European - Structured Finance

RMBS- Belgium

Report

17 January, 2012

DBRS

Insight beyond the rating.

RMBS

Close Date
19 December, 2011

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Recent Actions

20 December 2011

DBRS Assigns Provisional Ratings to Penates Funding N.V./S.A.-Compartment Penates-4 (Penates-4) Notes

Table of Contents

Penates Funding N.V./S.A. -Compartment Penates-4

Ratings

Debt	Par Amount	Credit Enhancement	Investor Coupon (p.a.)	CUSIP/ISIN	Step-up Provision	DBRS Rating	DBRS Rating Action
Class A	€8,077, 500,000	10.25%	3mo-Euribor + 1.20%	BE0002408806	3mo-Euribor + 2.40%	AAA (sf)	Final
Class B	€472,500,000	5.00%	3mo-Euribor + 1.85%	BE6228345722	N/A	A (sf)	Final
Class C	€450,000,000	0.00%	3mo-Euribor + 2.30%	BE6228366934	N/A	NR	N/A
Class D	€117,000,000	0.00%	3mo-Euribor + 2.50%	BE6228367940	N/A	NR	N/A
Reserve Fund	€117,000,000	N/A					

Notes:
1. Credit enhancement is as of 19 December, 2011.
2. Class A credit enhancement consists of Class B notes (5.25%) and Class C notes (5%).

Transaction Summary

Penates Funding N.V./S.A.- Compartment Penates-4 (Penates-4, issuer) is a securitisation of a portfolio of first ranking Belgian residential mortgages funded by the issuance of three classes of mortgage-backed notes. The mortgages were originated by Dexia Bank N.V./S.A. (Dexia Bank) and are proposed to be serviced by them. This is the fourth series of issuance of pass-through mortgage-backed notes by Dexia Bank. DBRS Ratings Limited (DBRS) has assigned final rating of AAA (sf) to the Class A notes and a final rating of A (sf) to Class B notes. Class C and Class D notes are not rated by DBRS.

Notable Features

- Class A, B and C are the collateralised notes (Collateralised notes). The proceeds of Class D notes are used for funding the reserve fund which is 1.3% of the Collateralised notes. Credit enhancement to Class A notes is proposed to be provided by the subordinated Class B (5.25%) and Class C (5%) notes. The reserve fund provides liquidity to meet interest shortfalls on Class A notes initially and once Class A notes are fully redeemed, the reserve fund is used to meet interest shortfalls on Class B notes.
- The basis risk of the issuer on Class B notes is hedged by a basis swap (Junior swap) provided by Dexia Bank (A(high)/R-1(middle)/Under Review-Negative). In the event of downgrade of Dexia Bank below DBRS first rating threshold of 'A' for swap counterparties, no collateral will be posted, nor will there be any replacement or guarantor with suitable ratings to cure the counterparty risk for the issuer. DBRS thus views the risk of payment on the Class B notes linked to the credit risk of Dexia Bank. In the event of a rating downgrade of Dexia Bank below 'A' and, in cases when the rating of Dexia Bank changes, DBRS will review the ratings for Class B notes on account of the credit linkage to Dexia Bank.

Strengths

- **Basis risk hedged:** 71.62% of the loans in the mortgage portfolio pay a fixed rate of interest (for entire term of the loan) and the rest pay a variable rate of interest linked to OLO rates (for 2 years, 3 years and 5 years maturity) or linked to 12 months treasury bills' rates. In comparison the interest paid on the notes is linked to 3 months Euribor. The basis risk on account of this mismatch is proposed to be hedged by two separate swaps – a Senior swap and a Junior swap. The Senior swap hedges the basis risk on the balance of Class A notes outstanding and the Junior swap on the outstanding balance of Class B and Class C notes.

- **Liquidity for the notes:** The Penates-4 structure proposes a reserve fund 1.30% of the Collateralised notes at close, which will support the interest shortfalls on Class A notes. After the Class A notes are redeemed the reserve fund will move down in the revenue waterfall to support interest shortfalls on Class B notes. The structure also allows principal receipts from the mortgage portfolio to be used for any interest shortfalls on Class A notes. The issuer retains an amount equal to the senior fees plus an excess margin of 0.45% from the interest receipts from the mortgage portfolio before making payments under the swaps. All these features provide liquidity to the rated notes.
- **Principal Deficiency Ledgers (PDL) to record Defaulted balances:** The PDLs for each class of Collateralised notes will record the balances of loans under default which will include loans in arrears for 90 days or more. This structural feature is considered positive as it enables the trapping of excess spread during the recovery period of 24 months for defaulted loans. In comparison most of the RMBS issuances in Belgium record losses in PDLs at the end of the recovery period during which period the excess spread in the structure is lost to the seller.

Challenges and Mitigating Factors

- **Commingling risk mitigated:** The monthly repayments under the loans in the mortgage portfolio will be collected in an account in the name of Dexia Bank.
  Mitigant: In order to mitigate the potential risk of commingling of the funds in the collection account with the insolvency estate of Dexia Bank,
    - the funds in the collection account will be transferred to the transaction account on a daily basis.
    - In the event the short-term rating of Dexia Bank falls below R-1 (low), a risk mitigation deposit of one month's interest and principal collections from the mortgage portfolio will be credited to an issuer account with a bank that meets DBRS criteria. This proposed deposit is expected to indemnify the issuer against any losses due to potential commingling risk and will be provided by Dexia Bank.

  The above arrangement also mitigates the potential liquidity risk on account of commingling for the issuer.
- **Set-off risk mitigated:** The borrowers under the loans in the mortgage portfolio currently have deposits with Dexia Bank. The aggregate size of such deposits, above the protected deposit of EUR100,000, which can potentially be set-off is 2.43% (of mortgage portfolio balance).
  Mitigant: Under Belgian law, DBRS understands that the maximum amount which can potentially be set-off is between the amount due and payable by the borrower and the amount of deposit held by the borrower with the seller. The potential set-off amount is thus restricted to the monthly instalment to be paid by the borrower under the mortgage loan. In order to mitigate the deposit-set-off risk, in the event of a downgrade of Dexia Bank, an amount equal to 50% of the deposit of each borrower, in excess of the protected deposit (under the deposit guarantee scheme) or the loan balance, whichever is lower, will be made available to the issuer by Dexia Bank. This cash deposit with the issuer would mitigate liquidity and potential loss as a result of deposit-set-off risk.
- **Mortgage Mandate:** 29.62% of the loans in the mortgage portfolio have a registered mortgage which does not cover the entire current balance of the loan outstanding. For these loans Dexia Bank takes a mortgage mandate which gives it a right to convert the mandate into a registered mortgage and enforce the security if required. The legal opinions for Penates-4, state that such mortgage mandates cannot be enforced by the issuer, where they exist for loans in the mortgage portfolio. The weighted average current loan to property value ratio (WACLTV) for the mortgage portfolio is 68.09%. In comparison the weighted average current loan to mortgage ratio (WACLTM) for the mortgage portfolio is 112%.

