

**Rating Action: Moody's Concludes Ratings Review of Two Pastor Spanish SME ABS**

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Global Credit Research - 10 Apr 2013

London, 10 April 2013 -- Moody's Investors Service has today affirmed and confirmed the ratings of the outstanding notes issued by EdT FTYPME PASTOR 3, FTA. At the same time, the rating agency downgraded the rating of the junior note and confirmed the ratings of the other notes issued by GC FTYPME PASTOR 4, FTA. Sufficient credit enhancement, which protects against sovereign and counterparty risk, primarily drove today's confirmations. Conversely, insufficient credit enhancement and the high likelihood of loss accounted for the downgrade.

Today's rating action concludes the review for downgrade initiated by Moody's on 02 July 2012. Both transactions are Spanish asset-backed securities transactions backed by loans to small and medium-sized enterprises (SME ABS) originated by Banco Popular Espanol, S.A. (Ba1 on review for possible downgrade/NP).

For a detailed list of the affected ratings, see towards the end of the ratings rationale section.

**RATINGS RATIONALE**

Today's confirmations primarily reflect the availability of sufficient credit enhancement to address sovereign and increased counterparty risk. The introduction of new adjustments to Moody's modelling assumptions to account for the effect of deterioration in sovereign creditworthiness, the revision of key collateral assumptions and increased exposure to lowly rated counterparties have had no effect on the ratings of most of the notes in both transactions.

However, insufficient credit enhancement for the Class E note issued by GC PTYPME PASTOR 4 and the high likelihood of loss under that note, given the observed performance, drove the rating downgrade from Caa3 (sf) to Ca (sf).

**-- Additional Factors Better Reflect Increased Sovereign Risk**

Moody's has supplemented its analysis to determine the loss distribution of securitised portfolios with two additional factors, the maximum achievable rating in a given country (the local currency country risk ceiling) and the applicable portfolio credit enhancement for this rating. With the introduction of these additional factors, Moody's intends to better reflect increased sovereign risk in its quantitative analysis, in particular for mezzanine and junior tranches. See "Structured Finance Transactions: Assessing the Impact of Sovereign Risk" for a more detailed explanation of the additional parameters. This report is available on [www.moodys.com](http://www.moodys.com) and can be accessed via the following link: [http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS\\_SF319988](http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_SF319988).

The Spanish country ceiling is A3, which is the maximum rating that Moody's will assign to a domestic Spanish issuer including structured finance transactions backed by Spanish receivables. The portfolio credit enhancement represents the required credit enhancement under the senior tranche for it to achieve the country ceiling. By lowering the maximum achievable rating, the revised methodology alters the loss distribution curve and implies an increased probability of high loss scenarios.

Under the updated methodology incorporating sovereign risk on ABS transactions, loss distribution volatility increases to capture increased sovereign-related risks. Given the expected loss of a portfolio and the shape of the loss distribution, the combination of the highest achievable rating in a country for structured finance and the applicable credit enhancement for this rating uniquely determines the volatility of the portfolio distribution, which the coefficient of variation (CoV) typically measures for ABS transactions. A higher applicable credit enhancement for a given rating ceiling or a lower rating ceiling with the same applicable credit enhancement both translate into a higher CoV.

**-- Moody's Revises Key Collateral Assumptions**

Moody's maintained its default and recovery rate assumptions for both transactions, which it updated on 18 December 2012 (see "Moody's updates key collateral assumptions in Spanish ABS transactions backed by loans to SMEs" [[http://www.moodys.com/research/Moodys-updates-key-collateral-assumptions-in-Spanish-ABS-transactions-backed--PR\\_262512](http://www.moodys.com/research/Moodys-updates-key-collateral-assumptions-in-Spanish-ABS-transactions-backed--PR_262512)]). According to the updated methodology, Moody's increased the CoV, which is a

measure of volatility.

For EdT FTYPME PASTOR 3, the current default assumption is 29.0% of the current portfolio and the assumption for the fixed recovery rate is 50.0%. Moody's has increased the CoV to 58.3% from 28.0%, which, combined with the revised key collateral assumptions, corresponds to a portfolio credit enhancement of 35.4%.

For GC FTYPME PASTOR 4, the current default assumption is 23.0% of the current portfolio and the assumption for the fixed recovery rate is 45.0%. Moody's has increased the CoV to 52.7% from 34.0%, which, combined with the revised key collateral assumptions, corresponds to a portfolio credit enhancement of 27.5%.

#### -- Moody's Has Considered Exposure to Counterparty Risk

The conclusion of Moody's rating review also takes into consideration the increased exposure to commingling due to weakened counterparty creditworthiness.

