

**Hecho Relevante de**      **VALENCIA HIPOTECARIO 4 Fondo de Titulización de Activos**

En virtud de lo establecido en el apartado 4.1.4 del Módulo Adicional a la Nota de Valores del Folleto Informativo de **Valencia Hipotecario 4 Fondo de Titulización de Activos** (el “Fondo”) se comunica a la COMISIÓN NACIONAL DEL MERCADO DE VALORES el presente hecho relevante:

- La Agencia de Calificación **Moody’s Investors Service** (“**Moody’s**”), con fecha 11 de marzo de 2011, comunica que ha bajado las calificaciones asignadas a las siguientes Series de Bonos emitidos por **Valencia Hipotecario 4 Fondo de Titulización de Activos**:

- **Serie A:**            **A3 (sf)**                            (anterior **Aaa (sf)**, bajo revisión)
- **Serie B:**            **B3 (sf)**                            (anterior **Aa3 (sf)**, bajo revisión)
- **Serie C:**            **C (sf)**                            (anterior **Baa3 (sf)**, bajo revisión)

La calificación asignada a la restante Serie de Bonos permanece sin cambios:

- **Serie D:**            **C (sf)**

Se adjunta la comunicación emitida por Moody’s.

Madrid, 11 de marzo de 2011.

Mario Masiá Vicente  
Director General

**Rating Action: Moody's downgrades Spanish RMBS notes issued by Valencia Hipotecario 2, Valencia Hipotecario 3 and Valencia Hipotecario 4**

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Global Credit Research - 11 Mar 2011

**Approximately EUR 1.8 billion of rated debt securities affected**

London, 11 March 2011 -- Moody's Investors Service announced today that it has downgraded the ratings of all notes issued by Valencia Hipotecario 2, Valencia Hipotecario 3 and Valencia Hipotecario 4. A detailed list of the rating actions is provided at the end of this press release.

The ratings of all rated notes in Valencia Hipotecario 2, 3 and 4 were placed on review for possible downgrade in November 2009 due to the worse than expected performance of the collateral. In September, we commented that we were investigating the credit performance in the Valencia Hipotecario series, which had experienced irregular delinquency trends in the period Q4-09 to Q2-10.

**RATINGS RATIONALE**

Today's rating action takes into consideration the worse-than-expected performance of the collateral. It also reflects Moody's negative sector outlook for Spanish RMBS and the weakening of the macro-economic environment in Spain, including high unemployment rates.

In September 2010, Moody's noted that Valencia Hipotecario 1 to 5 RMBS had shown irregular credit performance since their reporting period in Q4-09. The deals, managed by Europea de Titulización, experienced spikes in arrears in early 2010 followed by a rapid improvement in credit trends over the subsequent reporting periods. (For more details, please refer to press release "Moody's updates on the Spanish Valencia Hipotecario RMBS" published on 15th of September 2010). Banco de Valencia (Baa1/P-2/under review) explained to us that the arrears in the Valencia Hipotecario series had been overstated for the period Q4-09 to Q2-10. The release of new IT systems on the 17th of October 2009 affected the transmission of mortgage repayment to the management company. Edt failed to receive the payment data relating to loans in arrears, which resulted in an overestimation of arrears. Banco de Valencia provided EdT with additional files to progressively adjust the arrears reporting figure. The arrears data has not been corrected retrospectively in the investor reports. Banco de Valencia confirmed that the default figure remained correct following the IT conversion.

The ratings of the notes take into account the credit quality of the underlying mortgage loan pools, from which Moody's determined the MILAN Aaa Credit Enhancement (MILAN Aaa CE) and the lifetime losses (expected loss), as well as the transaction structure and any legal considerations as assessed in Moody's cash flow analysis. The expected loss and the Milan Aaa CE are the two key parameters used by Moody's to calibrate its loss distribution curve, used in the cash-flow model to rate European RMBS transactions.

**Portfolio Expected Loss:**

Moody's has reassessed its lifetime loss expectation for Valencia Hipotecario 2, 3 & 4 taking into account the collateral performance to date as well as the current macroeconomic environment in Spain.

All 3 deals are performing worse than Moody's expectations as of closing. The share of loans in 90 days + arrears was standing at 1.2% of current pool balance in Valencia Hipotecario 3 at the end of December 2010. Loans in 90 days to 18 months in arrears represented 1.0% and 2.62% of current pool balance in Valencia Hipotecario 2 and 4 respectively in January 2011. Cumulative 18 months delinquency, shown in the investor reports, reached 1.06%, 0.93% and 5.33% of original pool in Valencia Hipotecario 2, 3 and 4 respectively at the end of January 2011.

