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New Issue: Foncaixa FTGENCAT 7, Fondo de Titulización de Activos

€1 Billion Asset-Backed Floating-Rate Notes

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Ratings Detail

Class	Rating*	Amount (mil. €)	Available credit support (%)	Interest	Legal final maturity
AS	AA+ (sf)	174	28.55	Three-month EURIBOR plus 50 bps	Aug. 1, 2051
AG¶	AA+ (sf)	696	28.55	Three-month EURIBOR plus 30 bps	Aug. 1, 2051
B	A (sf)	25	26.05	Three-month EURIBOR plus 125 bps	Aug. 1, 2051
C	BBB+ (sf)	105	15.55	Three-month EURIBOR plus 175 bps	Aug. 1, 2051

*Standard & Poor's ratings address timely payment of interest and ultimate payment of principal. ¶The local government of the Autonomous Community of Catalonia guarantees the class AG notes.

Transaction Participants	
Originator	Caja de Ahorros y Pensiones de Barcelona
Arrangers	Gesticaixa S.G.F.T., S.A.
Trustee	Gesticaixa S.G.F.T., S.A.
Servicer	Caja de Ahorros y Pensiones de Barcelona
Interest swap counterparty	Caja de Ahorros y Pensiones de Barcelona
GIC and bank account provider	Caja de Ahorros y Pensiones de Barcelona
Paying agent	Caja de Ahorros y Pensiones de Barcelona
Underwriters	Caja de Ahorros y Pensiones de Barcelona
Subordinated loan provider for initial expenses	Caja de Ahorros y Pensiones de Barcelona
Reserve fund subordinated loan provider	Caja de Ahorros y Pensiones de Barcelona

Supporting Ratings

Institution/role	Ratings
Caja de Ahorros y Pensiones de Barcelona as servicer, GIC and bank account provider, and interest swap counterparty	AA-/Negative/A-1+

GIC—Guaranteed investment contract.

Transaction Key Features*	
Closing date	Oct. 1, 2009
Collateral	Loans granted to Spanish SMEs based in the Catalonia region
Principal outstanding (V)	925,875,851
Country of origination	Spain
Concentration	Largest 20 obligors (6.55% of pool). Regional concentration: Catalonia (100%). Industrial concentration: real estate activities (28.16%). The five major industries represent 42.66% of the pool
Average current loan size balance (€)	32,542
Loan size range (€)	831.50 to 5,677,265.49
Weighted-average interest rate (%)	3.53 (13.55% of the pool is fixed-rate)

Transaction Key Features* (cont.)	
Arrears	At closing, no loans were in arrears for more than one month
Redemption profile	Amortizing (88.26%), initial interest-only (10.40%) and bullet (1.34%)
Excess spread of the pool (bps)	96
Cash reserve (%)	15.55

*Pool data as of Feb. 28, 2010. SME—Small and midsize enterprise.

Transaction Summary

Standard & Poor's Ratings Services has assigned credit ratings to Foncaixa FTGENCAT 7, Fondo de Titulizacion de Activos's floating-rate notes.

The transaction closed in October 2009, without our rating.

The originator is Caja de Ahorros y Pensiones de Barcelona (AA-/Negative/A-1+; "la Caixa") which is the third-largest Spanish banking group. At closing, la Caixa sold to the issuer a €1 billion closed portfolio of secured and unsecured loans granted to Spanish small and midsize enterprises (SMEs) and self-employed borrowers based in the Catalonia region.

To fund this purchase, Gesticaixa S.G.F.T., S.A., the trustee, issued four classes of floating-rate, quarterly paying notes, on the issuer's behalf, being the class AG notes guaranteed by the regional government of the Autonomous Community of Catalonia (A+/Negative/A-1). On receipt of a notice of a shortfall in the available funds to meet either the interest or principal repayment obligations, or both, the Catalonian Department of Economy and Finance must cover the shortfall within a maximum of 90 days.

The guarantee by the regional government of the Autonomous Community of Catalonia can be drawn either for interest or principal payments on the class AG notes as per the priority of payments, when available funds are insufficient. We do not consider this guarantee as support for the rating on the class AG notes as, when drawn, the amounts owed will have to be reimbursed according to seniority in the priority of payments.

Notable Features

This transaction is the seventh of la Caixa's small and midsize enterprise (SME) and self-employed loan book issued under a guarantee program of the Autonomous Community of Catalonia. This securitization comprises a mixed pool of mortgage-backed credit lines, mortgage-backed loans, and other guaranteed assets.

The current purpose of this transaction is for the notes to be used for funding purposes through the ECB's repo funding facility.

The ratings on the notes reflect the subordination of the respective classes of notes below them, the credit enhancement provided by the reserve fund, the structure of the notes as established by transaction documents, the rating on la Caixa, and the downgrade language in all of that entity's roles, including its role as bank account provider and swap counterparty.

Strengths, Concerns, And Mitigating Factors

Strengths

- La Caixa is an experienced originator and servicer, with several SME and residential mortgage-backed securities (RMBS) securitizations to date.
- In our opinion, credit enhancement adequately covers the various stresses we have applied to the transaction. Subordination, the reserve fund, and available excess spread provide credit enhancement.
- About 70% of the collateral is mortgage-backed. The expected loss severity for this type of collateral is lower than in loans with other types of guarantee.
- Principal amortization takes into account the balance of all loans in arrears for more than 12 months, making sure that excess spread is trapped and used for the amortization of the notes.
- We factored into our analysis the relatively good performance of previous SME deals originated by la Caixa.
- The swap structure is designed to provide support to the rated notes. We have given credit for this in our cash flow analysis (see "Interest swap agreement").
- The pool is fairly granular within Spanish SME transactions to date: About 83% of the loans have a current balance of less than €500,000 and an average loan size of €32,500.
- Concentration is small when compared with other outstanding transactions: The top 10 and top one borrowers represent 4.00% and 0.61% of the pool, respectively.
- The weighted-average seasoning of the pool is about 31 months.

