

All Ratings Affirmed In Spanish SME CLO Transaction FTPYME Bancaja 3 Following Criteria Update

Publication date: 11-Nov-2014 05:59:10 EST

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OVERVIEW

- We have reviewed FTPYME Bancaja 3 under our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating.
- We have also applied our SME CLO and current counterparty criteria to perform 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 single-jurisdiction cash flow CLO transaction backed by SME loans. It closed in October 2004 and is currently amortizing.

LONDON (Standard & Poor's) Nov. 11, 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).

Upon publishing our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating (RAS criteria), we placed those ratings that could potentially be affected "under criteria observation" (see "[EMEA Structured Finance, Covered Bond, And Multicedulas Ratings Placed Under Criteria Observation](#)" and "[Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance](#)," published on Sept. 18, 2014 and Sept. 19, 2014, respectively).

Following our review of this transaction, our ratings that could potentially be affected by the criteria are no longer under criteria observation.

We have used data from the September 2014 investor report to perform our credit and cash flow analysis and have applied our European small and midsize enterprise (SME) collateralized loan obligation (CLO) criteria and our current counterparty criteria (see "[European SME CLO Methodology And Assumptions](#)," published on Jan. 10, 2013, and "[Counterparty Risk Framework Methodology And Assumptions](#)," published on June 25, 2013). For ratings in this transaction that are above our rating on the sovereign, we have also applied our RAS criteria.

CREDIT ANALYSIS

FTPYME Bancaja 3 is a single-jurisdiction cash flow CLO transaction securitizing a portfolio of SME loans that was originated by Bankia S.A. in Spain. The transaction closed in October 2004.

We have applied our European SME CLO criteria to determine the scenario default rate (SDR)--the minimum level of portfolio defaults that we expect each tranche to be able to withstand at a specific rating level using CDO Evaluator.

To determine the SDR, we adjusted the archetypical European SME average 'b+' credit quality to reflect two factors (country and originator and portfolio

selection adjustments).

We ranked the originator into the moderate category (see tables 1, 2, and 3 in our European SME CLO criteria). Taking into account Spain's Banking Industry Country Risk Assessment (BICRA) score of 6 and the originator's average annual observed default frequency, we have applied a downward adjustment of one notch to the 'b+' archetypical average credit quality (see "[Banking Industry Country Risk Assessment Update: November 2014](#)," published on Nov. 3, 2014). To address differences in the creditworthiness of the securitized portfolio compared with the originator's entire loan book, we further adjusted the average credit quality by three notches (see table 4 in our European SME CLO criteria).

As a result of these adjustments, our average credit quality assessment of the portfolio was 'ccc', which we used to generate our 'AAA' SDR of 88.99%.

We have calculated the 'B' SDR, based primarily on our analysis of historical SME performance data and our projections of the transaction's future performance. We have reviewed the originator's historical default data, and assessed market developments, macroeconomic factors, changes in country risk, and the way these factors are likely to affect the loan portfolio's creditworthiness. As a result of this analysis, our 'B' SDR is 23%.

We interpolated the SDRs for rating levels between 'B' and 'AAA' in accordance with our European SME CLO criteria.

RECOVERY RATE ANALYSIS

We applied a weighted-average recovery rate (WARR) at each liability rating level by considering the asset type and its seniority, the country recovery grouping, and the observed historical recoveries in this transaction (see table 7 in our European SME CLO criteria).

COUNTRY RISK

Our long-term rating on the Kingdom of Spain is 'BBB'. Our RAS criteria require the tranche to have sufficient credit enhancement to pass a minimum of a "severe" stress to qualify to be rated above the sovereign (see "[Understanding Standard & Poor's Rating Definitions](#)," published on June 3, 2009 for our definitions of severe and extreme levels of economic stress).

CASH FLOW ANALYSIS

We used the reported portfolio balance that we considered to be performing, the principal cash balance, the current weighted-average spread, and the weighted-average recovery rates that we considered to be appropriate. We subjected the capital structure to various cash flow stress scenarios, incorporating different default patterns and timings and interest rate curves, to determine the rating level, based on the available credit enhancement for each class of notes under our European SME CLO criteria.

Under our RAS criteria, we can rate a securitization up to four notches above our foreign currency rating on the sovereign if the tranche can withstand "severe" stresses. However, if all six of the conditions in paragraph 48 of the RAS criteria are met (including credit enhancement being sufficient to pass an extreme stress), we can assign ratings in this transaction up to a maximum of six notches (two additional notches of uplift) above the sovereign rating. In our view, the available credit enhancement for the class B notes withstands extreme stresses. We have therefore affirmed our 'AA (sf)' rating on the class B notes.

Given that the rating levels for the class C and D notes are lower than the sovereign ratings, we have not applied our RAS criteria. Based on our credit and cash flow analysis and the application of our current counterparty

criteria, we consider the available credit enhancement for the class C and D notes to be commensurate with their current ratings. We have therefore affirmed our ratings on the class C and D notes.

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.

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

- [Global Framework For Assessing Operational Risk In Structured Finance Transactions](#), Oct. 9, 2014
- [Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance](#), Sept. 19, 2014
- [Update To Global Methodologies And Assumptions For Corporate Cash Flow And Synthetic CDOs](#), Aug. 1, 2014
- [Counterparty Risk Framework Methodology And Assumptions](#), June 25, 2013
- [European SME CLO Methodology And Assumptions](#), Jan. 10, 2013
- [Understanding Standard & Poor's Rating Definitions](#), June 3, 2009

Related Research

- [Banking Industry Country Risk Assessment Update: November 2014](#), Nov. 3, 2014
- [Standard & Poor's Ratings Definitions](#), Sept. 22, 2014
- [EMEA Structured Finance, Covered Bond, And Multicedulas Ratings Placed Under Criteria Observation](#), Sept. 18, 2014
- [European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors](#), July 8, 2014
- [Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality](#), July 2, 2014
- [European SME Mapping Model](#), Jan. 25, 2013
- [S&P Announcement: CDO Evaluator Version 6.0.1 Released](#), Aug. 7, 2012

RATINGS LIST

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

Ratings Affirmed

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

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