Mitigant: DBRS has not given credit to a mortgage mandate where it exists for a loan and only the registered mortgage has been considered for calculating recoveries. Additionally, DBRS also applied its market value decline (MVD) assumptions on the market value of a property. The lower of the post-MVD property value and the registered mortgage has been applied as recovery from sale of property.

- **Staff Loans:** 5.94% of the loans in the mortgage portfolio have been provided to borrowers who are employed by Dexia Bank. Dexia Bank employees receive a discount on the interest rate over the market rate. These borrowers would have to pay the higher market interest rates if they leave the employment of Dexia Bank and are thus exposed to a potential payment shock. Moreover, in the event of redundancies carried out by Dexia Bank in a stressed economic scenario, delinquencies and defaults may spike on account of these borrowers losing their employment with Dexia Bank. The issuer is thus exposed to a concentration risk on account of these borrowers employed with Dexia Bank.
Mitigant: DBRS has applied a default probability (PD) adjustment of 20% to the borrowers in the mortgage portfolio, employed by Dexia Bank, to account for the potential payment shock and concentration risk. This adjustment to staff loans is not part of the current DBRS RMBS criteria and has been applied specifically to the Penates-4 mortgage portfolio.

- **Pari-passu loans:** 22.18% of the loans in the mortgage portfolio are such where the borrower has been provided other loans (pari-passu loans) which share a pari-passu charge on the property. These pari-passu loans are not securitised and are not part of the mortgage portfolio. However, these loans are recoverable from sale of the property (which is part of the Penates-4 mortgage portfolio). The recoveries on a loan in Penates-4 mortgage portfolio, from sale of property, will be lower to the extent of such pari-passu loans.
Mitigant: DBRS has considered the balance of such pari-passu loans, where applicable, to calculate any loss on the loans in the mortgage portfolio.

- **Valuations of properties:** 81.63% of the loans in the mortgage portfolio do not have a full surveyor valuation. These valuations are based on the purchase price agreed per the sale agreement. DBRS views these valuations as less robust than cases where a full surveyor valuation has been carried out to validate the purchase price.
Mitigant: DBRS has applied a 5% haircut to loans with current-loan-to-value (CLTV) above 90%, where full surveyor valuations have not been carried out, in order to mitigate the risk of an overstated valuation in the property sale agreement.

- **High LTV loans:** 5% of the loans in the mortgage portfolio have CLTV above 100%. The current balances include the balance outstanding of pari-passu loans, where applicable.
Mitigant: All such applications are assessed centrally and branches of Dexia Bank do not have the mandates to approve such applications. Per DBRS Belgium RMBS criteria, PD penalties are applied to loans with high LTVs which accounts for the riskier nature of such loans in negative equity status at origination.

Rating Rationale

The DBRS Ratings Limited ("DBRS") final rating of the Class A notes addresses the timely payment of interest and full payment of principal by the legal final maturity date in accordance with the terms and conditions of the notes. The final rating for Class B notes addresses the ultimate payment of interest and principal by the legal final maturity in accordance with the terms and conditions of the notes. DBRS based the rating primarily on:

- The transaction's capital structure and the form and sufficiency of available credit enhancement. Relevant credit enhancement is in the form of subordination and excess spread, if available. The Class A is the most senior class of notes and is supported by subordinated Class B notes (5.25%)

and Class C notes (5%). Any shortfalls in payment of senior fees, guaranteed excess margin (0.45%) and interest on Class A notes are supported by an amortising reserve fund (1.3%).

- The basis risk of the issuer on Class B notes is hedged by a basis swap (Junior swap) provided by Dexia Bank (A(high)/R-1(middle)/Under Review-Negative). In the event of downgrade of Dexia Bank below DBRS minimum rating of A for swap counterparties, no collateral will be posted, nor will there be any replacement or guarantor with suitable ratings to cure the counterparty risk for the issuer. DBRS thus views the risk of payment on the Class B notes linked to the credit risk of Dexia Bank.

- The PDLs for each class of notes will record the balances of loans under default which will include loans in arrears for 90 days or more. This structural feature is considered positive as it enables the trapping of excess spread during the recovery period of 24 months for defaulted loans.

- 71.62% of the loans in the mortgage portfolio pay a fixed rate of interest (for entire term of the loan) and the rest pay a variable rate of interest linked to OLO rates (for 2 years, 3 years and 5 years maturity) or linked to 12 months treasury bills' rates. In comparison the interest paid on the notes is linked to 3 month Euribor. The basis risk on account of this mismatch is proposed to be hedged by two separate swaps – a Senior swap and a Junior swap. The Senior swap hedges the basis risk on the balance of Class A notes outstanding and the Junior swap on the outstanding balance of Class B and Class C notes.

- The ability of the transaction to withstand stressed cash flow assumptions and repay investors according to the terms of the transaction documents.

- The credit quality of the mortgages backing the notes and ability of the Servicer to perform collection activities on the mortgages.

- The legal structure and presence of legal opinions addressing the assignment of the assets to the issuer and the consistency with the DBRS Legal Criteria for European Structured Finance Transactions.

Sovereign Assessment

DBRS Inc. (DBRS) has assigned ratings of AA (high) to the Kingdom of Belgium's long-term foreign and local currency debt. The trend on both ratings is Negative. The ratings balance Belgium's strong private savings rate, positive net international investment position, high level of productivity and healthy household balance sheets with high public debt and large contingent liabilities in support of the financial sector. The trends are Negative, as increased uncertainty in financial markets could potentially result in funding pressures for the sovereign given its comparatively high public debt-to-GDP ratio and significant contingent liabilities.

The recession of 2009 brought an end to the successful fiscal consolidation that reduced public debt from 134% of GDP in 1993 to 84% in 2007. Public debt worsened less in Belgium than in other Euro Area economies, but nonetheless remains one of the highest in Europe, at 96.2% of GDP in 2010, well above the 60% Maastricht ceiling. Support for the financial sector is responsible for an increase in government debt of 5.9% of GDP and a rise in public contingent liabilities of 15.8% of GDP as of the end of 2010. The dismantling of Dexia has led to the continuation of the support commitment, with a new public guarantee program of up to EUR 54.4 billion, or 15% of GDP for Dexia SA.

Despite the significant challenges posed by high public debt, fiscal adjustment has been on track. With the strength of the recovery, the government exceeded its fiscal deficit target for 2010 and will likely meet this year's target of 3.6% of GDP. However, to reach the 2.8% of GDP target in 2012, a significant effort will likely be required, particularly in light of the reduction in growth projections.

Belgium has been a substantial provider of savings to the rest of the world, driven by a high national savings rate, which averaged 25% of GDP in the period 1999-2010. This has supported a high investment rate domestically and the acquisition of foreign assets, delivering a positive net international investment position of 78% of GDP in 2010. This strong external position is accompanied by a positive income balance, and shields the country from the effects of a disruption in external finance. Furthermore, with moderate household debt at 55% of GDP in 2010, there has been limited deleveraging, and loan growth appears supportive of the recovery.