Concerns and mitigating factors

- There is a geographical concentration risk, as 100% of the pool is concentrated in Catalonia. This the home market for la Caixa, with the benefits attached to it. On the other hand, it is the Spanish region with the highest GDP in 2009, and has a well developed industrial and entrepreneurial sector. Also, the GDP per capita in Catalonia is above the average of the 27 countries in the EU. We have taken this risk into consideration in our analysis.
- Industry concentration in the real estate sector represents more than 28% of the pool. The real estate sector is significant in the SME economy and none of these loans implies construction risk for the issuer. We have taken into account industry concentration in our credit analysis.
- Interest rate and basis risks exist in this transaction, as 13.55% of the loans in the current pool are fixed-rated loans, and also from the floating-rate loans (86.45%). No loans are referenced to three-month EURIBOR, which is the reference rate of the notes. To cover the interest rate and basis risk, the trustee has entered into an asset swap agreement with la Caixa (see "Interest swap agreement").
- A percentage of the loans have a higher level of risk due to their amortization profile: 10.40% has an interest-only period and 1.34% of the loans in the securitized pool follow a bullet amortization profile. About 9% of the pool can take a payment holiday once in the life of the loan, for a period of up to 12 months. We took into account loan amortization profiles in our credit and cash flow analysis.
- The weighted-average term of the pool of 13.5 years makes it riskier than pools with a lower term. We took this into account in our credit analysis and cash flow analysis.
- There are two interest deferral triggers that protect senior noteholders over subordinated noteholders in cases of poor deal performance. This feature is seen in the priority of payments structures that combine interest and principal. Hitting an interest deferral trigger would lead to the issuer using interest from the junior notes to repay the most senior notes. This interest deferral trigger structure is typical in Spanish securitization transactions and

credit enhancement is sized accordingly for the junior notes (see "Priority Of Payments").
- The class A notes could amortize pro rata if certain metrics related to deterioration of the pool are met (see "Redemption of the notes"). We have modeled this feature in our cash flow analysis.
- Classes B and C could amortize pro rata if certain conditions are met. This circumstance would affect the earlier amortization of the senior notes. This feature is typical in Spanish securitization transactions (see "Redemption of the notes"). We have taken this feature into account in our cash flow analysis.
- The reserve fund can start amortizing after three years if it reaches 31% of the outstanding balance of the notes. Subject to a floor of half of its initial value, certain conditions need to be met to amortize the reserve fund (see "Reserve fund"). We have factored this into our cash flow analysis.

Trustee Or "Sociedad Gestora"

Gesticaixa S.G.F.T., as trustee, on the issuer's behalf, entered into certain contracts (such as guaranteed investment contracts [GICs], a swap agreement, and subordinated credit facilities and loans). These contracts are needed to protect the issuer against certain credit losses and liquidity shortfalls that are assumed to arise in connection with the holding of the mortgage participations and the unsecured loans.

In this transaction, the main responsibilities of the trustee are to create the issuer, issue the notes on the issuer's behalf, calculate the interest rate on the notes, notify noteholders of any relevant information applicable to the notes and mortgage participations, and organize the annual audit.

Caja de Ahorros y Pensiones de Barcelona

On Oct. 21, 2008, we revised our outlook on Spanish savings bank Caja de Ahorros y Pensiones de Barcelona ("la Caixa") to negative from stable. At the same time, we affirmed the 'AA-' long-term and 'A-1+' short-term counterparty credit ratings on la Caixa.

This outlook revision reflects the possibility of a downgrade if, amid the rapid deterioration of Spain's economic and operating environment, there is an acceleration in asset quality weakening or we anticipate a worsening of la Caixa's operating performance, solvency, or financial flexibility.

The ratings continue to reflect our view of la Caixa's robust Spanish retail banking franchise; strong management and successful strategy; excellent liquidity; sound underwriting and contained loan book risk profile; strengthened core banking performance; and sound capitalization. Although less so than in the past, the ratings also factor in la Caixa's large equity portfolio, which exposes it to market risk and results in a relatively high contribution of equity-related income to profits, as well its geographic concentration in Spain.

Management's growth strategy, supported by meaningful branch expansion outside the home markets of Catalonia and the Balearic Islands, has transformed la Caixa over the past decade into a leading nationwide player, with more than 10 million clients and a 10% market share.

We believe la Caixa is well positioned to weather the challenges poised by the capital markets' currently tight liquidity, thanks to both its large, stable retail deposit base and excellent balance sheet liquidity.

In our view, asset quality deterioration due to Spain's economic slowdown has been so far manageable for la Caixa.

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The institution's focus on low-risk residential mortgage lending and its conservative underwriting and provisioning policies underpin better asset quality performance than peers', in line with its track record. Exposure to high-risk segments that are deteriorating sharply (including high-loan-to-value lending, real estate development, and land) is limited.

