



## **Rating Action: Moody's review of Spanish RMBS sector triggers rating actions on 156 transactions**

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### **Approximately EUR 62.5 billion of debt securities affected**

Madrid, November 23, 2012 -- Moody's Investors Service has today taken rating actions on 156 Spanish residential mortgage-backed securities (RMBS) transactions further to its reassessment of the entire Spanish RMBS market. The rating agency's reassessment takes into consideration the continued collateral performance deterioration, the rating agency's updated European RMBS rating methodology and ongoing deterioration in the credit quality of the Spanish sovereign and transactions' counterparties. Moody's has commented on these three ratings drivers, which have developed over the past 12 months, in its Special Comment, "European ABS and RMBS: Structured finance ratings in Aaa-countries ratings are stable; downgrades expected in other countries" published on 14 November 2012. Link: [http://www.moody.com/research/European-ABS-and-RMBS-Structured-finance-ratings-in-Aaa-countries--PBS\\_SF302185](http://www.moody.com/research/European-ABS-and-RMBS-Structured-finance-ratings-in-Aaa-countries--PBS_SF302185).

Specifically, Moody's has today downgraded the ratings of 196 notes previously rated at the country ceiling, 61 notes previously rated below A3 (sf) and confirmed the ratings of 63 notes out of 156 Spanish RMBS transactions. Moody's downgraded the senior notes by an average of 1 to 2 notches and junior notes by an average of 1 to 4 notches. The downgrades are driven primarily by revised key collateral assumptions following Moody's reassessment of the entire Spanish RMBS sector. As part of today's rating action, Moody's has also concluded its rating review of 16 Spanish RMBS transactions placed on review on 8 June 2012, following the release of the rating agency's updated methodology for rating EMEA RMBS transactions.

Please click on this link [http://www.moody.com/viewresearchdoc.aspx?docid=PBS\\_SF308352](http://www.moody.com/viewresearchdoc.aspx?docid=PBS_SF308352) for the list of affected ratings. This list is an integral part of this press release. For a detailed rationale on each rating action, please refer to the list of affected credit ratings.

At the same time, Moody's has revised key collateral assumptions in 25 other transactions, which did not result in any rating action due to sufficient credit enhancement. The list of updated assumptions for the entire Spanish RMBS sector is available in the following link [http://www.moody.com/viewresearchdoc.aspx?docid=PBS\\_SF308353](http://www.moody.com/viewresearchdoc.aspx?docid=PBS_SF308353).

Moody's has confirmed the ratings of notes rated at the country ceiling with sufficient credit enhancement and adequately mitigated exposure to counterparties. All Spanish RMBS notes rated above Ca (sf) and not confirmed by today's rating action remain on review pending reassessment of required credit enhancement to address country risk exposure. Some tranches are also on review pending assessment of rating linkage to counterparties.

### **RATINGS RATIONALE**

Today's rating action reflects, for most Spanish RMBS tranches, the revision of key collateral assumptions following Moody's reassessment of the entire Spanish RMBS sector. Moody's expects a contracting Spanish economy and high unemployment in 2013, as the government pursues austerity measures to cut the budget deficit. The oversupply of houses, weak demand and Spanish eviction moratorium, which came into effect in November 2012, will contribute to uncertainties relating to the timing and amount of future recoveries on repossessed properties.

The rating agency maintained the key collateral assumptions in a number of transactions but downgraded senior tranches because of insufficient credit enhancement to achieve the country ceiling.

### **-- REVISION OF KEY COLLATERAL ASSUMPTIONS**

Moody's has revised the portfolio loss assumptions because of worse-than-expected collateral performance. Moody's has also reassessed the credit quality of the outstanding Spanish RMBS portfolios to determine the credit enhancement (MILAN CE) required under the senior tranche for it to achieve the country ceiling. For this analysis, Moody's used the updated methodology to rate EMEA RMBS transactions. See "Moody's Approach to Rating

RMBS in Europe, Middle East, and Africa" (6 June 2012) for the updated European RMBS rating methodology.

The rating agency has increased (1) lifetime expected losses (EL) in 82 RMBS transactions; and (2) the MILAN credit enhancement (CE) assumptions in 167 RMBS transactions.

- Expected loss (EL)

Since Moody's last revision of assumptions in December 2011, Spanish collateral performance has continued to deteriorate. Moody's Spanish Prime RMBS index reported 90+ day delinquencies at 2.04% in September 2012, up from 1.20 % in December 2011. The cumulative defaults index increased to 2.85% in September 2012, up from 2.14% in December 2011. Annualised redemption rates remained flat over the past year, currently representing 3.84%. Cash recoveries in the Spanish RMBS market have been limited to-date because of falling Spanish house prices and low property market liquidity. See "Spanish Prime RMBS Indices" for more information on collateral performance.

The continued deterioration in 90+ day arrears and cumulative defaults in the Spanish RMBS market translated into higher projected EL assumptions for certain portfolios. Moody's negative outlook for Spanish RMBS is reflected in the updated assumptions. Moody's revised its assumptions of expected losses in 82 transactions. For the overall Spanish RMBS market Moody's is assuming an average of 1.9% future losses for seasoned transactions with relatively good asset performance. In the case of less seasoned transactions showing below average performance Moody's expects on average 6% of future losses.