As a relatively small country, Belgium has a very open economy to trade and direct investment, with high labour productivity. Exports of goods and services accounted for 78% of GDP in 2010, while Belgian foreign direct investment (FDI) stood at 63% of GDP and inflows of FDI reached 145% of GDP in 2009. Its output per hour worked is high and estimated to be at a similar level to that of The Netherlands and the United States of America.

Differences between the Flemish and Walloon regions, have led to demands for political reform and greater regional autonomy, particularly from the wealthier region of Flanders. In spite of the political challenge posed by these differences, there has been significant willingness to reduce public debt in the past, with persistent large primary fiscal surpluses. With the heightened uncertainty in financial markets and lower growth expected in 2012, the implementation of a credible fiscal plan to meet the 2011-2014 Stability Programme fiscal targets and ensure debt reduction will be key to supporting the ratings. Stress on the public sector balance sheet from the support of the financial system, especially if these contingent liabilities were to be realised, or a significant deterioration in sovereign funding conditions, could place downward pressure on the ratings.

Sector Analysis

The Belgian market tends to be a long term fixed rate market with the bulk of lending being offered for owner occupation, rather than for investment/rental purposes. Although lending to self-certified borrowing is not unheard of, the vast majority of lending is to income-verified employed borrowers. Likewise, lending to self-employed borrowers tends to be done on a conservative basis with income and affordability typically needing to be supported by documentary or other verifiable evidence. Overall origination volumes in Belgium are dominated by four large banks (KBC Bank, ING, Dexia and BNP Paribas Fortis).

According to data from 'Statistics Belgium', house prices showed positive nominal growth throughout the past decade except for a brief period in 2009. Since 2009 house prices have reversed minor losses from this period and prices movements are now positive. Whilst the factors that have influenced the wider European mortgage market (low interest rates and increased credit availability) have impacted the Belgian market, the market is also affected by a number of idiosyncratic factors.

Firstly, according to data from obtained by DBRS, Belgium has owner-occupation levels that are higher than neighbouring European countries at 71%, compared to 55% for France and 53% for the Netherlands. This is partly as a result of the house price growth over the last decade outstripping the commensurate growth in rental return. It is also influenced by the fact that Belgium has very high property purchase transaction costs (both buying and selling property) relative to other European jurisdictions. Both these factors combined have meant that investment in property for speculative purposes is relatively unattractive as the rental yield is low compared to other European jurisdictions and day one cash outlay is high.

Secondly, the tax amnesty (Declaration Liberatoire Unique – DLU), introduced in December 2003, led to money that had been held outside Belgium being repatriated. Consequently, an element of this repatriated capital was spent on real estate assets, including residential property. This caused a spike in house prices during the period through to 2005. However, whilst house prices in Belgium showed significant appreciation in the past decade, the market, generally, is categorised by lower volatility than is seen in certain other European jurisdictions.

MORTGAGE PRODUCTS AND CHARACTERISTICS

In Belgium fixed rate mortgages represent the majority of the market and the majority of the loans have a fixed rate of interest for 10 years or more or for the entire term of the loan. Variable rate loans also feature and differ from the completely variable rate loans found in other jurisdictions in that their variability is restricted by caps and floors in the interest rate. Rate caps offer borrowers some protection from spikes in interest rates by limiting the potential mortgage payments due by borrowers regardless of prevailing interest rates.

The mechanics of the Belgian mortgage market means that idiosyncratic mortgage products have evolved.

ALL MONIES MORTGAGES

Under the terms of this product, the residential property acts as security for a range of different borrowings of the borrower, which can include borrowings made for personal consumption or debt consolidation as well as for purchasing a property for residential purposes. The ranking of rights to the security prior to securitisation is equal, and therefore the loan for residential purposes ranks pro-rata with all other loans secured on that property pursuant to the all-monies mortgage. However, it is typical that, under Belgian law, once a loan is securitised, all loans provided to the borrower after closing of the securitisation transaction, rank junior to a securitised loan.

MORTGAGE MANDATES

As mentioned earlier the transaction costs of buying residential property in Belgium are high and as a consequence of this the Belgian market has developed certain structural features in an attempt to mitigate the overall cost of residential property transactions. Two types of security are possible:

- A registered mortgage
- A notary mandate

As stamp duty is only payable on the registered mortgage, the use of a mortgage mandate lowers the overall cost to the borrower. The notary mandate is an agreement between the borrower or a party closely linked to the borrower that commits the borrower not to take out any further liens on the property. In the event of default the mandate can be converted into a mortgage and the security would be perfected.

A further complexity of the mortgage mandate is that following securitisation it is possible that the mandate cannot be legally converted into a mortgage by an issuer, therefore leaving the amounts that are covered by the mortgage mandate as unsecured borrowings. In absence of legal comfort that mortgage mandates constitute effective security DBRS treats them as unsecured loans in its loss analysis.

SET-OFF RISK

Deposit Set-off

Under Belgian law, debts which are due and payable between a borrower and a lender can be set-off. Belgian law allows for set-off by the borrower until the date the borrower is notified of the assignment.

Belgium has a deposit guarantee scheme which guarantees a deposit up to EUR100,000 per depositor per bank. In the event of insolvency of a bank, a borrower would still have the right of set-off for any amounts due and payable by the bank over and above the deposit guarantee amount of EUR100,000.

In Belgium set-off by a borrower is also possible post insolvency of a bank if due and payable debts are judged to be closely linked. Please refer to the Belgian addendum to the DBRS Legal Criteria for European Structured Finance Transactions.

Transaction Parties and Relevant Dates

Transaction Parties

Type	Name	Rating
Issuer	Penates Funding N.V./S.A.	N/A
Originator/Seller	Dexia Bank Belgium N.V.-S.A.	A(high)/R-1(middle)/Under Review-Negative
Servicer	Dexia Bank Belgium N.V.-S.A.	A(high)/R-1(middle)/Under Review-Negative
Back-up Servicer	None	N/A
Collections Account	Dexia Bank Belgium N.V.-S.A.	A(high)/R-1(middle)/Under Review-Negative
Transaction/Issuer Account Bank	Dexia Bank Belgium N.V.-S.A.	A(high)/R-1(middle)/Under Review-Negative
Reserve Account Bank	Dexia Bank Belgium N.V.-S.A.	A(high)/R-1(middle)/Under Review-Negative
Commingling/Set-off Deposit	Dexia Bank Belgium N.V.-S.A.	A(high)/R-1(middle)/Under Review-Negative
Swap Counterparty	Dexia Bank Belgium N.V.-S.A.	A(high)/R-1(middle)/Under Review-Negative
GIC Provider	Dexia Bank Belgium N.V.-S.A.	A(high)/R-1(middle)/Under Review-Negative
Servicer	Dexia Bank Belgium N.V.-S.A.	A(high)/R-1(middle)/Under Review-Negative
Security Agent/Trustee	Stichting Security Agent Penates	N/A
Paying/Domiciliary Agent	Dexia Bank Belgium N.V.-S.A.	A(high)/R-1(middle)/Under Review-Negative
Calculation Agent	Dexia Bank Belgium N.V.-S.A.	A(high)/R-1(middle)/Under Review-Negative
Manager and Arranger	Dexia Bank Belgium NV-SA	A(high)/R-1(middle)/Under Review-Negative