We recalculated a cumulative write-offs figure for the Valencia Hipotecario transactions by adding up 1) cumulative 18 months delinquency and 2) property acquisitions relating to delinquent mortgages less than 18 months overdue. Edt provided us with the amount property acquisitions relating to delinquent mortgages less than 18 months in arrears. We understand that Banco de Valencia has acquired property after granting "dacion en pago" to delinquent borrower. "Dacion en pago" is a voluntary agreement whereby the borrower hands over the possession of the property to the lender to clear the outstanding mortgage debt. As at October 2010, property acquisitions relating to delinquent mortgages less than 18 months overdue represented 0.02%, 0.13% and 0.83% of original pool balance in Valencia Hipotecario 2, 3 and 4 respectively. Cumulative write-offs for the Valencia Hipotecario 2,3 and 4 represented 1.08%, 1.06% and 6.16% of original balance as January 2011.

The rapidly increasing levels of write-offs ultimately resulted in draws to the reserve fund in all 3 transactions and build-up in unpaid principal deficiencies ledgers (PDL) in Valencia Hipotecario 4 (EUR 22.9 million) as at the last payment date.

Moody's expect the portfolio credit performance to continue to be under stress, as Spanish unemployment remains elevated. Moody's believe that the anticipated tightening of Spanish fiscal policies is likely to weigh on the recovery in the Spanish labour market and constraint further Spanish households finances. Moody's has also concerns over the timing and degree of future recoveries in a weaker Spanish housing market. On the basis of the rapid increase in write-offs in the transactions and Moody's negative sector outlook for Spanish RMBS, we have updated the portfolio expected loss assumption to 1.3% of original pool balance in Valencia Hipotecario 2, 1.6% in Valencia Hipotecario 3 and 5.9% in Valencia Hipotecario 4.

**MILAN Aaa CE:**

Moody's has assessed the loan-by-loan information for Valencia Hipotecario 2, 3 and 4 to determine the MILAN Aaa CE. Moody's has revised its MILAN Aaa CE assumptions to 7% in Valencia Hipotecario 2, 8% in Valencia Hipotecario 3 and 18% in Valencia Hipotecario 4, up from closing assumptions of 3.55%, 3.65% and 6.05% respectively. The increase in the MILAN Aaa CE reflects the high geographical concentration on the Mediterranean coast, and the exposure to loans originated to new residents.

The rating addresses the expected loss posed to investors by the legal final maturity of the notes. In Moody's opinion, the structure allows for timely payment of interest and principal with respect of the notes by the legal final maturity. Moody's ratings only address the credit risk associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

#### Operational Risk:

The rating of Banco de Valencia (Baa1/P-2) is on review for possible downgrade. Banco de Valencia is the servicer in all three transactions. Moody's notes that operational risk in these transactions is only partially mitigated as there is no trigger in place to appoint a back-up servicer. The operational risk is not a driver of the rating action on the notes in Valencia Hipotecario 3 and 4. But, it is the driver of the rating action on the senior notes in Valencia Hipotecario 2. Moody's notes that the reserve fund in Valencia Hipotecario 2 is not at target level and that no other sources of liquidity are available in the transaction. Moody's expect further draw-downs on the reserve fund and the absence of liquidity in the transactions could impair the ability of the Issuer to make timely payment of interest on the notes, particularly in case of a servicing transfer. Moody's considers that the risk of a missed payment of interest on the Class A of Valencia Hipotecario 2 is not commensurate with a Aaa-rating and therefore has downgraded the rating for this class of notes. Banco de Valencia acts as servicer, collection account bank and swap counterparty in the deals. A severe downgrade of the servicer into the Baa3/Ba range will impact further the ratings of the senior notes in Valencia Hipotecario 2 & 3.

#### TRANSACTION FEATURES

Valencia Hipotecario 2, 3 and 4 closed in December 2005, November 2006 and December 2007 respectively. The transactions are backed by portfolios of first-ranking mortgage loans originated by Banco de Valencia (Baa1/P-2/on review for possible downgrade) and secured on residential properties located in Spain, for an overall balance at closing of EUR 940 million, EUR 900 million and EUR 950 million, respectively.

The securitized mortgage portfolios benefit from a relatively low weighted average LTV, currently about 55% in Valencia Hipotecario 2 and 3 and 64% in Valencia Hipotecario 4. The three pools are fairly exposed to the Mediterranean coast, with between 62% and 68% exposure to the Valencia region. Non-Spanish borrowers represent between 4 and 5% of current pool balance in Valencia Hipotecario 2 and 3 and about 18% in Valencia Hipotecario 4. Non-Spanish borrowers have been affected by difficult economic conditions such as increasing unemployment. Moody's performed a loan-by-loan analysis of all delinquent and written-off loans in the three Valencia Hipotecario RMBS. In Valencia Hipotecario 4, the write-off rate for loans granted to non-Spanish national (calculated as the written-off loan amount divided by original pool balance of loans originated to non-Spanish borrowers) is between 6 to 7 times the write-off rates of loans granted to Spaniards.

For details on the deal structure, please refer to the "Valencia Hipotecario 2", "Valencia Hipotecario 3" and "Valencia Hipotecario 4" new issue reports. All 3 reports are available on [www.moody.com](http://www.moody.com).

