MOODY'S
INVESTORS SERVICE

Rating Action: Moody's has assigned definitive ratings to three classes of Spanish RMBS notes issued by FTA RMBS Santander 3

Global Credit Research - 17 Nov 2014

Approximately EUR 7.5 billion of rated debt securities affected

Madrid, November 17, 2014 -- Moody's Investors Service has today assigned definitive ratings to three classes of notes issued by Fondo de Titulización de Activos RMBS Santander 3:

....EUR5395M Serie A Notes, Definitive Rating Assigned A3 (sf)

....EUR1105M Serie B Notes, Definitive Rating Assigned B2 (sf)

....EUR975M Serie C Notes, Definitive Rating Assigned Ca (sf)

The transaction is a securitisation of Spanish prime mortgage loans originated by Banco Santander S.A. (Spain) (Baa1 / P-2) and Banco Español de Credito S.A (Banesto) to obligors located in Spain. The portfolio consists of high Loan To Value ("HLTV") mortgage loans secured by residential properties including a high percentage of renegotiated loans (20%).

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 ultimate payment of principal for the Serie A and B notes and the ultimate payment of principal for the Serie C 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.

RATINGS RATIONALE

FTA RMBS Santander 3 is a securitization of loans granted by Banco Santander S.A. (Spain) (Banco Santander, Baa1 / P-2) to Spanish individuals. Banco Santander is acting as Servicer of the loans while Santander de Titulización S.G.F.T., S.A. is the Management Company ("Gestora").

The ratings of the notes take into account the credit quality of the underlying mortgage loan pool, from which Moody's determined the MILAN Credit Enhancement and the portfolio expected loss.

The key drivers for the portfolio expected loss of 13% are (i) benchmarking with comparable transactions in the Spanish market via analysis of book data provided by the seller, (ii) the very high proportion of renegotiated loans in the pool (20%), and (iii) Moody's outlook on Spanish RMBS in combination with historic recovery data of foreclosures received from the seller.

The key drivers for the 33% MILAN Credit Enhancement number, which is higher than other Spanish HLTV RMBS transactions, are (i) renegotiated loans represent 20.3% of the portfolio and 5% of the pool corresponds to loans in principal grace periods; (ii) the proportion of HLTV loans in the pool (21.1% with current LTV > 80% based on original valuations) with Current Weighted Average LTV of 102.1% (based on revaluations as of 2013); (iii) approximately 13.4% of the portfolio correspond to self employed debtors; (iv) 45% of the loans have been in arrears less than 90 days at least once since the loans was granted (v) weighted average seasoning of 6.5 years and (vi) the geographical concentration in Madrid (19.8%) and Andalusia (24.4%).

According to Moody's, the deal has the following credit strengths: (i) sequential amortization of the notes (ii) a reserve fund fully funded upfront equal to 15% of the Serie A and B notes to cover potential shortfall in interest and principal. The reserve fund may amortise if certain conditions are met.

The portfolio mainly contains floating-rate loans linked to 12-month EURIBOR, and most of them reset annually; whereas the notes are linked to three-month EURIBOR and reset quarterly. There is no interest rate swap in place to cover this interest rate risk. Moody's takes into account the potential interest rate exposure as part of its cash flow analysis when determining the ratings of the notes.

Stress Scenarios:

Moody's Parameter Sensitivities provide a quantitative/model-indicated calculation of the number of rating notches that a Moody's structured finance security may vary if certain input parameters used in the initial rating process differed.

The analysis assumes that the deal has not aged and is not intended to measure how the rating of the security might migrate over time, but rather how the initial rating of the security might have differed if key rating input parameters were varied. Parameter Sensitivities for the typical EMEA RMBS transaction are calculated by stressing key variable inputs in Moody's primary rating model.

At the time the rating was assigned, the model output indicated that the Serie A notes would have achieved an A3 even if the expected loss was as high as 15% and the MILAN CE was 33% and all other factors were constant.

The principal methodology used in this rating was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in March 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the rating:

Factors that may lead to an upgrade of the rating include a significantly better than expected performance of the pool, together with an increase in credit enhancement for the notes.

Factors that may cause a downgrade of the rating include significantly different loss assumptions compared with our expectations at close due to either a change in economic conditions from our central scenario forecast or idiosyncratic performance factors would lead to rating actions. Finally, a change in Spain's sovereign risk may also result in subsequent upgrade or downgrade of the notes.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

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 in this transaction.

Further information on the representations and warranties and enforcement mechanisms available to investors are available on http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF386451.

The analysis includes an assessment of collateral characteristics and performance to determine the expected collateral loss or a range of expected collateral losses or cash flows to the rated instruments. As a second step, Moody's estimates expected collateral losses or cash flows using a quantitative tool that takes into account credit enhancement, loss allocation and other structural features, to derive the expected loss for each rated instrument.

Moody's describes the stress scenarios it has considered for this rating action in the section "Ratings Rationale" of this press release.

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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