

Announcement: Moody's concludes Spanish SME performance review, places notes on review in three Spanish ABS SMEs on performance concerns

Global Credit Research - 22 Sep 2011

EUR 1,045.7 million of debt securities placed on review for possible downgrade

Frankfurt am Main, September 22, 2011 -- Moody's Investors Service has today placed on review for downgrade certain classes of notes issued by 3 Spanish asset-backed securities (ABS) SME transactions following performance concerns. Today's rating action concludes Moody's periodic review of Spanish SME ABS performance. The transactions affected by today's rating action are:

- FONCAIXA FTGENCAT 4, FTA
- FONCAIXA FTGENCAT 5, FTA
- BANKINTER 3 FTPYME, FTA

A complete list of the affected tranches can be found at the end of the press release.

RATINGS RATIONALE

Today's rating action, which follows Moody's periodic performance review of Spanish SME ABS, reflects the weaker-than-expected performance of the affected transactions as a result of the prolonged stresses placed on the economic environment over the past three years. As part of the performance review, Moody's considered the following four indicators when evaluating the portfolio performance of Spanish SME ABS: (i) the amount of cumulative defaults or losses that have already occurred, compared with the latest default or loss assumptions; (ii) the evolution of delinquency levels over the past year; (iii) the evolution of credit enhancement since closing; and (iv) the comparison between projected defaults or losses and the credit enhancement level.

Moody's notes that the overall portfolio performance is, on average, in line with the rating agency's expectations. However, Moody's has identified 3 negative outliers that are performing worse than expected, according to these performance indicators.

--TRANSACTION PERFORMANCE AS OF THE DATE OF THE REVIEW

FONCAIXA FTGENCAT 4, FTA

Moody's placed all the notes in this transaction on review for downgrade because of the very low levels of credit enhancement in the face of deteriorating performance. This is a securitisation of Spanish SME loans that was originated by La Caixa (now Caixabank Aa2/P-1 on review for downgrade) under the FTGENCAT programme in July 2006. Performance has deteriorated since November 2009 when the transaction assumptions were revised, with 90-360 day delinquency levels reaching their peak at 1.2% in August 2011. As of August 2011, the cumulative default rate (90-day delinquencies are used as a default proxy) stands at 3.4% of total securitised assets, thus increasing towards the current default assumption of 4.3% over the life of the transaction. The pool factor of total securitised assets was 39.7% in August 2011. Moody's will need to assess to what extent loan modification may have played a role in the lower than average levels of delinquencies observed to date in this transaction. Moody's notes for instance that 2.3% of the loans in the current pool have had their maturity extended compared with the pool used for the previous review. This is a substantial amount considering that the reserve fund represents only about 2% of the rated notes in this transaction.

FONCAIXA FTGENCAT 5, FTA

Moody's placed the notes in this transaction on review for downgrade as a result of downward pressure exerted by a combination of higher-than-expected default rates and the current low levels of available credit enhancement. This is a securitisation of Spanish SME loans originated by La Caixa (now Caixabank Aa2/P-1 on review for downgrade) under the FTGENCAT programme in November 2007. As of August 2011, the cumulative default rate (90-day delinquencies are used as a default proxy) was 5.8% of total securitised assets compared to a current default assumption of 6.7% over the life of the transaction. The pool factor of total securitised assets was 61% in August 2011. Moody's notes that 90-360 day delinquency levels in this transaction (1.7% of the current pool balance) are on an increasing trend. Moody's has not placed the rating of the senior class AS notes, which represents 22.2% of the notes, on downgrade review, as they benefit from sequential amortisation. Moreover, Moody's considers it very unlikely that the pro-rata trigger will be hit before the AS notes are fully redeemed.

BANKINTER 3 FTPYME, FTA

Moody's placed the notes in this transaction on review for downgrade because of a combination of worse-than-expected performance and low credit enhancement levels compared with its peers. This is a securitisation of Spanish SME loans originated by Bankinter, S.A. (A2/P-1) under the FTPYME programme in November 2007. As of August 2011, the cumulative default rate (90-day delinquencies are used as a default proxy) was 7.45% of the total securitised pool balance compared to a current default assumption of 12% over the life of the transaction. The pool factor of total securitised assets was 52% in August 2011. In Q3 2010, performance in this transaction dropped below that of the average Spanish SME, while Moody's had expected better than average performance. Moody's notes that in June 2011, 90-360 day delinquency levels in this transaction (2.95% of the current pool balance) significantly exceeded the Spanish SME index (2.35% of the current pool balance). In September 2011, cumulative write-offs reached 1.7% of original pool balance, and the reserve fund was drawn.