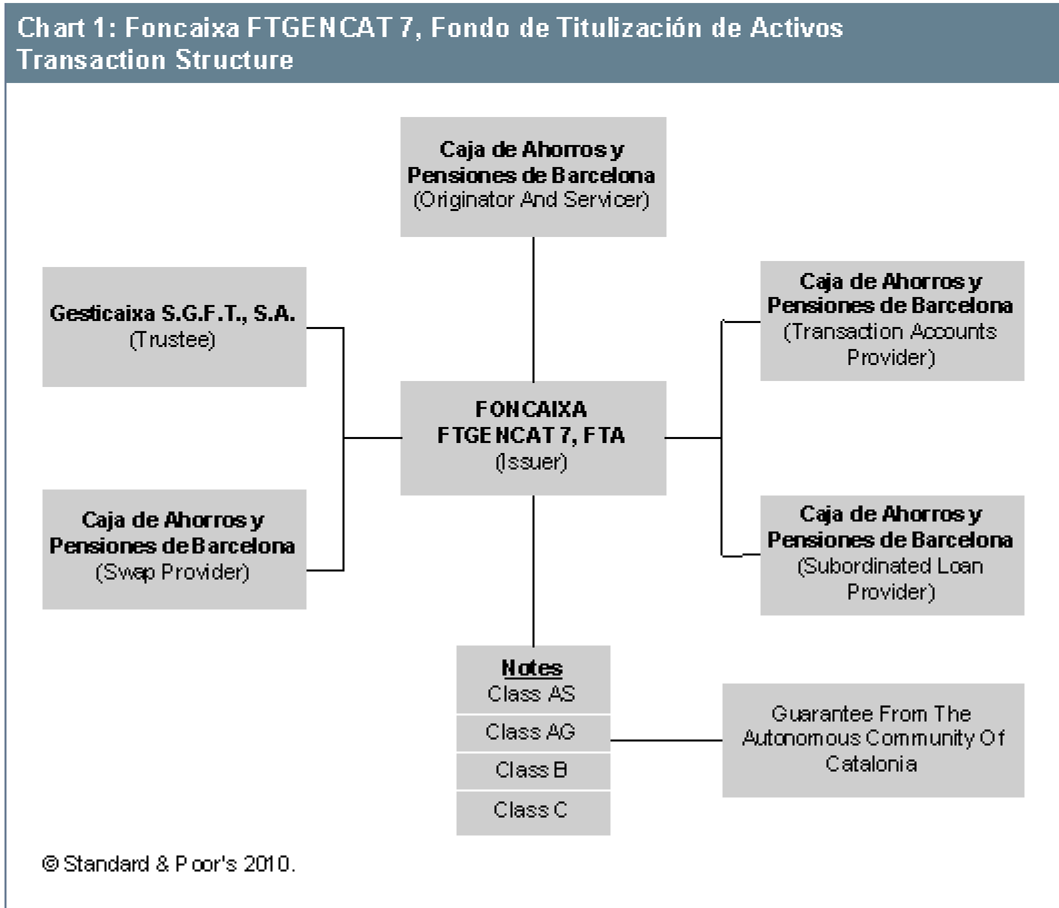
La Caixa's banking performance has improved over the past few years, thanks to rising interest rates and increased seasoning of the branch network. Thus, although la Caixa's returns are still supported by (potentially volatile) equity-related income, the contribution of traditional banking profits has increased. We expect la Caixa's focus on countering the effects of the slowdown in business volumes by strengthening commercial dynamism and containing costs to support resilient operating performance.

In our opinion, la Caixa maintains sound solvency, even when excluding the minorities from the 2007 IPO of Criteria Capital Corp., which do not support the banking business. We expect capital measures to remain relatively stable, supported by internal capital generation as growth decelerates. While Criteria's IPO has reduced market risk, the equity portfolio remains among the largest in Europe.

La Caixa still enjoys some latent gains in this portfolio, although they have shrunk significantly in the past few months.

Transaction Structure

At closing, Foncaixa FTGENCAT 7 funded the purchase of the closed portfolio by issuing four classes of notes through the trustee, Gesticaixa S.G.F.T. (see chart 1).



The issuer is not a separate entity at law, but holds a distinct and closed pool of assets available for distribution to the noteholders.

The issuer is a "fondo de titulización de activos" created for the sole purpose of purchasing the unsecured loans and the mortgage certificates from la Caixa, issuing the notes, and carrying out related activities. The assets are insulated from the insolvency of the originator and the trustee.

The issuer pays principal and interest on the notes quarterly, following a determined priority of payments. The transaction features some structural enhancements derived from the swap agreement, amortization of the notes, the reserve fund, and la Caixa's servicing.

As in other Spanish transactions, interest and principal from the underlying assets are combined into a single priority of payments. Cumulative default ratio tests protect senior noteholders by subordinating the payment of junior interest further down the priority of payments.

Cash collection arrangements

At closing, the Sociedad Gestora opened two bank accounts on behalf of Foncaixa FTGENCAT 7. La Caixa, as servicer, collects the amounts due under the loans and transfers them daily to the treasury account held on behalf of the issuer with la Caixa. During the lock-up period, since the closing date until April 25, 2011, the amortization amounts are held on the amortization account and are used to amortize the bonds in that payment date; then the

amortization account is cancelled.

Under our criteria, the minimum rating required to be a bank account provider is 'A-1', so if we downgrade la Caixa below 'A-1', we would expect it to take remedial action in line with our "Revised Framework For Applying Counterparty And Supporting Party Criteria" (see "Related Criteria And Research").

Cash reserve

The structure benefits from a cash reserve fund. On the closing date, a subordinated loan fully funded the reserve fund, which is fixed for the first three years, and is available on each payment date to pay the different items of the priority of payments described below.

The minimum required level of the reserve fund is fixed for the first three years of the transaction. After that initial period, it amortizes if the following conditions are met:

- The outstanding balance of the loans in the pool with any payment in arrears for more than 90 days is lower than 1% of the outstanding balance of the non-delinquent loans (loans in arrears for more than 90 days) in the pool; and
- The reserve fund is at the required level on the previous payment date.