Relevant Dates

Type	Date
Issue Date	19 December 2011
First Interest Payment Date	25 May 2012
Payment Frequency	Quarterly
Call Date	25 November 2012
Legal Final Maturity Date	25 November 2045

Origination and Servicing

The Belgian mortgage market is regulated by the Mortgage Credit Act (1992) which allows loans to be granted to Belgian residents for the acquisition, building and/or refurbishment/renovation of an existing property. The Belgian regulator, FSMA, must approve all mortgage loan characteristics and interest rates and this level of oversight has resulted in a fairly standardised lending environment with consistency among all the major lenders in the product offerings. The mortgage act also allows for additional guarantees to be attached to a mortgage loan including personal guarantors, assignment of salary, pledges (securities, cash, insurance), bank guarantee as well as life and hazard insurances.

Crefius' mortgage products offer resettable and fixed interest rate terms and as of Feb 2005 all floating rate loans have the option of converting to a fixed rate so long as the request is made on an interest rate reset date and all other loan terms remain unchanged. Standard monthly repayment schedules also apply including constant, digressive (principal constant / interest component varies) and progressive (payment

increase and recalculated monthly). The 'progressive' plan is somewhat unique within the Belgian market and is only available with a fixed rate loan. The progressive rate is set at 2% per loan with maturity <= 25 years and 1.5% for loan maturity > 25 years. The lender also offers bullet (balloon) and bridge loans with the latter having a maximum maturity of 2 years and no prepayment penalties.
Crefius is headquartered in Brussels with two centralised origination and servicing offices in Roeselare (Dutch loans) and Wepion (French loans). Support services such as financial and management reporting, IT, compliance, audit and operational risk management and HR is centralised in Roeselare. Mortgage loan applications are sourced through DBB's branch network with 'home specialists' dedicated to the sales and follow-up of mortgage loans and linked insurance products. Just over half of all loans (56%) are granted automatically at the branch level through the use of a proprietary credit scoring model. Crefius is keen to see the automatic approval rate increase to 65%.

All other applications which do not meet standard loan criteria as defined by Crefius/DBB is approved centrally within the 'decision centre' following a manual review by an experienced credit analyst. All other activities regarding preparation of documents including the notary deed and quality control of loans approved via the branch are centralised in Roeselare or Wepion. Crefius averages an 89% approval rate which is fairly conservative.

DBRS believes the current and target rate of branch approval suggests a healthy ratio of automated and manual underwriting although there is room to increase the auto approval rate above 65% through (a) increased training and development of 'home specialists' and (b) greater optimization of existing credit scoring models.

Underwriting Criteria

The credit process at Crefius is consistent across the whole branch network and follows guidelines outlined by the head office. All underwriting guidelines and internal credit policy are set by the appropriate business unit and approved by the board with on-going monitoring through CORM (Compliance and Operational Risk Management) as well as DBB's internal audit group.

All applicants are fun through the one of the lender's two risk rating models based on employment status (salaried vs. self-employed) which include some behavioural scoring functionality. New models were introduced in June 2011 and validated using data through June 2010. Regulators requested that models be split according to product type which has been implemented and back testing is performed annually and currently reviewing modifications over last several years. New models had lower loss given defaults (LGD).

Stress testing conducted in June 2011 using severe scenarios such as 20% unemployment rate (currently 7% in Belgium) and 20% population decline. Models produce a risk indicator (RI) for each applicant with A-D defined as 'low risk' (71% of portfolio) and E-L (medium to high risk). Criteria last revised at end-2008 as a result of credit crisis and major change related to high LTV loans.

Crefius collects various documents in order to complete the appropriate 'KYC' checks (identify and residency status including fraud review) and to assess the borrower's creditworthiness. The income verification process includes receipt of 2 pay stubs (or 3 automatic salary deposits into a Dexia account) or copies of last 2 years tax statements or annual accounts for self-employed borrowers. In determining affordability, bonuses, thirteenth month salary payment, child allowance and overtime hours are not included. Only 80% of "verified" rental income from investment properties is included, and all self-employed applicants require central review and approval (Roeselare or Wepion).

In determining DTI and repayment capacity, Crefius employs a fairly conservative approach whereby only single borrowers with at least €800 of excess cash per month and a DTI < 50 can be approved automatically in the branch (DTI <60 if cash >€1,000).

All loan applications are run through the lender's internal scoring (decision) module which includes a link with the national credit bureau (CKP). A negative credit score reported by CKP will result in a review by the branch manager and possibly transfer to Roeselare or Wepion for centralised review and approval or refusal. A credit analyst can directly approve loans <= €300,000 if the following criteria is met; otherwise credit committee approval is required:

Effective repayment capacity: 400 EUR/month

(Internal) Credit Register (NBB): No negative registration; a registration of regularisation and LTV<=80% and DTI <= 50%; internal registration < 250 EUR

Risk Indicator: RI up to (and including) G

LTV: Max 100% unless following criteria are met cumulative: repayment capacity min 800EUR (or 1.250EUR for loan <= 250.000); DTI <= 50%; mandate < 50% for a PAP client; max LTV 125%

2nd charges: LTV <= 80%

Mandates: Floor = 10% with an absolute floor of €10,000; Full mandate only for bridge loans

Specific property or property in bad conditions: Max 80% of the foreclosure value

Age of borrower at final maturity: Max 75 years

Approximately 43% of Crefius staff (166 FTE – 190 total headcount) work in the originations area. The lender receives about 41,000 applications per month which equates to approx. 48 apps p/month per analyst. Given that half of all apps are approved automatically, there appears to be sufficient resources for continues and increased origination activity. Staff average 9 years industry experience including 5 years' with Crefius/DBB, and the company has negligible turnover. Credit analysts have at least 7 months of training (including 1 month course work) before assignment of approval authority.

Valuations:

The valuation process is considered less robust than other Belgian lenders as well as what is considered 'best practice'. Full, external valuations are only completed for approximately 10% of the portfolio and Crefius relies on the purchase price documented in the notary deed when determining LTV. A single photograph is also required. Credit analysts may request a full valuation but this is rarely done. The concerns surrounding the lack of a full valuation are somewhat mitigated by the average LTV of the portfolio (<80%) as well as and the high mortgage registration costs curtailing sellers' desire to inflate prices. However, the concern may become more evident for higher LTV loans particularly if defaults and subsequent foreclosure activity increases significantly.

