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All Ratings Affirmed In Spanish SME CLO Transaction FTPYME Bancaja 3 Following Performance Review

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OVERVIEW

- We have reviewed FTPYME Bancaja 3's performance, using data from the December 2013 trustee report, and have applied our relevant criteria as part of our credit and cash flow analysis.
- Following our review, we have affirmed our ratings on the class B, C, and D notes.
- FTPYME Bancaja 3 is a cash flow CLO transaction that securitizes a portfolio of SME loans that Bancaja (now merged with Bankia) originated.

MADRID (Standard & Poor's) March 19, 2014--Standard & Poor's Ratings Services today affirmed its credit ratings on FTPYME Bancaja 3, Fondo de Titulizacion de Activos' class B, C, and D notes (see list below).

Today's affirmations follow our review of the transaction's performance. We have based our analysis on the trustee report for the December 2013 interest payment date (the collateral information is as of Nov. 30, 2013), and have applied our relevant criteria (see "Related Criteria").

CREDIT ANALYSIS

FTPYME Bancaja 3's collateral is a closed portfolio of secured (97.48%) and unsecured (2.52%) loans granted to Spanish small and midsize enterprises (SMEs) originated by Caja de Ahorros de Valencia, Castellón y Alicante

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(Bancaja). The pool has a pool factor (the percentage of the outstanding aggregate principal balance) of 5.50%. Of the pool, 59.13% of its outstanding balance is concentrated in the originator's home market of Valencia. Concentration in the real estate and construction sectors represents 34.68% of the outstanding pool balance. Since closing in October 2004, obligor concentration has increased due to the pool's deleveraging. The top one, five, and 10 obligors represent 4.55%, 19.13%, and 29.27% respectively, of the outstanding pool balance.

Available credit enhancement for the class B, C, and D notes is provided by subordination and excess spread and totals 68.58%, 16.93%, and -4.28%, respectively (the class D notes are undercollateralized). We calculated these amounts using the outstanding pool balance (excluding defaults) as of Nov. 30, 2013. Since our November 2012 review, credit enhancement has increased due to the deleveraging of the class B and C notes. By contrast, it has decreased for the class D notes (see "Various Rating Actions Taken In Spanish SME CLO Transaction FTPYME Bancaja 3 Following Review," published on Nov. 16, 2012).

We have applied our European SME collateralized loan obligations (CLOs) criteria to determine the scenario default rates (SDRs) for this transaction (see "European SME CLO Methodology And Assumptions," published on Jan. 10, 2013). The SDR is the minimum level of portfolio defaults that we expect each tranche to support the specific rating level using Standard & Poor's CDO Evaluator.

Our qualitative originator assessment is moderate because of the lack of data the servicer, Bankia, provided. Taking into account Spain's Banking Industry Country Risk Assessment (BICRA) of 6, we have applied a one-notch decrease to the archetypical European SME average credit quality assessment as described in our criteria. We applied a portfolio selection adjustment of minus three notches based on the portfolio selection adjustment. As a result, our average credit quality assessment of the portfolio is 'ccc'.

The originator did not provide us with internal credit scores. Therefore, we assumed that each loan in the portfolio had a credit quality that is equal to our average credit quality assessment of the portfolio.

We used CDO Evaluator to determine the 'AAA' SDR. We determined that the whole portfolio's 'AAA' SDR is 87.32%. In our view, the high SDR is due to significant obligor concentration, industry concentration in the real estate and construction sector, and our 'ccc' average credit quality assessment of the portfolio.

We have reviewed historical originator default data, and assessed market trends and developments, macroeconomic factors, changes in country risk, and the way these factors are likely to affect the loan portfolio's creditworthiness.

Total delinquencies have decreased to 9.25% of the outstanding pool balance, from a peak of 20.61% in November 2012, and have rolled into higher arrears

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buckets. The levels of 30 to 180 days arrears have decreased significantly since our last review, when they were about 20%, and are low at 2.54%. As of January 2014, 180+ days arrears were 6.70%. Because of the increase in defaulted assets, and given that the transaction structure has to artificially write off the defaulted loans, the reserve fund has been fully depleted since June 2013.

As a result of this analysis, our 'B' SDR is 7.68%.

The SDRs for rating levels between 'B' and 'AAA' are interpolated in line with our European SME CLO criteria.

RECOVERY RATE ANALYSIS

At each liability rating level, taking into account the observed historical recoveries, we assumed a weighted-average recovery rate (WARR) by taking into consideration the asset type, its seniority, and the country recovery grouping (see table 7 in our European SME CLO criteria).