The reserve fund required on each payment date is the minimum of:

- 15.5% of the initial balance of classes AS, AG, B, and C; or
- The higher of: (i) 31.0% of the outstanding principal balance of classes AS, AG, B, and C.

The minimum reserve fund level can never be lower than 7.75% of the initial balance of the class AS, AG, B, and C notes (€77.5 million).

Interest swap agreement

On the issuer's behalf, the trustee entered into a swap agreement with la Caixa. This swap provides protection against adverse interest rate resetting and movements, and provides credit support to the transaction.

The issuer pays the swap counterparty an amount equal to the weighted-average interest collected from the loans plus the interest accrued by the principal account multiplied by the notional. The issuer receives from the swap counterparty an amount equivalent to the weighted-average coupon on the notes plus 75 basis points (bps) on the notional and the servicing fee if the servicer is substituted. The notional of the swap is the daily average outstanding balance of the performing loans (up to three months in arrears).

If an ineligible counterparty is not replaced within the remedy period, we may lower the ratings on the notes to levels that could be supported by the counterparty's then-current rating. We take into consideration the amount of collateral in analyzing the transaction after the counterparty is downgraded. Our analysis assumes that a replacement of the ineligible counterparty will occur. However, given the bespoke nature of this swap, it may be more difficult to find a replacement. Therefore, investors should understand and consider the risk of a downgrade to the transaction if a replacement is not found.

Under the transaction documentation, any counterparty replacement or guarantee is subject to our rating confirmation. The downgraded counterparty bears all the costs of any remedies.

Redemption of the notes

Amortization occurs for the:

- Series AS notes (soft bullet), after the lock-up period until fully amortized;
- Series AG notes plus the reimbursement of the amounts owed to the Autonomous Community of Catalonia (Guarantee), once the series AS notes are fully amortized;
- Class B notes, once the series AS and AG notes are fully redeemed; and
- Class C notes, once the class B notes are fully redeemed.

The available amortization amount on each payment date is equal to the difference between:

- The outstanding principal balance of the notes plus the amounts used and not reimbursed of the guarantee for payment of principal under class AG; and
- The principal outstanding balance of all outstanding non-defaulted loans (no more than 12 months in arrears).

The class AS and AG notes may pay or be provisioned for as pro rata if the ratio of (i) the performing collateral balance (up to 90 days in arrears) plus (a) principal collection in the period plus (b) the balance of the amortization account; and (ii) the outstanding balance of class A plus the amounts due to the Autonomous Community of Catalonia in concept of executed guarantee for principal payment of class AG, were less than or equal to 1. Otherwise, these notes pay sequentially.

The conditions for the pro rata amortization of the class B and C notes are that they amortize pro rata with the series AS and AG notes if:

- Class A notes are not amortizing pro rata;
- The cash reserve is at the required amount after the previous payment date;
- The total outstanding balance of the non-defaulted loan portfolio is equal to or greater than 10% of the initial balance of the loan portfolio.

Pro rata conditions for class B are as follows:

- The total outstanding principal balance of the class B notes is equal to or higher than 5.00% of the initial balance of all the notes increased by the amounts due to the Autonomous Community of Catalonia for the amounts used for the amortization of class AG; and
- The ratio of the outstanding balance of the non-defaulted delinquent loans to the outstanding balance of non-defaulted loans (loans between 90 and 360 days in arrears) is below 1.25%.

Pro rata conditions for class C are as follows:

- The total outstanding principal balance of the class C notes is equal to or higher than 21.00% of the initial balance of all the notes increased by the amounts due to the Autonomous Community of Catalonia for the amounts used for the amortization of class AG; and
- The ratio of the outstanding balance of the non-defaulted delinquent loans to the outstanding balance of non-defaulted loans (loans between 90 and 360 days in arrears) is below 1.00%.

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Priority Of Payments

On each quarterly interest payment date, the issuer pays in arrears the interest due to the noteholders. To make the payments, the issuer's available funds include the proceeds of the interest swap, the reserve fund, the amounts used under the guarantee of the Autonomous Community of Catalonia only for payment of interest and principal of class AG, principal received under the loans, and any other proceeds received in connection with the loans.

The issuer can mix all interest and principal received to pay principal and interest due under the notes in the following order:

- Fees;
- Administration fees;
- Net payments under the swap agreement (other than swap termination payments due to a default or breach of contract by the swap counterparty);
- Interest on the class AS and AG notes pro rata and reimbursement of any amount owed to the Autonomous Community of Catalonia under the guarantee program to pay interests on class AG notes;
- Interest on the class B notes if not deferred;
- Interest on the class C notes if not deferred;
- Amortization of the class AS and AG notes, and reimbursement of any amount owed to the Autonomous Community of Catalonia under the guarantee program to pay principal on the class AG notes;
- Principal on the class B notes;
- Principal on the class C notes;
- Interest on the class B notes if deferred;
- Interest on the class C notes if deferred;
- Replenishment of the cash reserve;
- Interest payments under the subordinated loan to fund the cash reserve;
- Principal payments under the subordinated loan to fund the cash reserve;
- Swap termination payments, if any, when the issuer is not the defaulting party;
- Interest payments under the subordinated loan to fund the initial expenses;
- Interest payments under the subordinated loan to fund the initial expenses;
- Payment of the servicer fee if there is no substitution of the servicer; and
- Cash back to la Caixa.

A trigger ensures that in a stressful economic environment, the more senior notes amortize before the issuer pays interest on the subordinated classes of notes.

Interest on the class B and C notes is subject to a deferral on a given payment date to a lower position in the priority of payments if the tests outlined below are met.

