



Moody's Investors Service

Rating Action: **Moody's downgrades mezzanine and junior notes of Spanish SME ABS FTPYME Pastor 3 and Pastor 4**

Global Credit Research - 22 Dec 2009

Madrid, December 22, 2009 -- Moody's Investors Service has downgraded the following tranches in two Banco Pastor SME securitisation transactions:

Issuer EdT FTPYME Pastor 3:

EUR15.4 million Class C: Downgraded to Caa1 from Ba2, previously on 26 June 2009 placed on review for downgrade

Issuer GC FTPYME Pastor 4:

EUR256.6 million Class A2: Confirmed at Aaa, previously on 26 June 2009 placed on review for downgrade

EUR15.8 million Class B: Downgraded to A2 from Aa3, previously on 26 June 2009 placed on review for downgrade

EUR15.7 million Class C: Downgraded to Ba2 from Baa1, previously on 26 June 2009 placed on review for downgrade

EUR18.9 million Class D: Downgraded to Caa2 from Ba3, previously on 26 June 2009 placed on review for downgrade

EUR12.6 million Class E: Downgraded to Caa3 from Caa1, previously on 26 June 2009 placed on review for downgrade

The above rating actions were prompted by a greater-than-expected increase in the level of delinquencies over the last year. In EdT FTPYME Pastor 3, the outstanding 90+ delinquencies (i.e. delinquencies equal or greater than 90 days) as of October 2009 were equal to 10.44% of the portfolio current balance, a 217% increase since July 2008, when the outstanding 90+ delinquencies were equal to 4.79% of the portfolio current balance. The reserve fund started to be drawn in April 2009 and represents 82.4% of its target amount as of last reporting date. In GC FTPYME Pastor 4, the outstanding 90+ delinquencies (i.e. delinquencies equal or greater than 90 days) as of November 2009 were equal to 8.21% of the current portfolio balance, an increase of 489% since June 2008, when the outstanding 90+ delinquencies equalled 1.68%. The reserve fund was first drawn in December 2008 and it never recovered to its target level since then, reaching 71.8% of target as of last reporting date.

As part of its 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 the Moody's negative sector outlook on the Spanish SME securitisation transactions ("EMEA ABS, CMBS & RMBS Asset Performance Outlooks", published in July 2009).

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 single B-range for the debtors operating in the real estate sector, and in the low Ba-range for the non-real-estate debtors. At the same time, Moody's estimated the remaining weighted-average life of each specific pool. As a consequence, these revised assumptions have translated into an increase of the cumulative mean default assumption for all these transactions. Given the relatively low effective number of borrowers in the portfolio backing each transaction, the rating agency used a Monte-Carlo simulation to determine the probability function of the defaults.

A brief description of the main points in each transaction follows, along with Moody's original and revised inputs as part of its review.

EdT FTPYME Pastor 3

As of October 2009, this transaction included 898 obligors, with the largest debtor representing 3.85% of the outstanding portfolio. The concentration in the "building and real estate" sector is approximately 48.37% according to Spanish CNAE code. Moody's estimated the remaining weighted average life of the portfolio to equal 3.8 years. Revised assumptions have translated into an increase of the cumulative mean default assumption for this transaction to 29% of the current portfolio balance (which is equivalent to a mean default of 17% of original portfolio balance) mainly driven by the high concentration by debtor (Top 5 debtors represent 14.96% of the pool). Moody's had already revised its assumption in September 2008 to a mean default of 9.0% of the then pool balance (equivalent to 8.2% of original balance) and a coefficient of variation of 45% whereas Moody's original mean default assumption at closing was 4.35% of original balance, with a coefficient of variation of 66%. The effective number of borrowers in the portfolio is around 115, and the coefficient of variation is 28%. The recovery rate assumption is now 50%, while values in the 50% to 35% range were tested at closing. The proportion of the loans with a mortgage guarantee is 70% vs. 61% at closing. The revised constant prepayment rate (CPR) assumption is now 5%, while the CPR assumption was 15% at closing.

In summary, Moody's concluded that the negative effects of the revised default assumptions were not fully offset by the increased credit support available for the outstanding series C notes (11.78% of reserve fund + xs spread guarantee by the swap). The rating of Class A1 notes was not affected as it benefits from the increase in the credit enhancement outstanding (subordination of the Class B and C, reserve fund and xs spread guarantee by the swap) and the ratings of class A2(G) and B are fully linked to the rating of Kingdom of Spain (Aaa) and European Investment Fund (Aaa) respectively which guarantees principal and interest payment on these notes.

GC FTPYME Pastor 4

As of October 2009, this transaction included 2,729 obligors with the largest debtor representing 2.21% of the outstanding portfolio. The concentration in the "building and real estate" sector is approximately 24.58% according to Spanish CNAE code. Moody's estimated the remaining weighted average life of the portfolio to be equal to 5.6 years. Revised assumptions have translated into an increase of the cumulative mean default assumption for this transaction to 20% of the current portfolio balance (which is equivalent to a mean default of 10% on original portfolio balance). Moody's had already revised its assumption in September 2008 to a mean default of 10.5% of the then pool balance (equivalent to 7.2% of original balance) and a coefficient of variation of 45% whereas Moody's original mean default assumption at closing was 4.04% of original portfolio balance, with a coefficient of variation of 55%. The effective number of borrowers in the portfolio is around 317, and the coefficient of variation is 34.7%. The recovery rate assumption is now 45%, while values in the 50% to 35% range were tested at closing. The proportion of the loans with a mortgage guarantee is 64% vs. 56% at closing and the WALT is 46.74%. The revised CPR assumption is now 5%, while the CPR assumption was 15% at closing.

In summary, Moody's concluded that the negative effects of the revised default assumptions were offset by the increased credit support available for the outstanding Class A2 notes but not fully for series B, C, D and E notes. The class Class A3(G) notes was not placed on review for possible downgrade as it benefits from the guarantee of the Kingdom of Spain (Aaa) for interest and principal payments.

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 risks have not been addressed, but may have a significant effect on yield to investors.

Moody's currently monitors these transactions using the rating methodology for granular SME transactions in EMEA as described in the following Rating Methodology reports: "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; and "Moody's Approach to Jointly Supported Obligations", January 1998. These reports are available on www.moody.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, available to all registered users of our website, at www.moody.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.com or contact our Client Service Desk in London (+44-20-7772 5454)

Madrid
Alberto Barbachano
Vice President - Senior Analyst
Structured Finance Group
Moody's Investors Service Espana, S.A.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Paris
Carole Gintz
VP - Senior Credit Officer
Structured Finance Group
Moody's France S.A.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



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