As a result of this analysis, our WARR assumptions in 'AA-' and 'BB' scenarios were 41.32% and 59.03%, respectively.

CASH FLOW ANALYSIS

We subjected the capital structure to various cash flow scenarios, incorporating different default patterns and interest rate curves, to determine each tranche's passing rating level under our European SME CLO criteria. We gave benefit to the swap in our analysis (see "Counterparty Risk"). Additionally, there was an amortization deficit of about €1.84 million on the December 2013 payment date. Our cash flow analysis shows that the class B notes are able to withstand our cash flow stresses at a 'AA' rating level. However, sovereign risk constrains our rating on this class of notes (see "Sovereign Risk").

SUPPLEMENTAL TESTS

Our supplemental tests take into account obligor concentration, industry concentration, and regional concentration for the 'AAA' and 'AA' rating categories, and only obligor concentration for the remaining rating categories. Our ratings on the notes were not constrained by the application of the supplemental tests as the maximum ratings achievable resulting from the tests were 'AAA (sf)', 'A+ (sf)', and 'CCC+ (sf)', for the class B, C, and D notes, respectively.

COUNTERPARTY RISK

The issuer receives from the swap counterparty (The Royal Bank of Scotland [RBS]) an amount equivalent to the weighted-average coupon of the notes plus 87 basis points per annum on the performing balance of the collateral (this includes loans that are up to 90 days in arrears). We have reviewed the swap

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counterparty's downgrade provisions in the swap agreement, and they comply with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). Under the transaction documentation, the swap counterparty has chosen replacement option 1 in accordance with our criteria, and is posting collateral. Therefore, it is eligible to remain in the transaction as long as it has a long-term rating of 'BBB+' or higher.

SOVEREIGN RISK

Our nonsovereign ratings criteria constrain our rating on the class B notes at 'AA- (sf)', as, under these criteria, the highest rating we would assign to a structured finance transaction is six notches above the investment-grade rating on the country in which the securitized assets are located (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published on June 14, 2011). Because this transaction securitizes Spanish SME loans, and our criteria deem it to have low sensitivity or exposure to sovereign risk, the highest rating achievable is 'AA-', which is six notches above our 'BBB-' long-term sovereign rating on Spain.

RATING ACTIONS

Following our full analysis described above, we have affirmed our 'AA- (sf)' and 'BB (sf)' ratings on the class B and class C notes, respectively. Despite having no reserve fund, credit enhancement from the performing pool and excess spread in the transaction is sufficient to support our ratings on these classes of notes, in our view.

We have affirmed our 'CCC (sf)' rating on the class D notes because we do not expect this class of notes to default in the next 12 to 18 months. This class of notes will default if the interest deferral trigger is breached and available funds are not sufficient to meet interest payments under this class, after the senior classes of notes have amortized. However, it is unlikely that the transaction will breach this trigger in the aforementioned timeframe, in our view.

FTPYME Bancaja 3 is a cash flow CLO transaction that securitizes a portfolio of SME loans that Bancaja, today merged with Bankia. The transaction closed in October 2004.

STANDARD & POOR'S 17G-7 DISCLOSURE REPORT

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

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If applicable, the Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at <http://standardandpoorsdisclosure-17g7.com>

RELATED CRITERIA AND RESEARCH

Related Criteria

- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- European SME CLO Methodology And Assumptions, Jan. 10, 2013
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles of Credit Ratings, Feb. 16, 2011
- Methodology: Credit Stability Criteria, May 3, 2010
- Update To Global Methodologies And Assumptions For Corporate Cash Flow And Synthetic CDOs, Sept. 17, 2009
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

Related Research

- Sovereign Ratings And Country T&C Assessments, Feb. 28, 2014
- Banking Industry Country Risk Assessment Update: February 2014, Feb. 5, 2014
- Economic Research: These Green Shoots Will Need A Lot Of Watering, Dec. 12, 2013
- Methodology And Assumptions: Advance Notice Of Proposed Criteria Change: Ratings Above The Sovereign--Structured Finance, April 12, 2013
- Various Rating Actions Taken In Spanish SME CLO Transaction FTPYME Bancaja 3 Following Review, Nov. 16, 2012
- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011

RATINGS LIST

Class Rating

FTPYME Bancaja 3, Fondo de Titulizacion de Activos
€900 Million Floating-Rate Notes

Ratings Affirmed

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B	AA- (sf)
C	BB (sf)
D	CCC (sf)

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