Class B notes

If the ratio of cumulative defaulted loans balance to the pool balance at closing is greater than 21.00%, interest on the class B notes pays in a lower position in the priority of payments, until the class AS and AG notes redeem in full and all amounts used of the guarantee of the Autonomous Community of Catalonia for principal amortization of class AG are reimbursed.

Class C notes

If the ratio of cumulative defaulted loans balance to the pool balance at closing is greater than 18.80%, interest on the class C notes pays in a lower position in the priority of payments, until the class AS, AG, and B notes redeem in full and all amounts used of the guarantee of the Autonomous Community of Catalonia for principal amortization of class AG are reimbursed.

Collateral Description

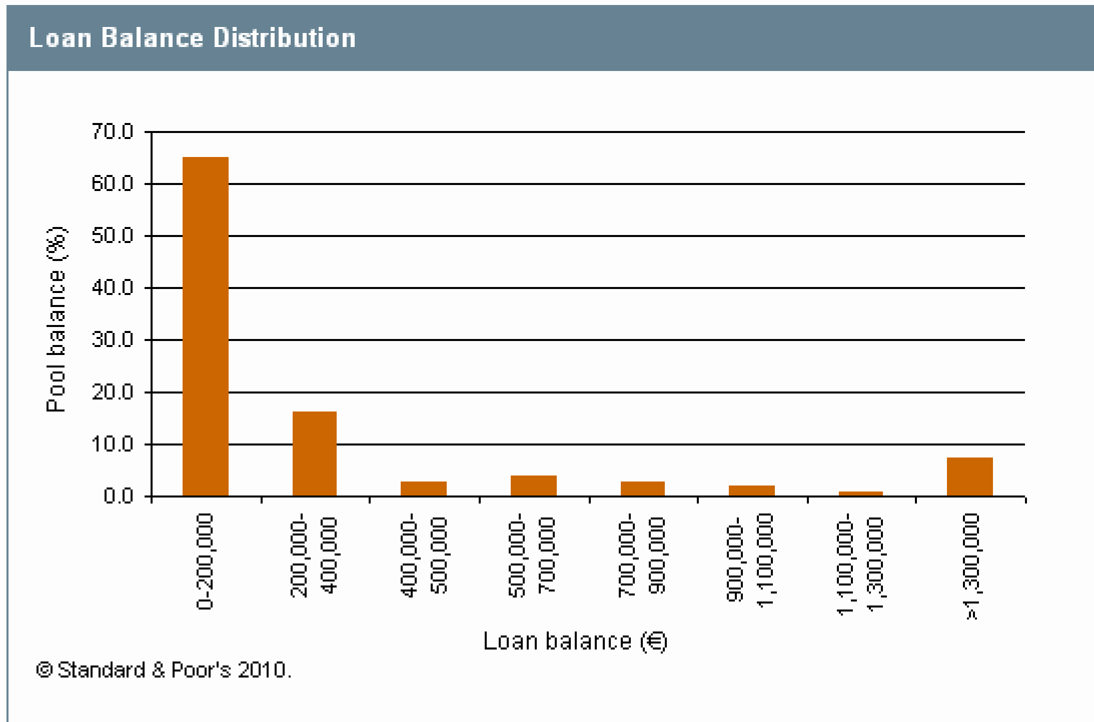
The securitized product consists of mortgage-backed credit lines, mortgage-backed loans and non-mortgage-backed loans. The credit lines comprise the first and/or subsequent draws made under a product called "Crédito abierto". These consist of a credit facility with a maximum LTV ratio depending on the loan purpose, which can be drawn several times up to its initial limit. There is a maximum LTV ratio of 70% if the purpose of the loan is the acquisition of an office. Depending on the guarantee, the limit could decrease to 50%. The "crédito hipotecario" has as security the property to be purchased. Subsequent redraws under this revolving credit line are also secured on the property, but can only be made once the LTV ratio of the original mortgage loan is less than or equal to the limit. The original limit will be the minimum of (i) the appraisal value and (ii) the purchase value reported in the title deed. Each of the drawdowns is independent, but all of them are secured on the same property.

As of Feb. 28, 2010, the pool comprised 28,452 secured and unsecured loans. The pool was originated between July 1992 and May 2009, and the weighted-average seasoning was 30.77 months.

The pool does not have significant levels of concentration at the obligor level. The largest obligor represented 0.61% of the pool and the largest 20 obligors represented 6.55%.

Chart 2 shows the distribution of the portfolio by loan size.

Chart 2



Loans in the pool can follow three different amortization profiles. 88.26% of the loans follow a French amortizing schedule, while a further 10.40% follow an interest-only period and 1.34% have a bullet payment (see table 1). Also, some of the "crédito abierto" loans, representing 9% of the total pool, can take up to 12 months' payment holiday, only once in the life of the transaction. Borrowers cannot take a payment holiday in the last four years of the loan or when they are not current. Interest accrued on the principal during the grace period will be liquidated on the day that the period ends. These interests correspond to the fund.