--ECONOMIC SITUATION

In addition to the transaction-specific analysis, Moody's also looked at macroeconomic factors that influence an SME's ability to repay their debt, such as GDP growth and the evolution of the real-estate market. Spanish GDP contracted by 3.7% in 2009 and 0.1% in 2010. Moody's expects only 0.7% growth in GDP in 2011 and believes that Spain will not have the same level of GDP that it had in 2008, until at least 2013. Spanish

company bankruptcies rose to 1,494 in Q2 2011 from 1243 in Q2 2010 (i.e., a 20.2% year-over-year rise). The number of bankruptcies in Spain will remain elevated during the current sluggish economic recovery.

The Spanish government is under significant pressure to tighten its budgetary position. Higher taxes on companies will place negative pressure on SME profitability, which will be credit negative. Higher taxes on consumers will reduce household disposable income and negatively affect demand for the output of SMEs, which will also be credit negative. House prices fell 5.2% year on year in Q2 2011 and are currently 16.6% below their Q2 2008 peak. Moody's expects that house prices will continue to fall in 2011 and 2012, which will reduce the recovery value of defaulted mortgages and therefore lead to higher losses on SME loans. In light of the economic environment, our outlook for Spanish SME collateral performance remains negative.

--REVIEW PROCESS

As part of its detailed transaction-by-transaction review, Moody's will reassess the cumulative default rate for the remaining life of each transaction, reflecting the collateral performance to date as well as the future macroeconomic environment. Moody's will also request, whenever not already available, updated data on pool characteristics such as borrower industry, value of the collateral and delinquency status. Where necessary, the rating agency will also seek to keep abreast of current servicing and collection procedures. Moody's expects to conclude its detailed transaction reviews over the next six months.

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 methodologies used in this rating were Moody's Approach to Rating CDOs of SMEs in Europe published in February 2007, 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 published in March 2009 and Moody's Approach to Rating Granular SME Transactions in Europe, Middle East and Africa published in June 2007. Please see the Credit Policy page on www.moody.com for a copy of these methodologies.

AFFECTED TRANCHES

Issuer: Bankinter 3 FTPYME, Fondo de Titulización de Activos

....EUR288.9MA2 Notes, Aa1 (sf) Placed Under Review for Possible Downgrade; previously on Jan 20, 2010 Downgraded to Aa1 (sf)

....EUR91.2MA3 (G) Notes, Aa1 (sf) Placed Under Review for Possible Downgrade; previously on Oct 8, 2010 Downgraded to Aa1 (sf)

....EUR23.1MB Notes, Baa3 (sf) Placed Under Review for Possible Downgrade; previously on Jan 20, 2010 Downgraded to Baa3 (sf)

....EUR6M C Notes, Ba2 (sf) Placed Under Review for Possible Downgrade; previously on Jan 20, 2010 Downgraded to Ba2 (sf)

....EUR10.8MD Notes, B3 (sf) Placed Under Review for Possible Downgrade; previously on Jan 20, 2010 Downgraded to B3 (sf)

Issuer: FONCAIXAFTGENCAT 4 Fondo de Titulización de Activos

....EUR326MA (G) Notes, Aaa (sf) Placed Under Review for Possible Downgrade; previously on Jan 18, 2010 Confirmed at Aaa (sf)

....EUR9.6MB Notes, A2 (sf) Placed Under Review for Possible Downgrade; previously on Jan 18, 2010 Confirmed at A2 (sf)

....EUR7.2MC Notes, Ba1 (sf) Placed Under Review for Possible Downgrade; previously on Jan 18, 2010 Downgraded to Ba1 (sf)

....EUR6MD Notes, B3 (sf) Placed Under Review for Possible Downgrade; previously on Jan 18, 2010 Downgraded to B3 (sf)

Issuer: FONCAIXAFTGENCAT 5 Fondo de Titulización de Activos

....EUR449.4MA (G) Notes, Aa1 (sf) Placed Under Review for Possible Downgrade; previously on Oct 8, 2010 Downgraded to Aa1 (sf)

....EUR21MB Notes, A3 (sf) Placed Under Review for Possible Downgrade; previously on Dec 22, 2009 Downgraded to A3 (sf)

....EUR16.5MC Notes, Ba1 (sf) Placed Under Review for Possible Downgrade; previously on Dec 22, 2009 Downgraded to Ba1 (sf)

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