

Rating Action: FTPYME BANCAJA 3, FTA

Moody's downgrades mezzanine and junior notes of FTPYME BANCAJA 3, FTA, Spanish SME ABS

EUR130.9 million of rated securities affected

Frankfurt, January 27, 2010 -- Moody's Investors Service has today taken the following rating actions on the long-term credit ratings of the following notes issued by FTPYME BANCAJA 3, FTA:

- EUR 12.1 million Class B: Downgraded to Baa1 from Aa1; previously on March 18 2009 placed under review for possible downgrade.
- EUR 4.4 million Class C: Downgraded to Caa2 from Baa1; previously on March 18 2009 placed under review for possible downgrade.
- EUR 4.4 million Class D: Downgraded to Ca from Baa3; previously on March 18 2009 placed under review for possible downgrade.

Moody's initially assigned definitive ratings in October 2004.

The downgrades were prompted by a higher-than-expected level of delinquencies. As of end-December 2009, cumulative 90+ delinquencies (i.e. the cumulative amount of loans that became 90 days delinquent, counting each loan only once and for its value the first time it became 90 days delinquent) were equal to 2.89% of the original portfolio balance, compared to 1.94% a year ago. High delinquencies resulted in a reserve fund draw on the December payment date, and the reserve fund now stands at EUR3.66 million, below its target level of EUR5 million. Given that the amount of 12-18 month delinquencies has exceeded the amount of the reserve fund since August, Moody's expects that full reserve fund depletion could occur at the next payment date falling in March, as a large portion of the delinquent loans in the 12-18 months bucket are expected to be written off.

As part of the review, Moody's has considered the exposure of the transaction to the real estate sector (either through security in the form of a mortgage or debtors operating in the real estate sector). The deterioration of the Spanish economy has been reflected in Moody's negative sector outlook for the Spanish SME securitisation transactions (see "EMEA ABS & RMBS: 2009 Review & 2010 Outlook, January 2010). Since Q4 2008, this transaction has been performing worse than the Spanish SME index published by Moody's ("Spanish SME Q3 2009 Indices", November 2009). In particular, 90-360 days delinquencies stood at 2.73% as of September 2009 compared with 2.49% for the Spanish index.

As a result of the above, Moody's has revised its assumption of the default probability of the SME debtors to an equivalent rating in the low single B-range for the debtors operating in the real estate sector, and in the Ba-range for the non-real-estate debtors. Additionally, loans in arrears have been notched down depending on the length of time the loans have been in arrears. Performing loans not in the building and real estate sector with relatively long seasoning have been notched up depending on their actual seasoning.

At the same time, Moody's estimated the remaining weighted-average life of the portfolio at 4.7 years. As a consequence, these revised assumptions have translated into a cumulative mean default assumption for this transaction of 23.9% of the current portfolio balance (corresponding to 4.5% of the original pool balance). Moody's original mean default assumption was 2.25% of original portfolio balance, with a coefficient of variation of 55%. Because of the relatively low effective number of borrowers in the portfolio (165), Moody's used a Monte Carlo simulation to determine the probability function of the defaults, resulting in a coefficient of variation of 36.9%. The average recovery rate assumption remains unchanged since closing at 50% (fixed recovery rate) taking into account the actual recoveries observed so far in the transaction. Moody's also tested stochastic recoveries assumptions of 55% to 60% on average. The prepayment rate is assumed to be 5%, which is comparable to recently observed levels for CPR values.

Moody's concluded that the increase in credit enhancement available in the structure due to the amortisation of the portfolio (as of December 2009, the pool factor was equal to 14.2%) is insufficient to offset the impact of the revised assumptions on the rating of the Class B, C and D notes. The anticipated depletion of the reserve fund would result in a principal deficiency for Class D. A higher default expectation and the lack of credit enhancement translate into a Ca rating for this tranche.

The Class A3(G) notes benefit from a guarantee from the Kingdom of Spain (Aaa) for interest and principal payments. In addition, the Class A3(G) notes benefits from a liquidity facility to ensure the timely payment of interest on these notes provided by Bancaja which is fully collateralised in cash deposited in an account held at CECA (Aa3/P-1). Moody's has determined that the expected loss associated with Class A3(G) without the Kingdom of Spain guarantee, which was consistent with Aaa at closing, remains consistent with a Aaa rating.

FTPYME BANCAJA 3, FTA is a securitisation fund, which purchased a pool of loans granted to Spanish SMEs originated by Caja de Ahorros de Valencia, Castellon y Alicante (Bancaja, A3/P-2). In November 2004, the portfolio consisted of 2,455 loans. The loans were originated between 1995 and 2004, with a weighted average seasoning of 1.5 years and a weighted average remaining term of 7.54 years. Moody's notes that the concentration in the "Building and Real Estate sector" has decreased from 56.7% of the portfolio at closing to 50.7% of the portfolio as of December 2009, while the number of borrowers stood at 673. Geographically, the composition of the pool has remained broadly unchanged since closing, with concentrations in the regions of Valencia (55.7%), Catalonia (11.7%) and Madrid (10.7%).

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.

Moody's initially analysed and currently monitors this transaction using the rating methodology for granular SME transactions in EMEA as described in the following Rating Methodology reports: "Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa", June 2007 and "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. These reports are available on www.moody's.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. In addition, Moody's publishes a weekly summary of structured finance credit, ratings and methodologies in "Structured Finance Quick Check" at www.moody's.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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