Some features in the deals have changed since closing:

Hedging agreement: All 3 transactions benefit from an interest rate swaps provided by Banco de Valencia. Following its downgrade, Banco de Valencia has chosen to take remedial action by way of posting collateral in Valencia Hipotecario 3 and 4. Banco de Valencia is transferring cash collateral to the Treasury Account and then such collateral is resized on a weekly basis in an amount equal to First Trigger Collateral Amount as stated in the swap documents. In Valencia Hipotecario 2, Bancaja (A3/P2/DWG) is the guarantor of the obligations of Banco de Valencia under the interest rate swap agreement and is posting collateral. The swap arrangements in the Valencia Hipotecario series are in line with the requirements described in Moody's report titled "the Framework for De-linking Hedge Counterparty Risks from Global Structured Finance."

Treasury Bank Accounts: For all 3 transactions, collections are paid to Banco de Valencia (Baa1/P2/on review) and then transferred every 24 to 48 hours to the treasury account held at Banco Popular Espanol (Aa3 On review/P1).

Paying Agents: Banco Popular Espanol (Aa3 On review/P1) acts as paying agent in all 3 transactions

Reserve fund: The rapidly increasing levels of defaulted loans ultimately resulted in draws to the reserve fund in Valencia Hipotecario 2 and Valencia Hipotecario 3 to 97% of target level. The reserve fund is fully depleted in Valencia Hipotecario 4 and the unpaid principal deficiency ledger (PDL) currently represent 3.2% of current pool balance.

#### INTEREST DEFERRAL TRIGGER IN VALENCIA HIPOTECARIO 4

Class C interest in Valencia Hipotecario 4 were deferred on the interest payment date falling on 20th January 2011. Under the revised expected loss assumption for Valencia Hipotecario 4, the downgrade of class B considers the likelihood that interest will be deferred also for this class of notes if recoveries on defaulted loans fail to materialize quickly. Interest on the class B notes are to be deferred if unpaid PDL (currently EUR22.9m) exceed the sum of the Class C (EUR23.8m) and 50% of Class B (EUR42.8m).

The principal methodologies used in this rating were Moody's MILAN Methodology for Rating Spanish RMBS published in July 2008 and Revising Default/Loss Assumptions Over the Life of an ABS/RMBS Transaction published in December 2008.

Moody's Investors Service did not receive or take into account a third-party due diligence report on the underlying assets or financial instruments related to the monitoring of this transaction in the past six months.

#### REGULATORY DISCLOSURES

The ratings have been disclosed to the rated entity or its designated agents and issued with no amendment resulting from that disclosure.

Information sources used to prepare the credit ratings are the following: parties involved in the ratings, parties not involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purpose of maintaining a credit rating.

#### LIST OF RATINGS ACTIONS

Issuer: Valencia Hipotecario 2 Fondo de Titulización Hipotecario

....EUR909.5MA Certificate, Downgraded to Aa1 (sf); previously on Nov 30, 2009 Aaa (sf) Placed Under Review for Possible Downgrade

....EUR21.2MB Certificate, Downgraded to A2 (sf); previously on Nov 30, 2009 A1 (sf) Placed Under Review for Possible Downgrade

....EUR9.4M C Certificate, Downgraded to Ba1 (sf); previously on Nov 30, 2009 Baa3 (sf) Placed Under Review for Possible Downgrade

....EUR9.9M D Certificate, Downgraded to C (sf); previously on Nov 30, 2009 Ca (sf) Placed Under Review for Possible Downgrade

Issuer: VALENCIA HIPOTECARIO 3 Fondo de Titulización de Activos

....EUR780.7MA2 Certificate, Downgraded to Aa1 (sf); previously on Nov 30, 2009 Aaa (sf) Placed Under Review for Possible Downgrade

....EUR20.8M B Certificate, Downgraded to Baa1 (sf); previously on Nov 30, 2009 A2 (sf) Placed Under Review for Possible Downgrade

....EUR9.1M C Certificate, Downgraded to Ba3 (sf); previously on Nov 30, 2009 Baa3 (sf) Placed Under Review for Possible Downgrade

....EUR10.4M D Certificate, Downgraded to C (sf); previously on Nov 30, 2009 Ca (sf) Placed Under Review for Possible Downgrade

Issuer: VALENCIA HIPOTECARIO 4 FONDO DE TITULIZACIÓN DE ACTIVOS

....EUR883.4MA Certificate, Downgraded to A3 (sf); previously on Nov 30, 2009 Aaa (sf) Placed Under Review for Possible Downgrade

....EUR42.8M B Certificate, Downgraded to B3 (sf); previously on Nov 30, 2009 Aa3 (sf) Placed Under Review for Possible Downgrade

....EUR23.8M C Certificate, Downgraded to C (sf); previously on Nov 30, 2009 Baa3 (sf) Placed Under Review for Possible Downgrade

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