

Rating Action: MADRID RMBS III FONDO DE TITULIZACIÓN DE ACTIVOS

Moody's takes action on Madrid RMBS III, FTA

EUR 2.78 billion of debt securities affected

Madrid, November 12, 2008 -- Moody's Investors Service announced today that it has confirmed and downgraded the following Notes issued by Madrid RMBS III, FTA:

- Class A1, Current rating: Aaa, rating confirmed;
 - Class A2, Current rating: Aaa, rating confirmed;
 - Class A3, Current rating: Aaa, downgraded to Aa2;
 - Class B, Current rating: Aa2, downgraded to A2;
 - Class C, Current rating: A2, downgraded to Baa2;
 - Class D, Current rating: Baa2, downgraded to Ba2 and
 - Class E, Current rating: Ba3, downgraded to B3.
- Last rating action date for Madrid RMBS III, FTA: 23 July 2008.

For this review, "Moody's Updated Methodology for Rating Spanish RMBS" was used. As explained in the press release issued on July 2008 in relation to the methodology update, the refinements to Moody's Spanish MILAN model result in higher credit enhancement levels for Spanish RMBS pools, especially those with riskier features, such as higher loan-to-value ratios and higher-risk products. Madrid RMBS III FTA was one of the deals flagged by Moody's as having such features. All classes of Notes were placed on review for possible downgrade on 23 July 2008. Today's actions conclude a detailed review of the transaction.

Madrid RMSB III FTA closed in July 2007. In this transaction, the Originator (Caja Madrid, Aa3/P-1) securitised a portfolio of 16,086 first ranking mortgage loans secured on residential properties located in Spain, for an overall amount of EUR 3.0 billion. The collateral consists exclusively of loans with a loan-to-value (LTV) over 80 per cent. These high LTV loans represent 98.51% of the outstanding pool balance as of October 2008.

This transaction includes partial hedging of interest rate risk, which was taken into account in the initial as well as ongoing analysis. Class A1, A2 and A3 amortise sequentially. Sequential amortisation turns to pro-rata if the outstanding amount of loans more than six months in arrears exceeds 25 per cent of the original portfolio balance.

The portfolio is showing worse-than-expected collateral performance leading to above market average delinquency. After 14 months since issuance, the cumulative defaults are equal to 2.98% of the original pool balance, and the 90+ arrears (excluding outstanding defaults) correspond to approximately 4.70% of the current pool balance.

The reserve fund has not been at target level for the last two periods following the insufficient excess spread to cover artificially write-off of loans more than 6 months delinquent. This typical Spanish RMBS mechanism speeds up the off-balance sheet of a non-performing loan compared to waiting for the "natural write-off"; thus, the amount of notes collateralised by non-performing loans is minimised, and, consequently, the negative carry.

During the last two quarters excess spread has not been sufficient to provision for artificial write-offs resulting in drawings of the reserve fund (currently at 59.19% of target level). Moody's expects that available funds will increase as recoveries from written-off loans are collected. Following an updated loan-by-loan analysis, and on the basis of the performance experienced by the portfolio so far, Moody's has updated the portfolio's expected loss assumption modeled from a range of 1.80%-2.00% to 2.90%-3.10%, both as a percentage of

original pool balance. Moody's further raised its credit support expectations for the rating levels assigned.

Moody's notes that the Spanish Government announced on 4 November 2008 a support programme to assist unemployed, self-employed and pensioner borrowers. At this stage, we are awaiting further clarifications on the programme to determine any potential liquidity and/or credit implications possible for this transaction.

Moody's ratings address the expected loss posed to investors by the legal final maturity of the notes (February 2050). 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.

Moody's monitors Madrid RMBS III, FTA as described in the reports: "Moody's Approach to Rating Spanish RMBS: The "Milan" Model", March 2005, and "Moody's Updated Methodology for Rating Spanish RMBS", July 2008. Moody's will continue to closely monitor the performance of the portfolios in the next quarterly periods. For more information on this transaction, please visit Moody's website at www.moodys.com or contact our Client Service Desk in London (+44-20-7772 5454).

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