In both transactions, Banco Popular Espanol, SA acts as servicer and transfers collections on a weekly basis to the reinvestment accounts at Barclays Bank PLC (A2/P-1). The reserve funds are opened at Barclays Bank. Moody's has incorporated into its analysis the potential default of the servicer, which could expose the transaction to a commingling loss on approximately one month of collections.

Confederacion Espanola de Cajas de Ahorro ("CECABANK" Ba1 on review for downgrade /NP) and CAIXA Bank (Baa3/P-3) act as swap counterparties in EdT FTYPME PASTOR 3 and GC FTYPME PASTOR 4, respectively. As part of its analysis, Moody's assessed the exposure to the swap counterparty, which does not have a negative effect on the rating levels at this time.

#### -- Moody's Has Considered the Credit Enhancement Levels of the Rated Notes

In GC FTYPME PASTOR4, the senior Class A3G notes benefit from a guarantee from the Government of Spain (Baa3), which has been drawn on an ongoing basis to cover the shortfall of due principal, up to an amount of approximately EUR11 million at the time of this review. As a consequence, the Spanish government now has a claim against the special purpose vehicle up to the drawn amount of the guarantee that ranks senior to the mezzanine and junior tranches of the transaction. The insufficient credit enhancement of the Class E notes resulting from this senior claim is the main driver behind its downgrade from Caa3 (sf) to Ca (sf).

For all the other notes in both transactions, Moody's has assessed that the level of credit enhancement is commensurate with the ratings assigned, given the rating agency's pool performance expectations and the significant exposure of the pool to the biggest borrowers, particularly in EdT FTYPME PASTOR 3. Therefore, sufficient credit enhancement has driven the confirmation of the ratings of all other notes.

#### -- Other Developments May Negatively Affect the Notes

In consideration of Moody's new adjustments, any further sovereign downgrade would negatively affect structured finance ratings through the application of the country ceiling or maximum achievable rating, as well as potentially increased portfolio credit enhancement requirements for a given rating.

As the euro area crisis continues, the ratings of structured finance notes remain exposed to the uncertainties of credit conditions in the general economy. The deteriorating creditworthiness of euro area sovereigns as well as the weakening credit profile of the global banking sector could further negatively affect the ratings of the notes.

Moody's describes additional factors that may affect the ratings in its Request for Comment, "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cashflow Transactions: Request for Comment", 02 July 2012.

In reviewing these transactions, Moody's used ABSROM to model the cash flows and determine the loss for each tranche. The cash flow model evaluates all default scenarios that are then weighted considering the probabilities of the inverse normal distribution assumed for the portfolio default rate. In each default scenario, Moody's calculates the corresponding loss for each class of notes given the incoming cash flows from the assets and the outgoing payments to third parties and noteholders. Therefore, the expected loss for each tranche is the sum product of the probability of occurrence of each default scenario and the loss derived from the cash flow model in each default scenario for each tranche.

As such, Moody's analysis encompasses the assessment of stressed scenarios.

When remodelling the transactions affected by today's rating actions, some inputs have been adjusted to reflect the new approach described above.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating CDOs of SMEs in Europe", published in February 2007. Please see the Credit Policy page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

The revised approach to incorporating country risk changes into structured finance ratings forms part of the relevant asset class methodologies, which Moody's updated and republished or supplemented on 11 March 2013 ("Incorporating Sovereign risk to Moody's Approach to Rating CDOs of SMEs in Europe" ), along with the publication of its Special Comment "Structured Finance Transactions: Assessing the Impact of Sovereign Risk".

Other factors used in these ratings are described in "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines", published in March 2013.

## LIST OF AFFECTED RATINGS

Issuer: EdT FTPYME PASTOR 3 Fondo de Titulización de Activos

....EUR38.7M B Notes, Affirmed A3 (sf); previously on Oct 23, 2012 Confirmed at A3 (sf)

....EUR15.4M C Notes, Confirmed at Caa1 (sf); previously on Jul 2, 2012 Caa1 (sf) Placed Under Review for Possible Downgrade

Issuer: GC FTPYME Pastor 4, FTA

....EUR50.4MA3G Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR15.8M B Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR15.7M C Notes, Confirmed at Ba2 (sf); previously on Jul 2, 2012 Ba2 (sf) Placed Under Review for Possible Downgrade

....EUR18.9M D Notes, Confirmed at Caa2 (sf); previously on Jul 2, 2012 Caa2 (sf) Placed Under Review for Possible Downgrade

....EUR12.6M E Notes, Downgraded to Ca (sf); previously on Jul 2, 2012 Caa3 (sf) Placed Under Review for Possible Downgrade

## REGULATORY DISCLOSURES

Moody's did not receive or take into account any third party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of these transactions in the past six months.

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