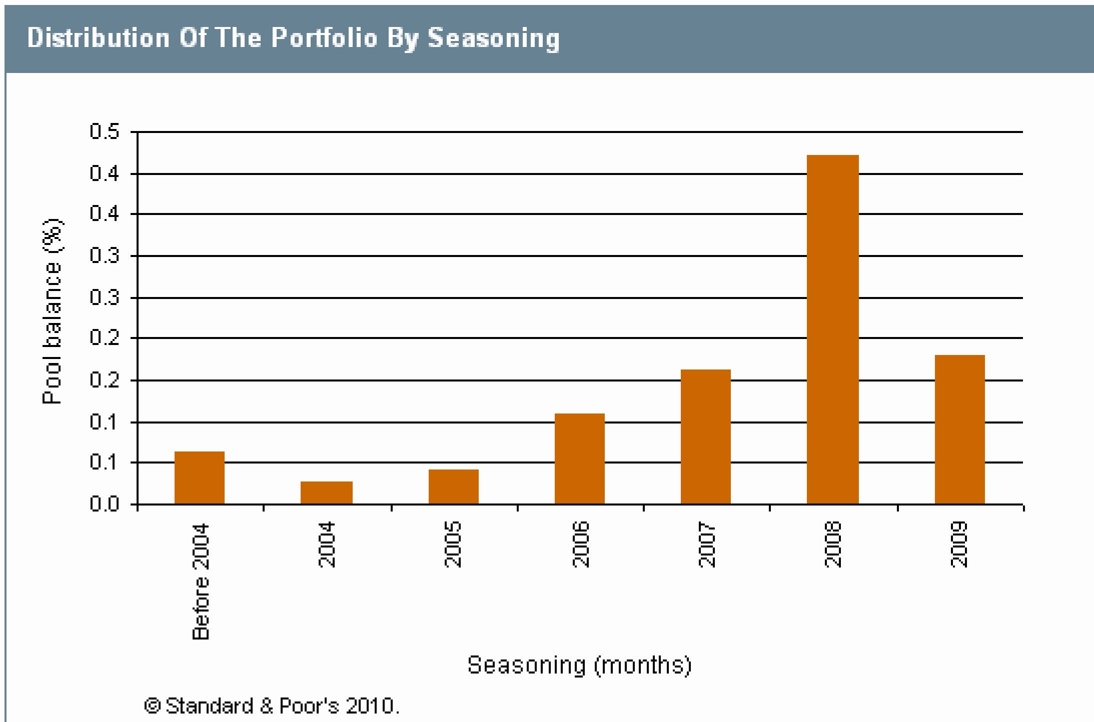
Table 1

Amortization

Amortization profile	Outstanding balance (€)	% of final pool
French amortization	817,187,046.30	88.26
Interest-only loans	96,247,979.27	10.40
Bullet amortization	12,440,825.13	1.34
Total	925,875,850.70	100.00

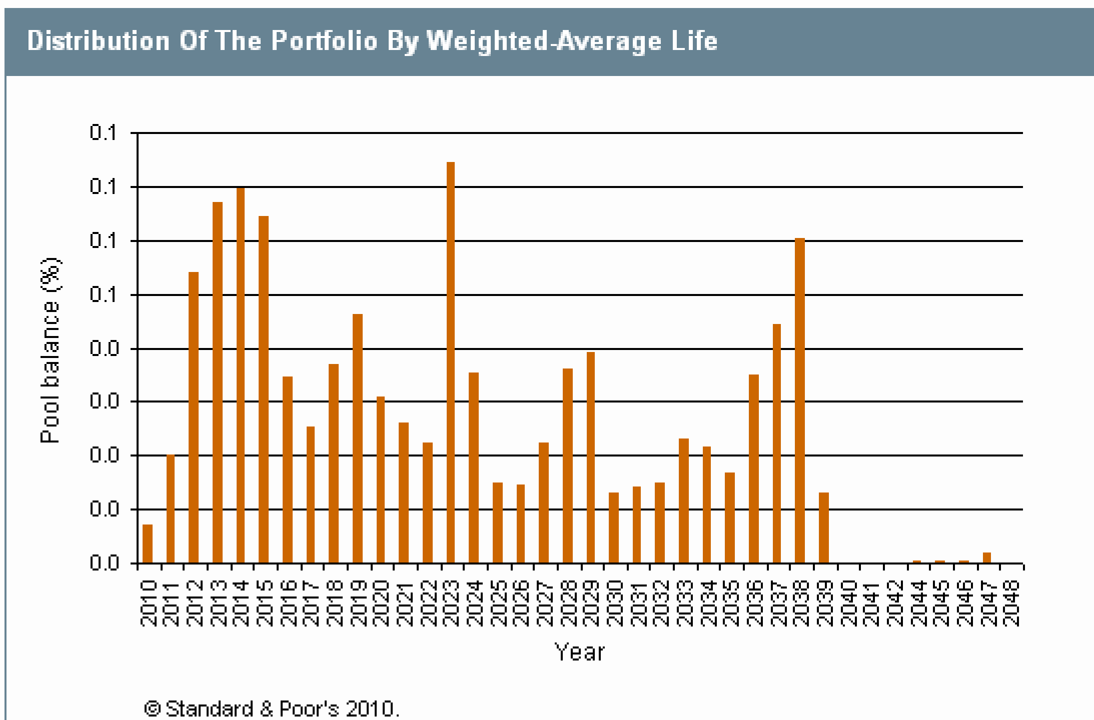
With a weighted-average seasoning of 30.77 months, about 60.00% of the loans were originated since 2008 (see chart 3).

Chart 3



The weighted-average remaining life of the pool is 162 months, with 43.08% of the pool maturing within 10 years (see chart 4).