- MILAN CE

Moody's has revised its MILAN CE assumptions following the publication of the updated methodology used in its RMBS collateral analysis. The key changes to the EMEA RMBS methodology include the introduction of a transaction minimum credit enhancement level and to various default and severity settings in the scoring model. The overall MILAN CE is subject to two separate floors, the Minimum Portfolio MILAN CE and the Minimum Expected Loss Multiple. The Minimum Portfolio MILAN CE for Spanish RMBS ranges between 10%-15% to A3(sf) rating, or country ceiling. The Minimum Expected Loss Multiple incorporates the updated EL assumptions.

-- INSUFFICIENCY OF CREDIT ENHANCEMENT FOR SENIOR NOTES TO ACHIEVE COUNTRY CEILING

Moody's downgraded 8 notes in 7 transactions due to insufficient credit enhancement despite maintaining the key collateral assumptions. In Moody's opinion, the affected senior securities available credit enhancement is insufficient to compensate for the EL or MILAN CE assumptions. As a result, these Spanish securities cannot achieve the maximum achievable rating of A3(sf).

-- SUFFICIENT CREDIT ENHANCEMENT TO ACHIEVE COUNTRY CEILING AND ADEQUATELY MITIGATED EXPOSURE TO COUNTERPARTIES

Moody's has confirmed the ratings of 63 notes rated at the country ceiling with sufficient credit enhancement and adequately mitigated exposure to counterparties. Out of these 63 transactions Moody's increased MILAN CE or EL in 52 transactions but the credit enhancement is sufficient to offset the revised assumptions. In addition, Moody's believes that the credit enhancement supporting these notes provides adequate cushion against country risk exposure.

-- FIRST DRIVER FOR REVIEW PLACEMENT: REASSESSMENT OF CREDIT ENHANCEMENT TO ADDRESS COUNTRY RISK EXPOSURE

Moody's maintains on review for downgrade the ratings of notes rated above Ca (sf) in order to reassess credit enhancement adequacy levels, given the higher risk of economic and financial instability. Moody's is continuing to consider the impact of the deterioration of the sovereign's financial condition and the resulting asset portfolio deterioration on tranches of structured finance transactions.

-- SECOND DRIVER FOR REVIEW PLACEMENT: ASSESSMENT OF LINKAGE TO COUNTERPARTIES

Some senior and subordinated notes also remain on review pending Moody's assessment of the rating linkage to counterparties. The rating agency will assess the degree of linkage by taking into account payment disruption risk and the high exposure to swap providers or to issuer account banks.

OTHER DEVELOPMENTS MAY NEGATIVELY AFFECT THE NOTES

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 negatively affect the ratings of the notes.

On 21 August 2012, Moody's released a request for comment seeking market feedback on proposed adjustments to its modelling assumptions. These adjustments are designed to account for the impact of rapid and significant country credit deterioration on structured finance transactions. If the adjusted approach is implemented as proposed, the rating of the Spanish RMBS included those affected by today rating action may be negatively affected. See "Approach to Assessing the Impact of a Rapid Country Credit Deterioration on Structured Finance Transactions", (21 August 2012) ([http://www.moodys.com/research/Approach-to-Assessing-the-Impact-of-a-Rapid-Country-Credit-PBS\\_SF294880](http://www.moodys.com/research/Approach-to-Assessing-the-Impact-of-a-Rapid-Country-Credit-PBS_SF294880)) for further details regarding the implications of the proposed methodology changes on Moody's ratings.

Additional factors that may affect the resolution of these reviews are described in "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines: Request for Comment" ([http://www.moodys.com/research/The-Temporary-Use-of-Cash-in-Structured-Finance-Transactions-Eligible-PBS\\_SF289341](http://www.moodys.com/research/The-Temporary-Use-of-Cash-in-Structured-Finance-Transactions-Eligible-PBS_SF289341)) and "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cashflow Transactions: Request for Comment" ([http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS\\_SF289772](http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_SF289772)), both published on 2 July 2012.

Key modelling assumptions, such as expected loss and MILAN CE assumptions have been updated. Potential sensitivities, cash flow analysis and stress scenarios for the affected transactions have not been updated, as the rating actions have been primarily driven by (1) the update of the key assumptions; and, as a consequence, (2) Moody's decision to assess credit enhancement levels consistent with each structured finance rating category.

#### PRINCIPAL METHODOLOGIES

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS in Europe, Middle East, and Africa", published in June 2012. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

Moody's approach to country risk ceilings is described in "Local Currency Country Risk Ceiling for Bonds and Other Local Currency Obligations" ([http://www.moodys.com/research/Local-Currency-Country-Risk-Ceiling-for-Bonds-and-Other-Local-PBC\\_140182](http://www.moodys.com/research/Local-Currency-Country-Risk-Ceiling-for-Bonds-and-Other-Local-PBC_140182)), published on 16 August 2012.

The rating considerations described in this press release complement the principal rating methodologies applicable to Spanish RMBS transactions affected by today's rating action (see link provided above in this press release for a full list of affected credit ratings).

#### REGULATORY DISCLOSURES

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