

EDT FTPYME PASTOR 3 Class C Cash Flow CLO

Rating Raised Following Review

June 3, 2022

Overview

- We have reviewed EDT FTPYME PASTOR 3's performance, using data from the March 2022 trustee report.
- Following our review, we raised to 'AAA (sf)' from 'AA (sf)' our rating on the class C notes.
- EDT FTPYME PASTOR 3 is a Spanish cash flow CLO transaction that closed in December 2005 and securitizes loans to SMEs. The collateral pool comprised both secured and unsecured loans at closing.

PARIS (S&P Global Ratings) June 3, 2022--S&P Global Ratings today raised to 'AAA (sf)' from 'AA (sf)' its credit rating on EDT FTPYME PASTOR 3, FONDO DE TITULIZACION DE ACTIVOS' class C notes.

Today's upgrade follows our assessment of the following factors:

- The transaction's performance using the available management company reports;
- Our analysis of the class C notes' current outstanding balance compared with the current performing collateral balance and the reserve account; and
- The portfolio's concentrated nature as it continues to amortize.

We considered all of these factors in accordance with our criteria for European CLOs backed by small and midsize enterprises (SMEs) and other relevant criteria (see "Related Criteria").

Rating Rationale

Since our previous review in December 2020, the transaction has continued to deleverage as the amortization of the underlying receivables has been used to repay the class C notes. As of the March 2022 trustee report the class C notes' aggregate outstanding balance was €1.6 million, representing a liability reduction of €0.7 million and improving the credit enhancement afforded to the notes.

The class C notes also benefit from credit enhancement provided by a reserve fund, which has a current outstanding balance of €4.64 million. The balance of the reserve fund has remained stable since our previous review and is available to pay interest and principal on the notes to cover

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defaults and delinquencies. Currently, the available cash reserve balance exceeds the class C notes' remaining balance.

Based on the improved credit enhancement and the support provided by the reserve fund, we raised to 'AAA (sf)' from 'AA (sf)' our rating on the class C notes.

Credit Risk

We have performed our credit analysis of the portfolio by considering the receivables and borrowers' features. We have determined our default and recovery rate expectations for the portfolio by applying our criteria for European SME CLOs (see "European SME CLO Methodology And Assumptions," published on Jan. 10, 2013).

We have applied our European SME CLO criteria to determine the scenario default rates (SDRs) for this transaction. The SDR is the minimum level of portfolio defaults we expect each CLO tranche to withstand and still be able to support the specific rating level using our CDO Evaluator.

We have determined the average credit quality assessment of the collateral portfolio to be 'b-', which is two notches lower than the rating on the archetypal European SME pool average credit quality of 'b+' outlined in our criteria.

We arrived at the 'b-' assessment by considering the following factors:

- The moderate originator quality (based on tables 1, 2, and 3 in our European SME CLO criteria), which considers Spain's Banking Industry Country Risk Assessment (BICRA) of 4 (as the country of origin for these SME loans). For this purpose we made a negative adjustment to 'b' from 'b+'.
- The securitized portfolio's credit quality compared with the originator's overall loan book, to make a portfolio selection bias if the securitized pool's credit quality is worse than the overall loan book. For the purpose of this transaction, we made an additional negative adjustment for portfolio selection bias to 'b-' from 'b'.

Nevertheless, due to the concentration of the portfolio, each borrower currently represents 1% or more of the remaining portfolio balance. On that basis and in the absence of credit estimates, we assumed each of the individual borrowers to be 'CCC-', as rating input when deriving the portfolio's 'AAA' SDR.

We have then derived the 'B' SDR based on an analysis of the originator-specific default data to reflect our forward-looking estimate of expected defaults for the portfolio. We assessed Spain's current market trends and developments, macroeconomic factors, and the way these factors are likely to affect the loan portfolio's creditworthiness to determine our 'B' SDR. Considering the transaction's performance and the default trends we have observed in past years, we have maintained the 'B' SDR assumption we made at our previous review. Lastly, we then interpolated the remaining SDRs at each rating level between 'B' and 'AAA' in accordance with our European SME CLO criteria.

Payment Structure And Cash Flow Mechanics

We ran our credit analysis results and additional transaction-specific stresses through our cash flow model, which reflects the capital structure. In our cash flow analysis, we applied our European SME CLO criteria and applied standard stresses. These stresses relate to default timing and patterns, interest rate and basis risk, recovery timing, the reinvestment rate, servicing fees and other expenses, yield compression, and commingling and liquidity stress. Due to the support

provided by the reserve fund the class C notes pass our credit and cash flow analysis at the 'AAA' rating.

Country Risk

Our long-term unsolicited rating on Spain is 'A'. Our updated criteria for rating single-jurisdiction securitizations above the sovereign require the tranches to have sufficient credit enhancement to pass stress levels to qualify to be rated above the sovereign (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," Jan. 30, 2019).

Counterparty Risk

The transaction has an interest rate swap. Cecabank S.A. (BBB+/Stable/A-2) is the swap counterparty. We have reviewed the swap counterparty's downgrade provisions under our current counterparty criteria, and, in our opinion, they do not fully comply with these criteria (see "Counterparty Risk Framework: Methodology And Assumptions," published on March 8, 2019). Because our long-term rating on Cecabank is lower than our passing rating level on the class C notes, we did not give credit to the swap provider in our cash flow analysis. Banco Santander S.A. (A+/Stable/A-1) is the guaranteed investment contract (GIC) provider and account bank with downgrade provisions which comply with our counterparty criteria and can support a rating of 'AAA (sf)'.

Legal Risk

We consider the issuer to be a bankruptcy remote entity, in line with our legal criteria (see "Asset Isolation And Special-Purpose Entity Methodology," published on March 29, 2017). We therefore consider the transaction's legal risk to be mitigated.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | CDOs: Global Methodology And Assumptions For CLOs And Corporate CDOs, June 21, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In

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Structured Finance Transactions, Oct. 9, 2014

- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- Criteria | Structured Finance | CDOs: European SME CLO Methodology And Assumptions, Jan. 10, 2013
- General Criteria: Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- EDT FTPYME PASTOR 3's Class C SME CLO Notes Rating Raised, Dec. 4, 2020
- 2017 EMEA Structured Credit Scenario And Sensitivity Analysis, July 6, 2017
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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