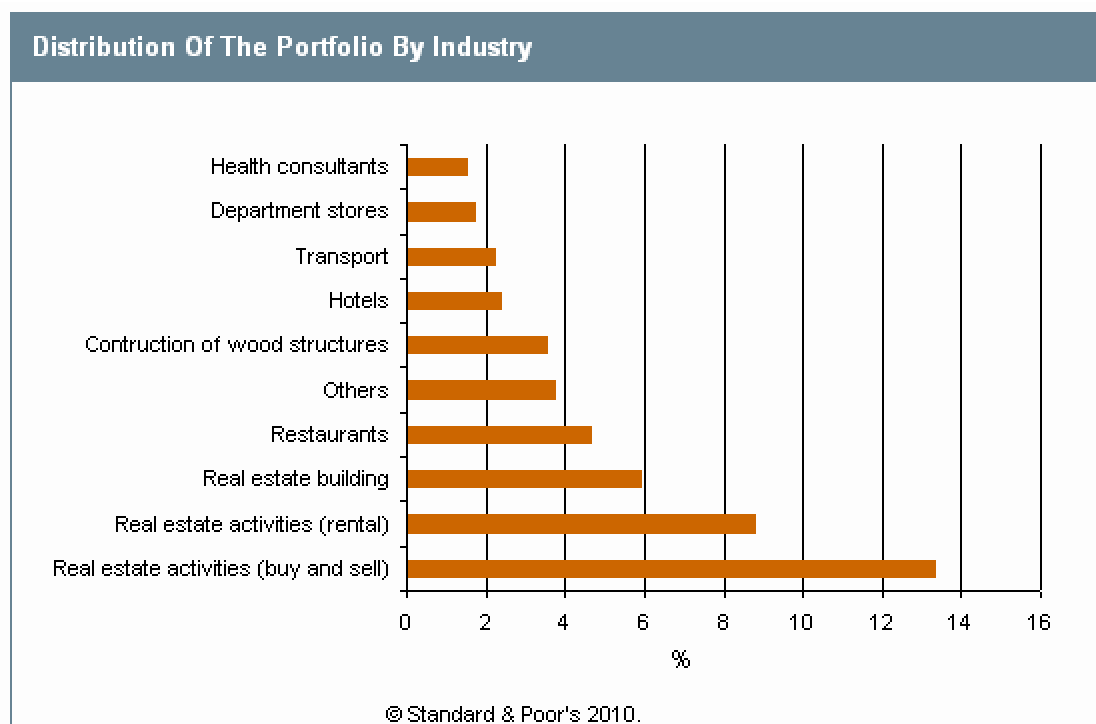
Chart 4



The pool is 100% in Catalonia, and at closing the pool had no loans with arrears of more than one month. As of June 30, 90+ day arrears and defaulted assets represented 0.76% and 0.03% of the outstanding collateral pool, respectively.

The largest industry concentration is building and development, which represents 28.16% of the pool (see chart 5).

Chart 5



Of the outstanding amount of the pool, about 70.00% is secured on mortgages over properties and commercial premises in Spain. Table 2 shows the pool breakdown.

Table 2

Pool Breakdown

Type of guarantee	Outstanding balance	% of pool
Mortgage guarantee	641,767,227.84	69.31
Other real guarantees	148,838.53	0.02
Cash deposits	15,955,187.58	1.72
Third party	10,250,160.74	1.11
Other personal guarantees	257,683,207.35	27.83
Certifications and other assets	71,228.66	0.01
Total	925,875,850.70	100.00

Of the pool, 86.45% is indexed to floating rates, and 65.56% of the total outstanding amount of the pool is referenced to one-year EURIBOR (see table 3).

Table 3

Reference Index		
Reference index	**Outstanding balance**	**% of preliminary pool**
Fixed rate	125,473,636.45	13.55
Total fixed rate	125,473,636.45	13.55
One-year EURIBOR	607,048,711.90	65.56
Mercado Hipot. Cajas (IRPH)	166,848,012.76	18.02
Other	26,505,489.59	2.86
Total floating	800,402,214.25	86.45
Total	925,875,850.70	100.00

Credit Analysis

We conducted an analysis of the pool's probabilities of default and loss severities, and of historical data that the trustee provided from previous la Caixa transactions to assess the pool's credit risk. We determined a foreclosure probability and a loss rate at each rating level. The product of these two variables gives an estimate of the required loss protection during the life of the collateral in the absence of additional mitigating factors. In general, a higher rating requires a higher credit enhancement level.

Cumulative default rate

To derive our best estimate base case of future defaults, we used the historical performance data of previous SME securitizations with pools with similar credit characteristics originated by la Caixa. We applied a haircut to the base case to obtain default probability for the different rating levels.

Recoveries

To obtain the base-case recovery rate, we estimated an average recovery rate from previous la Caixa SME transactions with similar concentrations of secured and unsecured loans, and we also took into account the loss severities obtained by the originator. We then applied a haircut to obtain the loss severity for different scenarios.

Cash Flow Analysis

Prepayments

Prepayments correspond to the early exercise of the purchase option by loans and credit receivables. We stressed the annual prepayment rate up to 24.0% and down to 0.5%.

Yield

We modeled the spread guaranteed by the asset swap.

Commingling

We did not model any commingling stress in the structure. We stressed one month's loss of interest and principal collection.

Timing of defaults

We assume defaults occur periodically in amounts calculated as a percentage of the default rate. Tables 4 and 5 show the timing of defaults.

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Table 4

Timing Of Defaults

Percentage of DR (equal)	Months when applied	Percentage of DR (slow) (%)	Months when applied	Percentage of DR (fast) (%)	Months when applied
1/3	1	5	4	30	1
1/3	8	5	8	30	7
1/3	16	10	12	20	13
—	—	20	16	10	19
—	—	30	20	5	25
—	—	30	24	5	31

DR—Default rate.

Table 5

Timing Of Defaults

Percentage of DR (standard back) (%)	Months when applied	Percentage of DR (standard front) (%)	Months when applied	Percentage of DR (standard five year even) (%)	Months when applied	Percentage of DR (standard four year even) (%)	Months when applied
15	4	40	4	20	4	25	4
30	8	20	8	20	8	25	8
30	16	20	16	20	16	25	16
15	24	10	24	20	24	25	24
10	32	10	32	20	32	—	—

DR—Default rate.