Summary strengths

- Leading Belgian originator and active RMBS issuers (4th transaction since 2008).
- Sound risk management regime and robust credit scoring models including behavioural scoring functionality albeit 56% approval rate (automated) suggests need for further development of system.
- Centralised credit operations for Dutch (Roeselare) and French (Wepion) loans for cases requiring additional review and approval.

Summary weaknesses

- Recent nationalisation raises questions about future origination activity.
  Mitigant(s): Crefius has continued to originate through the economic crisis and lending through Sept 2011 above prior years. Major Belgian lender with 13% market share, strong franchise and stronger financial performance than other Dexia group banks

- Full, external valuations completed for only 10% of new originations
  Mitigant(s): Original LTV's based on the purchase price documented in the notary deed and a photo of the subject asset is required per Crefius underwriting guidelines. WALTV for the whole portfolio is <80% and historic default rates are < 1%. Given the high costs associated with obtaining a mortgage in Belgium, inflated purchase prices are less concerning compared to other

markets. However, the lack of a full appraisal on higher LTV loans could prove problematic should such loans default.

Servicing

Servicing within Crefius is centralised within Roeselare and Wepion and divided into 2 groups: daily servicing (loan admin) and special servicing. All loan admin activities are handled within the appropriate centralised office including any changes to loan terms and/or modifications including those relating to arrears cases. Hazard insurance is required for all mortgage loans and the majority of loans pay by direct debit.

Branches have no decision making authority as it relates to servicing and are only involved as the first point of contact for borrowers in early stage arrears. This implies that some telephone contact with the borrower may occur soon after a missed payment although it is not standard practice. All letters regarding collections activity are automated and generated through the respective servicing unit. First formal phone contact with borrower is around day 60 with 2nd call after 3rd letter is issued btw 75-85 days. Pre-cancellation letter (litigation) sent once a loan is 90 days delinquent.

All servicing is performed internally at Crefius with limited outsourcing associated exclusively with special servicing (ie: solicitors, notaries). Once a loan is 90 days past due, a pre-cancellation letter is issued informing the borrower of the lender's right to begin foreclosure and to notify the national credit bureau (CKP) of the arrears and pending default. Crefius is required to report all loans > 90 days to CKP unless (a) the borrower has agreed to a payment arrangement or (b) receives a sale/purchase deed stating a high property price. At any time during the arrears management process, Crefius may obtain an assignment of salary/wages and/or convert the 'mandate' into a mortgage in preparation for initiating enforcement action. Court appointed notaries are responsible for executing the sales (voluntary or forced/auction). Given the very low historical default rate (<= 1%), rarely, if ever, are property repossessed by Crefius.

Back-up Servicing

The transaction does not envisage a back-up servicer at close. However, based on specific events, as stated under 'Transaction Counterpart Risk' section above, the issuer may appoint a back-up servicer.

Collateral Analysis Details

Data Quality

DBRS has been provided the performance history of Dexia Bank's mortgage book and repossession data for defaulted loans. The performance history covered the vintage originations from the last two decades. Based on the performance history provided, DBRS was able to assess the benchmark two-year PD for the mortgage portfolio to Penates-4.

The data for the mortgage portfolio was complete in all respects except on loans which were buy-to-let (BTL) or investment purpose or holiday homes. Dexia Bank flagged 2.5% of the loans in the mortgage portfolio as BTL. However, the mortgage portfolio consists of borrowers (5.68%) having mortgaged more than two properties securing the loans provided by Dexia Bank. DBRS assumed every third property per borrower to be BTL. The total proportion of BTLs assumed in the mortgage portfolio is 4.30%.

6.5% of the loans in the mortgage portfolio are of a repayment type where the monthly repayments increase over a period of time. DBRS has taken the average monthly payment of such loans into its analysis.

DBRS has also used performance history data of NBB, existing Belgian RMBS deals from Intex and house price data from Stadim, Belgium.

Penates Funding N.V./S.A. - Compartment Penates-4

Report Date
January 17, 2012

DBRS considers the information available to it for the purposes of providing this rating was of satisfactory quality.

Collateral Analysis

- **The Two-Year Probability of Default:** The benchmark two-year PD for Dexia Bank originations has been estimated at 0.25%. The majority of the mortgage portfolio has loans from vintages starting the year 2000. The two-year PD for each vintage was assessed based on historical default data and weighted by the proportion of loans from each vintage. The performance history provided by Dexia Bank suggested a benchmark two-year PD lower than 0.25% assumed for the assessment of PD for the mortgage portfolio. Given the current and expected economic stress for countries in the EU region, including Belgium, DBRS expects that borrowers would witness financial stress which would in turn affect delinquencies and defaults adversely. Hence the benchmark Two-Year PD assumption of 0.25% for Penates-4 mortgage portfolio is considered conservative and appropriate.

  DBRS compared the performance history of Dexia Bank's mortgage book with that for existing securitised mortgage pools as well as mortgage loan default rate in Belgium (published by NBB). The overall performance of Dexia Bank mortgages was found to be comparable to originations by other lenders in the Belgian mortgage market and existing Belgian RMBS mortgage pools.

  DBRS then applied borrower and mortgage loan characteristic specific default penalties to each loan to arrive at a base case two-year PD for the Penates-4 mortgage portfolio. The PD for Penates-4 mortgage portfolio is 1.51% (applied at single B rating scenario).

- **High LTV loans:** 5% of the loans in the mortgage portfolio have CLTV above 100%. The current balances include the balance outstanding of pari-passu loans, where applicable.
  All such applications are assessed centrally and branches of Dexia Bank do not have the mandates to approve such applications. Per DBRS Belgium RMBS criteria, PD penalties are applied to loans with high LTVs which accounts for the riskier nature of such loans in negative equity status at origination.

- **Mortgage Mandate:** 29.62% of the loans in the mortgage portfolio have a registered mortgage which does not cover the entire current balance of the loan outstanding. For these loans Dexia Bank takes a mortgage mandate which gives it a right to convert the mandate into a registered mortgage and enforce the security if required. The legal opinions for Penates-4, state that such mortgage mandates cannot be enforced by the issuer, where they exist for loans in the mortgage portfolio. The weighted average current loan to property value ratio (WACLTV) for the mortgage portfolio is 68.09%. In comparison the weighted average current loan to mortgage ratio (WACLTM) for the mortgage portfolio is 112%.

  DBRS has not given credit to a mortgage mandate where it exists for a loan and only the registered mortgage has been considered for calculating recoveries. Additionally, DBRS also applied its market value decline (MVD) assumptions on the market value of a property. The lower of the post-MVD property value and the registered mortgage has been applied as recovery from sale of property.

- **Pari-passu loans:** 22.18% of the loans in the mortgage portfolio are such where the borrower has been provided other loans (pari-passu loans) which share a pari-passu charge on the property. These pari-passu loans are not securitised and are not part of the mortgage portfolio. However, these loans are recoverable from sale of the property (which is part of the Penates-4 mortgage portfolio). The recoveries on a loan in Penates-4 mortgage portfolio, from sale of property, will be lower to the extent of such pari-passu loans.

