



## Rating Action: **Moody's Reviews for Downgrade Multiple ABS and RMBS Ratings**

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Global Credit Research - 13 Mar 2013

### **Reviews reflect impact of sovereign risk on structured finance transactions**

London, 13 March 2013 -- Moody's Investors Service has today placed on review for downgrade the ratings of 60 classes of notes in 41 residential mortgage-backed securities (RMBS) and 7 asset-backed securities (ABS) transactions in Spain, Italy and Ireland due to potentially insufficient credit enhancement. The determination of the applicable credit enhancement that drives today's rating actions reflects the introduction of additional factors in Moody's analysis to better measure the impact of sovereign risk on structured finance transactions (see "Structured Finance Transactions: Assessing the Impact of Sovereign Risk", 11 March 2013). The introduction of the new factors will also affect the outcome of the rating reviews initiated by Moody's in 2012 for ABS and RMBS securities in Ireland, Portugal, Italy and Spain. Insufficient credit enhancement, as compared with country and asset-class specific minimum levels, drove these reviews.

Moody's anticipates that potential downgrades relating to the introduction of the new adjustments will generally be around three notches. Moreover, they will mostly affect mezzanine and junior classes in (1) ABS transactions backed by small and medium-sized enterprises (SMEs) and leases, auto-loans and consumer assets; as well as (2) RMBS transactions, in Ireland, Portugal, Spain and Italy. The rating agency plans to conclude within six months all open rating reviews related to the adjustments. It will announce its conclusions for each transaction or group of transactions on an ongoing basis over this period, starting with Spanish ABS and RMBS and followed by Italian RMBS. These two markets comprise the majority of transactions on review.

The reviews will also consider the increase in counterparty risks resulting from a deteriorated sovereign credit environment where fewer viable counterparties are able to serve as transaction parties. The inability of key transaction parties to perform their roles and difficulty in replacing them increases the risk of payment disruption and performance deterioration.

Please see the detailed list of rating actions in the data table under the following link: [http://www.moodys.com/viewresearchdoc.aspx?docid=PBS\\_SF320241](http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF320241). This table is an integral part of this press release.

### RATINGS RATIONALE

#### -- Downgrade Reviews Reflect Insufficient Credit Enhancement

Today's actions reflect the identification of potentially insufficient credit enhancement for the affected transactions to maintain their ratings, following the introduction of additional factors designed to better reflect the impact of sovereign risk on structured finance transactions. Today's action supplements those that Moody's announced in 2012, for ABS and RMBS securities in Ireland, Portugal, Italy and Spain that did not meet country and asset-class specific minimum credit enhancement levels. The conclusion of Moody's structured finance rating reviews related to sovereign risk will consider the level of credit enhancement effectively required in each case, as well as the protection afforded by structural protection features such as excess spread.

More precisely, all of the ABS securities that Moody's has today placed on review have credit enhancement below the portfolio credit enhancement applicable for their relevant maximum achievable rating. For the RMBS securities that Moody's has today placed on review, the credit enhancement required (1) under the Milan CE and (2) to protect against set-off risks exceeded the available credit enhancement. Where sufficient data was unavailable, Moody's assumed an average set-off exposure of 6.5% of the portfolio for Italian transactions and 2.6% in Ireland. In addition, Moody's applied a stressed set-off exposure for banks rated below Ba3. The conclusion of Moody's rating review for these transactions will incorporate any further information that may become available on detailed set-off exposures in the affected transactions.

#### -- Additional Factors Determine Loss Distribution

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, or "LCC") 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.moody.com](http://www.moody.com) and can be accessed via the following link: [http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS\\_SF319988](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS_SF319988).

#### -- Moody's Updates Methodologies for Affected Transactions

The adjustments made to Moody's analysis for assessing the impact of sovereign risk on structured finance transactions now forms part of the relevant asset class methodologies, which the rating agency updated on 11 March 2013. As part of this update, Moody's published the following additional rating methodology reports:

##### - Incorporating Sovereign Risk to EMEA Auto Loan Methodology

[http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS\\_SF319469](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS_SF319469).

##### - Incorporating Sovereign Risk to Moody's Approach to Rating CDO's of SMEs in Europe SMEs

[http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS\\_SF319471](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS_SF319471).

##### - Incorporating Sovereign Risk to Multi-Pool Financial Lease-Backed Transactions in Italy

[http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS\\_SF319472](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS_SF319472).

These methodology reports are designed to be read in conjunction with the following principal methodology reports for the relevant asset classes:

##### - Moody's Approach to Rating European Auto ABS, 19 November 2002

[http://www.moody.com/research/Moodys-Approach-to-Rating-European-Auto-ABS--PBS\\_SF17579](http://www.moody.com/research/Moodys-Approach-to-Rating-European-Auto-ABS--PBS_SF17579).

##### - Moody's Approach to Rating CDOs of SMEs in Europe, 1 February 2007

[http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS\\_SF90480](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS_SF90480).

##### - Moody's Approach to Rating Multi-Pool Financial Lease-Backed Transactions in Italy, 12 June 2006

[http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS\\_SF76255](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS_SF76255).

To reflect the new adjustments, Moody's has updated and republished the following methodology reports:

##### - Moody's Approach to Rating Consumer Loan ABS Transactions

[http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS\\_SF184265](http://www.moody.com/researchdocumentcontentpage.aspx?docid=PBS_SF184265).

##### - Moody's Approach to Rating RMBS Using the MILAN Framework

[http://www.moody.com/research/Moodys-Approach-to-Rating-RMBS-Using-the-MILAN-Framework--PBS\\_SF274702](http://www.moody.com/research/Moodys-Approach-to-Rating-RMBS-Using-the-MILAN-Framework--PBS_SF274702).

Please see the data table under the following link to see the applicable principal methodology report for each affected security: [http://www.moody.com/viewresearchdoc.aspx?docid=PBS\\_SF320241](http://www.moody.com/viewresearchdoc.aspx?docid=PBS_SF320241).

#### --Rating Sensitivity Highlighted

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. Moody's has revised the portfolio credit enhancement associated with the maximum achievable rating for the transactions it today placed on review. Any further change to this assumption would have a rating impact. As a comparison of available credit enhancement against the revised targets drove today's action, the rating agency did not run any cash flow analysis nor did it run specific stress scenarios for the purpose of placing the subject rating on review.

## REGULATORY DISCLOSURES

Moody's did not receive or take into account a 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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