exposure to Banco Cooperativo Espanol S.A. (Ba1/NP on review for downgrade), which acts as swap counterparty for Rural Hipotecario VII, Rural Hipotecario VIII, Rural Hipotecario IX, Rural Hipotecario XI. Moody's notes that, following the breach of the second rating trigger, the swaps in the four transactions do not reflect Moody's de-linkage criteria. The rating agency has

assessed the probability and effect of a default of the swap counterparty on the ability of the issuer to meet its obligations under the transaction. Additionally, Moody's has examined the effect of the loss of any benefit from the swap and any obligation the issuer may have to make a termination payment. In conclusion, these factors will not negatively affect the rating on the notes.

#### -- Other Developments May Negatively Affect the Notes

In consideration of Moody's new adjustments, any further sovereign downgrade would negatively affect structured finance ratings through the application of the country ceiling or maximum achievable rating, as well as potentially increased portfolio credit enhancement requirements for a given rating.

As the euro area crisis continues, the ratings of 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 further negatively affect the ratings of the notes.

Moody's describes additional factors that may affect the ratings in "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cashflow Transactions: Request for Comment" ([http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS\\_SF289772](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS_SF289772)), both published on 2 July 2012.

The methodologies used in these ratings were Moody's Approach to Rating RMBS Using the MILAN Framework, published in March 2013 and The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines, published in March 2013. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies

In reviewing these transactions, Moody's used its cash flow model, ABSROM, to 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, Moody's calculates the corresponding loss for each class of notes given the incoming cash flows from the assets and the outgoing payments to third parties and noteholders. Therefore, the expected loss for each tranche is the sum product of (1) the probability of occurrence of each default scenario and (2) 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.

In the context of the rating review, the transactions have been remodeled and some inputs have been adjusted to reflect the new approach described above. In addition, for all four Rural Hipotecario transactions, the input for the principal deficiency ledger has been corrected during the review.

#### LIST OF AFFECTED RATINGS

Issuer: Rural Hipotecario VII, Fondo de Titulizacion de Activos

...EUR957.1MA1 Notes, Downgraded to Baa1 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Remained On Review for Possible Downgrade

...EUR100MA2 Notes, Downgraded to Baa1 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Remained On Review for Possible Downgrade

...EUR19.2M B Notes, Downgraded to Ba2 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

...EUR23.7M C Notes, Downgraded to B3 (sf); previously on Dec 16, 2011 Baa3 (sf) Placed Under Review for Possible Downgrade

Issuer: Rural Hipotecario VIII, Fondo de Titulizacion de Activos

...EUR802.4MA2a Notes, Downgraded to Baa2 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

...EUR350MA2b Notes, Downgraded to Baa2 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

...EUR27.3M B Notes, Downgraded to B3 (sf); previously on Nov 23, 2012 Downgraded to Baa2 (sf) and

Remained On Review for Possible Downgrade

....EUR15.6M C Notes, Downgraded to Caa2 (sf); previously on Nov 23, 2012 Downgraded to Ba3 (sf) and Remained On Review for Possible Downgrade

....EUR7.2M D Notes, Downgraded to Caa3 (sf); previously on Nov 23, 2012 Downgraded to Caa1 (sf) and Remained On Review for Possible Downgrade

....EUR11.7M E Notes, Downgraded to Ca (sf); previously on Dec 16, 2011 Caa3 (sf) Placed Under Review for Possible Downgrade

Issuer: Rural Hipotecario IX, Fondo de Titulizacion de Activos

....EUR1021.7MA2 Notes, Confirmed at Baa1 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

....EUR210MA3 Notes, Downgraded to Baa3 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

....EUR29.3M B Notes, Downgraded to B3 (sf); previously on Jul 2, 2012 Baa3 (sf) Placed Under Review for Possible Downgrade

....EUR28.5M C Notes, Downgraded to Caa3 (sf); previously on Nov 23, 2012 Downgraded to Caa1 (sf) and Remained On Review for Possible Downgrade

....EUR10.5M D Notes, Downgraded to Ca (sf); previously on Jul 2, 2012 Caa1 (sf) Placed Under Review for Possible Downgrade

Issuer: Rural Hipotecario XI, Fondo de Titulizacion de Activos

....EUR2113.1MA Notes, Downgraded to Baa2 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

....EUR25.3M B Notes, Downgraded to B1 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

....EUR61.6M C Notes, Downgraded to B3 (sf); previously on Dec 16, 2011 Baa3 (sf) Placed Under Review for Possible Downgrade

## REGULATORY DISCLOSURES

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.

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Carole Bernard  
Vice President - Senior Analyst  
Structured Finance Group  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Christophe de Noaillet  
Associate Managing Director  
Structured Finance Group  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Giuseppe Zuccala  
Associate Analyst  
Structured Finance Group  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:  
Moody's Investors Service Ltd.  
One Canada Square  
Canary Wharf  
London E14 5FA  
United Kingdom  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

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