DBRS has considered the balance of such pari-passu loans, where applicable, to calculate any loss on the loans in the mortgage portfolio. Any pari-passu loans provided by Dexia Bank, after closing of Penates-4, to borrowers who are part of the Penates-4 mortgage portfolio, have a subordinate lien on the mortgaged properties which are included in the Penates-4 mortgage portfolio.

- **Self-employed borrowers:** The mortgage portfolio has 8.10% loans where the borrowers are self-employed.

  DBRS applies a default probability penalty, in line with DBRS Belgium RMBS criteria, to such loans as the income of such self-employed borrowers is considered relatively volatile as compared to that of employed borrowers.

- **Investment or Buy-to-let properties:** 4.30% of the loans in the mortgage portfolio have been assumed to be for purchase of investment/BTL properties. Dexia Bank considers the entire disposable income of the borrower, including rental income to test for affordability of BTL/second/holiday homes. The proof of rental income is checked through recent bank statements or rental contracts. However, only 80% of the proven rental income is considered in the affordability calculations.

  DBRS considers these products riskier than where the borrower occupies the property purchased. In the event of financial stress on a borrower, an investment/buy-to-let property loan would be the first to get adversely affected in terms of monthly repayments. DBRS has applied a PD penalty on such loans in the mortgage portfolio, in line with DBRS Belgium RMBS criteria.

- **Interest-only loans:** 1.54% of the loans in the mortgage portfolio repay only interest on a monthly basis with the principal to be repaid at the end of the tenure of the loan. There are no repayment vehicles to ensure adequate savings by the borrower to repay the loan principal at the end of the loan term.

  DBRS views such loans riskier as compared to repayment loans as it would result in a payment shock for the borrower at the end of the tenure of the loan as well as the fact that the borrower is unable to afford a repayment loan. DBRS has thus applied a PD adjustment to such loans in line with DBRS Belgium RMBS criteria.

- **Staff Loans:** 5.94% of the loans in the mortgage portfolio have been provided to borrowers who are employed by Dexia Bank. Dexia Bank employees receive a discount on the interest rate over the market rate. These borrowers would have to pay the higher market interest rates if they leave the employment of Dexia Bank and are thus exposed to a potential payment shock. Moreover, in the event of redundancies carried out by Dexia Bank in a stressed economic scenario, delinquencies and defaults may spike on account of these borrowers losing their employment with Dexia Bank. The issuer is thus exposed to a concentration risk on account of these borrowers employed with Dexia Bank.

  DBRS has applied a default probability (PD) adjustment of 20% to the borrowers in the mortgage portfolio, employed by Dexia Bank, to account for the potential payment shock and concentration risk. This adjustment to staff loans is not part of the current DBRS RMBS criteria and has been applied specifically to the Penates-4 mortgage portfolio.

- **Valuations of properties:** 81.63% of the loans in the mortgage portfolio do not have a full surveyor valuation. These valuations are based on the purchase price agreed per the sale agreement. DBRS views these valuations as less robust than cases where a full surveyor valuation has been carried out to validate the purchase price.

DBRS has applied a 5% haircut to loans with current-loan-to-value (CLTV) above 90%, where full surveyor valuations have not been carried out, in order to mitigate the risk of an overstated valuation in the property sale agreement.

- **Current Arrears:** Only 7 loans in the mortgage portfolio are in arrears with 5 of them for less than one month and the rest less than 2 months in arrears. These arrears seem technical in nature where the payments from some of the borrowers is not received on the first of a month. 97% of the loans in the mortgage portfolio have direct debit set-up for monthly repayments on loans.

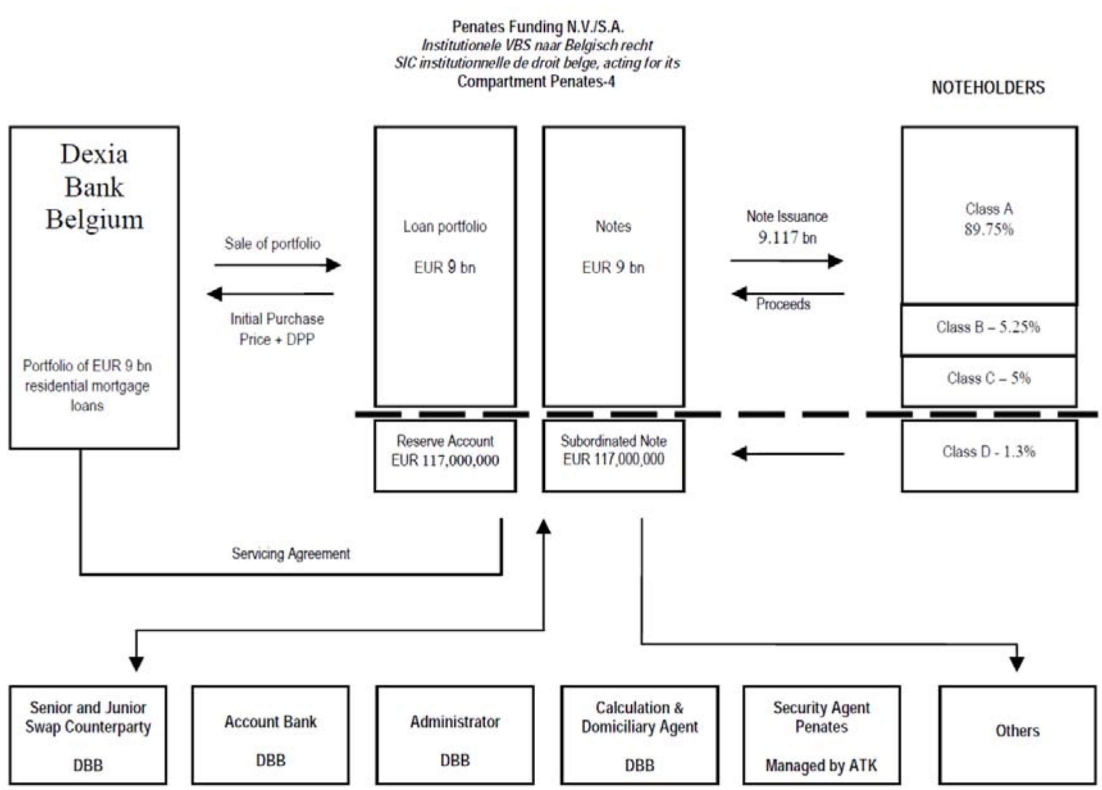
  DBRS has applied a PD adjustment to loans in arrears, in line with DBRS Belgium RMBS criteria.

- **Loss Given default (LGD):** The base case LGD for the mortgage portfolio has been estimated at 32% (applied at single B rating scenario). The LGD applied in a 'AAA' rating scenario is 51.70%. The key drivers of LGD are
  - the WACLTV of 68.09% and WACLTM of 112%
  - 5% of the loans have CLTVs above 100%

Mortgage Analysis	Probability of Default	Loss Given Default	Expected Losses
AAA	21.52%	51.70%	11.13%
A	9.90%	42.61%	4.22%
B (Base case)	1.51%	32%	0.48%

Transaction Structure

Transaction Diagram



Source of Funds/Available Funds

Penates-4 transaction proposes a Monthly Interest Priority of Payments and a Quarterly Notes Priority of Payments.

