

Rating Action: Moody's downgrades Pyme Valencia 1, FTA, Spanish SME ABS notes

Global Credit Research - 23 Apr 2010

Approximately EUR357.7 million of debt securities affected

Frankfurt, April 23, 2010 -- Moody's Investors Service has downgraded the long-term credit ratings of the following notes issued by Pyme Valencia 1, FTA:

- Class A2 notes: Downgraded to Aa3, previously Aaa placed under review for downgrade on 23 February 2009
- Class B notes: Downgraded to Ba3, previously downgraded to Baa2 and placed under review for downgrade on 16 July 2009
- Class C notes: Downgraded to Caa3, previously downgraded to Caa1 and placed under review for downgrade on 16 July 2009
- Class D notes: Downgraded to C, previously downgraded to Ca and placed under review for downgrade on 16 July 2009

Moody's initially assigned definitive ratings in July 2007.

Today's rating action concludes the rating review that was originally initiated in February 2009. The downgrades on all outstanding rated notes are motivated by worse-than-expected collateral performance and concerns due to the lack of liquidity in the transaction following the full depletion of the reserve fund and the breach of the swap rating trigger.

In July 2009, Moody's downgraded the Class B, C and D notes due to weak performance and left all rated notes, including the Class A2 notes, on review for further possible downgrade. Moody's maintained the ratings of the notes on review following the downgrade of the originator, servicer and swap counterparty of the transaction Banco de Valencia (15 June 2009).

As part of its review, Moody's considered the potential for further performance deterioration in the current economic cycle, and the exposure of the transaction to the real estate sector. The deterioration of the Spanish economy has been reflected in Moody's negative sector outlook for Spanish SME securitisation transactions ("EMEAABS & RMBS: 2009 Review and 2010 Outlook", published in January 2010.) Moody's applied its revised methodology for granular SME portfolios in Europe, Middle East and Africa (EMEA). This revised methodology was introduced on 17 March 2009.

Collateral Performance

To date, the transaction has been performing worse than the Spanish SME index. Since the last review in July 2009, delinquency levels have been volatile. Outstanding 90+ days delinquencies decreased from 4.32% to 2.22% of current pool balance between July 2009 and February 2010. In the same period the cumulative 90+ days delinquencies in the transaction rose from 7.8% to 12.8% of original balance plus replenishments, while the cumulative artificial write-off amount doubled during the same period from 1.57% to 3.22%. This increase prompted the full draw under the reserve fund which declined from EUR5.5 million or 36% of its target amount in August 2009 to zero in September 2009. Since then, the reserve fund has not built back up. In addition, the rising amount of artificial write-offs could not be covered by excess spread and reserve fund and led to a principal deficiency equal to EUR4.8 million or 1.36% of the outstanding pool balance as of the last payment date in February 2010. Artificial write-offs are considered as loans that are more than 12 months into arrears or are considered as uncollectible by the servicer or originator.

Default Probability Adjustments

Moody's has revised its assumption of the default probability of the SME debtors on updated portfolio data as of March 2010 provided by the management company Europea de Titulización S.G.F.T, S.A. Applying the revised methodology, Moody's reached an equivalent rating in the single B range for the debtors operating in the real estate sector, and in the low Ba range for the non-real-estate debtors. In addition, Moody's made PD adjustments to reflect the size of the debtors' companies. For approximately 22% of the exposure, no company size information was available, so Moody's considered the relevant borrowers as micro-SMEs. Additionally, loans in arrears have been notched down depending

on the length of time the loans have been in arrears, while performing loans outside the building and real estate sector with relatively long seasoning have been notched up depending on their actual seasoning.

Revised WAL and DP Assumptions

Moody's estimates that the remaining weighted-average life of the portfolio is equal to 4.8 years. As a consequence, these revised assumptions have translated into an increase of the cumulative mean default assumption to 25% of the current outstanding portfolio. When converting this number into a cumulative mean default rate of original balance plus replenishments, the revised expected cumulative default rate is 20.9% compared to the 15% revised assumption in July 2009. The top 20 debtors in the March pool-cut accounted for approximately 27% of the outstanding portfolio (the effective number in the portfolio was 161). The portfolio is characterised by high sector concentrations, namely in the building and real estate sector, and high geographical concentration in the region of Valencia. Moody's used a Monte Carlo simulation to determine the default distribution with a resulting coefficient of variation of 51%.

Other Assumptions and Sensitivities

The average recovery assumption was updated to 50% (stochastic recovery rate) based on the level and nature of the properties guaranteeing the underlying collateral. This compares to a fixed recovery rate of 45% assumed at the last review date. The constant prepayment rate (CPR) Moody's used in its cash flow model was maintained at 5%. Moody's tested various sensitivities around these key assumptions in order to determine its final view on the ratings. One specific feature Moody's evaluated in these scenarios were the interest deferral triggers and the benefit they provide to the Class A2 notes once they have been hit.

Insufficient Liquidity in the Deal and Breach of Swap Rating Trigger

The main exposure to Banco de Valencia in this transaction is through its servicing and swap counterparty role. Moody's notes that the reserve fund of the transaction is fully depleted and that no other source of liquidity is available in the transaction. Moody's believes that the absence of liquidity in the transaction could impair the ability of the issuer to make timely payment of interest on the notes, particularly if there was a servicing transfer. Moody's also believes that the lack of liquidity in this transaction increases the degree of linkage between the rating of the servicer and the senior notes rating. Banco de Valencia's downgrade from A3/P2 to Baa1/P2 led to the breach of the second rating trigger under the swap agreement. Since July 2009, the bank has not been able to find a replacement or guarantor for the swap agreement. The bank is still posting collateral as per the swap documentation, which in Moody's opinion only partially mitigates the linkage to Banco de Valencia acting as swap counterparty.

Moody's has incorporated these risks in its analysis in addition to the performance analysis, which resulted in the downgrade of the Class A2 notes to Aa3.

The Transaction

Pyme Valencia 1, FTA is a securitisation fund, which purchased a pool of loans granted to Spanish SMEs and individuals originated by Banco de Valencia. In June 2007, the static portfolio consisted of 3,786 loans and 3,172 debtors. As end of March 2010, these numbers stood at 1,541 loans and 1,363 debtors. The original portfolio of loans was originated between 2000 and 2006, with a weighted-average seasoning of 1.73 years and a weighted-average remaining term of 7.86 years. Geographically, the pool was concentrated in Valencia (62%), Murcia (15%) and Madrid (7%). At closing, the concentration in the building and real estate sector was 59.4% of the initial portfolio amount, which is higher than the sector-average concentration in the SME ABS portfolios. In the updated March portfolio, the weighted-average seasoning equalled 4.74 and the remaining term 10.1 years. The concentration in the building and real estate sector was approximately 50% of the current balance. The pool factor was 38% as of March 2010.

Meaning of Rating and Methodologies

Moody's ratings address the expected loss posed to investors by the legal final maturity of the notes. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

The principal methodologies used in rating this transaction were "Refining the ABS SME Approach: Moody's Probability of Default Assumptions in the Rating Analysis of Granular Small and Mid-sized Enterprise portfolios in EMEA", March 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website. Further information on Moody's analysis of this transaction is available on www.moodys.com. In addition, Moody's published a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moodys.com/SFQuickCheck.

Moody's is closely monitoring the transaction. To obtain a copy of Moody's New Issue Report or periodic Performance Overviews, please visit Moody's website at www.moody's.com or contact our Client Service Desk in London (+44-20-7772 5454).

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