Timing of recoveries

For this transaction, we assumed that the issuer would regain 50% of recoveries 21 months after a payment default and the other 50% of recoveries 42 months after a payment default. The value of recoveries at any rating level is 100% minus the loss severity assumed at each rating level.

Interest and prepayments rate

We modeled three interest rate scenarios—up, down, and flat—using both high and low prepayment assumptions. We modeled interest rates from 0% and from 1%, rising by 2% a month to a cap of 12% ("up" scenario) and a floor of 0% ("down" scenario).

Scenario Analysis

As part of a broad series of measures that we announced in 2008 to enhance our analytics and dissemination of information, we have committed to provide a "what-if" scenario analysis in rating reports to explain key rating assumptions and the potential effect of positive or negative events on the ratings.

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses;
- Results of the effects of the stresses on ratings; and
- Results of the effects of the stresses on our cash flow analysis.

Methodology

When rating European asset-backed securities (ABS) transactions, we have developed a scenario analysis and sensitivity-testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis, we focused on the three fundamental drivers of collateral performance, namely:

- Gross default rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the proposed stress scenarios reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis, we have included two stress scenarios to demonstrate the rating transition of a bond (see table 6).

Table 6

Scenario Stresses

Rating variable	Scenario 1 (relative stress to base case)	Scenario 2 (relative stress to base case)
Gross default rate (%)	30.0	50.0
Recovery rate (%)	(30.0)	(50.0)
Constant prepayment rate (%)	(20.0)	(33.3)

It is worth noting that our base case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated bonds in each transaction will differ depending on these factors, in addition to structural features of the transaction, including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage, we stress our expected base-case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume that the stresses that we apply occur at closing, and apply gross losses based on our expectation of a cumulative default curve for the portfolio.

In the second stage, we apply our usual rating methodology, including revising our base-case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment. In the final stage of the analysis, we re-rate the transaction at the one-year horizon, after revising our base-case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes given the applied stresses and the value and timing of any forecasted principal and

interest shortfalls under the most stressful scenario.

Scenario stress and sensitivity analysis

When applying scenario stresses in the manner described above, the results of this modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modeling. The implied base-case stresses and scenario stress results are shown in tables 7 to 12.

Table 7

Scenario Stresses (Class AS and AG, 'AA+ (sf)' Rating)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	33.49	43.54	50.24
Loss severity (%)	70.00	79.00	85.00
Constant prepayment rate (%)	6.00	4.80	4.00

Table 8

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	AS and AG	AA+ (sf)	AA- (sf)
Scenario 2	AS and AG	AA+ (sf)	A (sf)

Table 9

Scenario Stresses (Class B, 'A (sf)' Rating)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	20.93	27.20	31.39
Loss severity (%)	62.50	73.75	81.25
Constant prepayment rate (%)	6.00	4.80	4.00

Table 10

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	B	A (sf)	BBB (sf)
Scenario 2	B	A (sf)	BBB (sf)

Table 11

Scenario Stresses (Class C, 'BBB+ (sf)' rating)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	20.93	27.20	31.39
Loss severity (%)	60.50	72.35	80.25
Constant prepayment rate (%)	6.00	4.80	4.00

Table 12

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	C	BBB+ (sf)	BBB (sf)
Scenario 2	C	BBB+ (sf)	BB (sf)

Where interest or principal shortfalls occur under the most senior notes, the holders of these notes and/or the trustee can call an event of default. This could lead to multiple events, such as the senior fees of the transaction stepping up, the swap terminating (with the issuer needing to make termination payments), and application of the post-enforcement priority of payments. All of these events have an effect on the transaction cash flows.

For the purposes of the analysis above, we make a simplified assumption that the trustee will not call an event of default.

Surveillance

We have seen the performance of Spanish securitizations backed by SME loans that we rate continue to decline in line with the ongoing deterioration in the Spanish economy.

We maintain continual surveillance on the transaction until the notes mature or are otherwise retired. To do this, we analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, assess pool cuts, and make regular contact with the servicer to ensure that minimum servicing standards are sustained and that any material changes in the servicer's operations are communicated and assessed.

Key performance indicators for this transaction include:

- Rating migration of the collateral and default levels;
- Different concentrations of the collateral;
- Collateral prepayment levels;
- The evolution of the ratings on the supporting parties; and
- Increases in credit enhancement for the notes.

Related Criteria And Research

- Ratings Assigned In FONCAIXA FTGENCAT 7, FTA's Spanish Catalonian ABS Of SMEs Transaction, July 26, 2010
- Methodology: Credit Stability Criteria, May 3, 2010
- Methodology: Updated Counterparty Criteria For Derivatives: Eligibility Of 'A-2' Counterparties Removed In 'AAA' transactions, Oct. 22, 2008
- Revised Framework For Applying Counterparty And Supporting Party Criteria, May 8, 2007
- European Legal Criteria for Structured Finance Transactions, Aug. 28, 2008
- Global Interest Rate and Currency Swaps: Calculating the Collateral Required Amount, Feb. 26, 2004
- Standard & Poor's Global Interest Rate and Currency Swap Counterparty Rating Criteria Expanded, Dec. 17, 2003
- Global Cash Flow and Synthetic Criteria, March 21, 2002

- Global CBO/CLO Criteria, June 1, 1999
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- Securitizing Spanish-Originated Loans to Small and Midsize Enterprises, April 7, 2003
- Spanish SME Performance Report: Delinquencies For Spanish SME Asset-Backed Securities Transactions Reach A New High, July 23, 2009
- Spanish SME ABS Collateral Deterioration Focused On Construction Sector And Coastal Regions, Dec. 17, 2009

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

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