Revenue funds broadly include the following:

Monthly Interest Available Amount

- Interest received on the loans in the mortgage portfolio.
- Prepayment penalties and default interest under the loans in the mortgage portfolio
- Any amounts received as indemnity for losses of scheduled interest on the loans or any liquidity shortfall as a result of commingling risk and/or set-off risk.
- Any amounts drawn down from the reserve fund to cover shortfalls to meet payments for items 1 to 3 in the Monthly priority of payments.
- Any loans repurchased by the seller, where the proceeds do not pertain to principal, where the loans are in breach of representations and warranties.

Quarterly Notes Interest Available Amount

- Amounts received under the Senior swap.
- Amounts received under the Junior swap.
- Interest on sums in the issuer accounts
- Any amounts to be applied from the reserve fund to meet interest shortfalls on Class A notes. After Class A notes are redeemed in full to meet interest shortfalls on Class B notes.
- Recoveries from defaulted loans.
- The guaranteed excess margin amount.
- Any amounts received as indemnity for losses of scheduled interest on the loans or any liquidity shortfall as a result of commingling risk and/or set-off risk.
- Principal required to meet any interest shortfalls for Class A notes.

Principal funds broadly include the following:

The sum of:

- The aggregate amount of repayment and prepayment of principal from the loans in the mortgage portfolio.
- The aggregate of amounts received from repurchase of loans by seller, where the amounts relate to principal, where the loans are in breach of representations and warranties.
- Any amounts credited to the principal deficiency ledgers (PDL), under the notes' interest priority of payments.
- Any amounts received as indemnity for losses of scheduled interest on the loans or any liquidity shortfall as a result of commingling risk and/or set-off risk.

Minus

- Principal used to meet any interest shortfalls on Class A notes.

Priority of Payments

Penates-4 transaction proposes a Monthly Interest Priority of Payments and a Quarterly Notes Priority of Payments.

Pre-enforcement Monthly Interest Priority of Payments

1. Senior Fees
2. 0.45% towards guaranteed excess spread
3. Payments to Senior swap counterparty
4. Payments to Junior swap counterparty

Pre-Enforcement Revenue Priority of Payments as below:

1. Payment of interest on Class A notes and payments to the swap counterparty (excluding swap subordinated amounts).
2. Amounts required to replenish the deposit amount for indemnity of losses and mitigation of liquidity risks on account of commingling and set-off risk (Source of funds – Dexia Bank).
3. Amounts to be credited to reserve fund.
4. Amounts required to be credited to Class A PDL.
5. Amounts required to be credited to Class B interest deficiency ledger.
6. Amounts required to be credited to Class B PDL.
7. Payment of interest on Class B notes, payment of any interest deferred on Class B notes and payment of Junior swap termination amounts.
8. On redemption of Class A notes, amounts to be credited to reserve fund.
9. Amounts required to be credited to Class C PDL.
10. Payment of interest on Class C notes and payment of any interest deferred on Class C notes.
11. Payment of interest on Class D notes.
12. Payment of interest deferred on Class D notes.
13. Payment of principal on Class D notes.
14. Payment of subordinated Senior swap amounts.
15. Payment of subordinated Junior swap amounts.
16. Payment to seller as deferred purchase price.

Post-Enforcement Priority of Payments as below:

1. Pay all amounts on account of enforcement of security.
2. Pay amounts due to the security agent.
3. Pay senior Fees.
4. Pay interest of Class A notes and swap termination amounts.
5. Pay principal on class A notes.
6. Pay interest of Class B notes and swap termination amounts.
7. Pay principal on class B notes.
8. Pay interest of Class C notes.
9. Pay principal on class C notes.
10. Pay interest and principal on Class D notes.
11. Pay Senior swap subordinated amounts.
12. Pay Junior swap subordinated amounts.
13. Pay EUR 1,000 to Issuer
14. Pay deferred purchase price to seller.

Principal Payments Priorities

Pre-Enforcement Principal Priority of Payments is a separate waterfall under Penates-4 as below:

1. Interest shortfalls on Class A notes and Senior swap termination amounts other than swap subordinated amounts.

2. Principal on Class A notes.
3. Principal on Class B notes and
4. Principal on Class C notes.

The notes will always be paid sequentially as shown above.

Cash Reserve Fund

An amount of EUR117,000,000 (1.3% of the Collateralised notes issued at close) will be available to the issuer on the closing date as a reserve fund. The reserve fund will be funded through the issuance of Class D notes. The reserve fund will be drawn down only in the event that the interest available funds are short to meet items 1 to 3 of the Monthly Interest Priority of Payments and interest on Class A notes and Senior swap termination amounts under the Quarterly Notes' Interest Priority of Payments. On the redemption of Class A notes, under the Quarterly Interest priority of Payments, the reserve fund will be used to meet shortfalls in interest payments to Class B notes and Junior swap termination amounts.

Pursuant to the legal documents, the reserve fund will be amortising - maintained at 2.36% of outstanding Collateralised notes' balance with a floor of 0.5% of the Collateralised notes at close of the transaction.

The reserve fund will be allowed to amortise only if:

- 50% of the Class A notes at close of transaction have been paid.
- The PDL balance for each class of notes is zero.
- The reserve fund is at the required level.
- Proportion of loans in arrears in the mortgage portfolio does not exceed 2.5% and
- Proportion of cumulative defaults in the mortgage portfolio does not exceed 2%.

If the trigger condition related to arrears once breached gets cured, the reserve fund will not be allowed to revert to an amortisation status.

Transaction Accounts

Collection Account

97% of the borrowers under Penates-4 mortgage portfolio make their monthly payments through direct debit. The rest of the borrowers pay through cheques or bank transfers. Dexia Bank, as the servicer under Penates-4, operates and maintains the collection accounts where the payments from borrowers are credited.

Issuer Accounts

Transaction Account: The transaction account in the name of the issuer is maintained by Dexia Bank. Dexia Bank will pay an interest of 1 week Euribor rate minus 3 bps.

The reserve fund account will also be maintained at Dexia Bank and the balances in the account will accrue interest at 3 months Euribor rate.

Commingling and Set-off Deposit Account:

- The monthly repayments under the loans in the mortgage portfolio will be collected in an account in the name of Dexia Bank. In order to mitigate risk of commingling of the funds in the collection account with the insolvency estate of Dexia Bank,
    - the funds in the collection account will be transferred to the transaction account on a daily basis.

- In the event the short-term rating of Dexia Bank falls below R-1 (low) a risk mitigation deposit of one month's interest and principal collections from the mortgage portfolio will be credited to an issuer account with a bank that meets DBRS criteria. This proposed deposit is expected to indemnify the issuer against any losses due to potential commingling risk and will be provided by Dexia Bank.

