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## Fitch Downgrades PYME Valencia 1 FTA; off RWN Ratings

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Fitch Ratings-London/Madrid-20 November 2009: Fitch Ratings has today downgraded PYME Valencia 1, FTA and removed them from Rating Watch Negative (RWN).

EUR299,488,274 class A2 notes due March 2040 (ISIN ES0372241010): downgraded to 'A' from 'AAA', removed from RWN; assigned Negative Outlook and 'LS-1'

EUR47,600,000 class B notes due March 2040 (ISIN ES0372241028): downgraded to 'BB' from 'A', removed from RWN; assigned Negative Outlook and 'LS-3'

EUR34,000,000 class C notes due March 2040 (ISIN ES0372241036): downgraded to 'CCC' from 'BB', removed from RWN

EUR13,600,000 class D notes due March 2040 (ISIN ES0372241044): downgraded to 'CC' from 'B', removed from RWN

EUR15,300,000 class E notes due March 2040 (ISIN ES0372241051): downgraded to 'C' from 'CC', removed from RWN

Fitch has completed its review of PYME Valencia 1 FTA and has downgraded all outstanding notes as indicated above. The transaction was placed on RWN in August 2009, subsequent to the release of the agency's 'Rating Criteria for European Granular Corporate Balance-Sheet Securitisations (SME CLO)'. The material rating actions applied to this transaction reflect the application of the updated SME CLO criteria as well as the ongoing deterioration in credit performance in recent quarters, including the full depletion of the reserve fund and weak prospects for any replenishment over the near/medium term.

Although the transaction has benefitted from portfolio seasoning and structural de leveraging, the application of Fitch's updates SME CLO criteria resulted in significantly higher PD assumptions and expected losses on the remaining portfolio - which are not supported by existing credit enhancement in the transaction. In addition, the steady deterioration in credit metrics and full depletion of the reserve fund over the past 12-months has clearly elevated the default risk in the transaction - particularly for subordinate notes. These factors resulted in the downgrade noted above as well as the application of Negative Outlooks to the class A2 and B notes despite an increase in their credit enhancement (CE) levels to 24.1% and 12.1% from 13.0% and 7.4%, respectively, at closing. The increase in class B CE is clearly a positive development and although current CE level could withstand the loss rates produced in the lowest investment grade stresses with extremely thin margins, the uncertainty regarding future reserve fund levels and future portfolio performance resulted in a downgrade to 'BB'.

Unlike the class A2 and B notes, the class C note CE has not changed materially from 3.4% at closing while the portfolio has deteriorated as evidenced by the increase in the 3-month delinquency rate to 11.24% as of 31 October 2009 and the increase in defaulted assets (which are greater than 12 months delinquent) to 5.1% of the total outstanding portfolio balance as of 30 September 2009. The class D and E notes, being the most junior notes in the structure, are the most susceptible to a loss especially as the reserve fund balance is now depleted. The class D and E notes currently have no CE available, leaving them particularly vulnerable to any further portfolio defaults and highly exposed to recovery rates on defaulted loans.

As of 31 October 2009, the portfolio benefits from 80.20% of the assets being secured by mortgages. The portfolio exhibits single obligor concentrations with the top 20 obligors accounting for 24.8% of the portfolio and the top five obligors at 10.6%. The portfolio as of 31 October 2009 exhibited high exposure to the real estate (39.6%) and construction (16%) industries and the Valencia region (60.3%).

Applicable Criteria, 'Rating Criteria for European Granular Corporate Balance-Sheet Securitisations (SME CLO)', dated 23 July 2009, 'Criteria for Structured Finance Loss Severity Ratings,' dated 17 February 2009 and 'Global Structured Finance

Rating Criteria', dated 30 September 2009 are available on [www.fitchratings.com](http://www.fitchratings.com):

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