The above arrangement also mitigates the potential liquidity risk on account of commingling for the issuer.

- The borrowers under the loans in the mortgage portfolio currently have deposits with Dexia Bank. The aggregate size of such deposits, above the protected deposit of EUR100,000, which can potentially be set-off is 2.43% (of mortgage portfolio balance). In order to mitigate the deposit-set-off risk, in the event of fall in rating of Dexia Bank, an amount equal to 50% of the deposit of each borrower, in excess of the protected deposit (under the deposit guarantee scheme) or the loan balance, whichever is lower, will be made available to the issuer by Dexia Bank. This cash deposit with the issuer would mitigate the liquidity and any potential loss on account of deposit-set-off risk.

Hedge Agreement

- 71.62% of the loans in the mortgage portfolio pay a fixed rate of interest (for entire term of the loan) and the rest pay a variable rate of interest linked to OLO rates (for 2 years, 3 years and 5 years maturity) or linked to 12 months treasury bills' rates. In comparison the interest paid on the notes is linked to 3 months Euribor. The basis risk on account of this mismatch is proposed to be hedged by two separate swaps – a Senior swap and a Junior swap. The Senior swap hedges the basis risk on the balance of Class A notes outstanding and the Junior swap on the outstanding balance of Class B and Class C notes.

Under the Senior swap the issuer pays on a monthly basis the following:

- Senior swap Ratio MULTIPLIED by
- Monthly interest received on the assets *minus* Senior fees *minus* guaranteed excess margin of 0.45%

Where: Senior swap ratio is:

- Class A principal outstanding *minus* PDL balance for Class A notes DIVIDED by
- The aggregate outstanding balance of Class A, B and C *minus* PDL balance for Class A, B & C

The issuer receives on a quarterly basis the interest to be paid on Class A notes.

Notional under the Senior swap: The Class A principal outstanding *minus* PDL balance for Class A notes.

Under the Junior swap the issuer pays on a monthly basis the following:

- Junior swap Ratio MULTIPLIED by
- Monthly interest received on the assets *minus* Senior fees *minus* guaranteed excess margin of 0.45%

Where: Junior swap ratio is 1 *minus* Senior swap Ratio.

The issuer receives on a quarterly basis the interest to be paid on Class B and Class C notes.

Notional under the Junior swap: The sum of

- The Class B principal outstanding *minus* PDL balance for Class B notes and

- The Class C principal outstanding *minus* PDL balance for Class C notes

Cash Flow Analysis

DBRS has assessed the timely payment of interest on the notes as well as the ultimate payment of principal on Class A notes by the legal final maturity date. On Class B notes, since interest is allowed to be deferred under the structure, DBRS has assessed the ultimate payment of interest and payment of principal by the legal final maturity date. DBRS has applied its defaults curves (front and back-ended default assumptions), its prepayment curves (slow, middle and fast CPR assumptions) and interest rates stresses as per its published criteria on the same.

Excess Spread

The Collateralised notes benefit from a guaranteed excess margin of 0.45% of the interest received from assets. The Senior and Junior swaps pay the interest on the notes' balance outstanding *minus* the PDL balance outstanding for each class of notes. Therefore any excess spread available in the revenue waterfall is also dependent on the extent of defaults (as PDLs record defaulted loan balance).

Probability of Default

- DBRS applied a PD stress of 21.52% to test the cash flows of the Class A notes. The PD applied to stress the payments on Class B notes is 9.90%.

Loss Given Default

DBRS applied a LGD stress of 51.70% to test the cash flow payments of the Class A notes. The LGD applied to stress the payments on Class B notes is 42.61%.

Mortgage Analysis	Probability of Default	Loss Given Default	Expected Losses
AAA	21.52%	51.70%	11.13%
A	9.90%	42.61%	4.22%
B (Base case)	1.51%	32.00%	0.48%

Prepayment Speeds

DBRS has used its slow CPR assumption where the CPR stays at 5% p.a. flat throughout the life of the notes. The middle CPR assumption is 10% flat and the fast CPR scenario uses 20% p.a. assumption.

Timing of Defaults and Recoveries

DBRS has used front and back-ended default curves to test the cash flows of the notes.

DBRS assumed a recovery lag of 24 months to stress the cash flows for Penates-4.

Interest Rate Stresses

DBRS uses interest rate stresses as per its Unified Interest Rate Model which include rising, flat and declining interest rate curves. The payments under the basis swap, supporting the interest rate payments on the notes, move in tandem to the movement of interest rates and thus the structure is literally hedged against any interest rate movements.

Margin Compression

The payments under the basis swap, supporting the interest rate payments on the notes, move in tandem to the movement of interest rates and thus the structure is literally hedged against any interest rate movements. However, the swap payments to the issuer are referenced to the aggregate outstanding principal on the notes less the balances in the PDL. Thus the defaults on the mortgage portfolio would compress the amount of swap payments to the issuer.

Principal Deficiency ledgers
The PDLs for each class of Collateralised notes will record the balances of loans under default which will include loans in arrears for 90 days or more. This structural feature is considered positive as it enables the trapping of excess spread during the recovery period of 24 months for defaulted loans. In comparison most of the RMBS issuances in Belgium record losses in PDLs at the end of the recovery period during which period the excess spread in the structure is lost to the seller.

Legal Structure

Law(s) Impacting Transaction

Penates Funding N.V./S.A. is set up as investment company (institutionele vennootschap voor belegging in schuldvorderingen (VBS) naar Belgisch recht/société d'investissement en créances (SIC) institutionnelle de droit belge in accordance with the UCITS Act. The issuer, through its Compartment Penates-4 will issue notes backed by first-lien mortgage loans.

Mortgage loans are transferred from the sellers to the issuer by way of a true sale. No notification to the borrowers is needed to perfect the true sale. However, if certain events occur, the borrowers will be notified of the sale of their mortgage loans and the pledge to the issuer to avoid any set-off risk, and/or commingling risk.

The notification of the borrowers is needed to ensure that the issuer benefits from a first-ranking charge over the mortgage receivables. However, the seller has undertaken not to transfer or pledge the same mortgage receivables to another party. The notification events in place (pledge notification events and notification events) make this risk remote enough.

Security for the Notes
Pursuant to the pledge agreement, the notes are secured by a first-ranking pledge granted by the issuer to the security agent and the other secured parties over: (i) the mortgage receivables and the related security; (ii) the issuer's rights under or in connection with the documents; and (iii) the balances standing to the credit of the issuer's accounts.

The security agent, Stichting Security Agent Penates, is a foundation (Stichting) incorporated under the laws of Netherlands on 31 December 2008. It will represent the interest of the notes' holders, hold the security granted under the pledge agreement on behalf of the secured parties and in its own name, as creditor of the parallel debt and will be entitled to enforce the security granted in its favour under the pledge agreement.

The pledge agreement provides that the pledge over the mortgage receivables and related security will not be notified to the borrowers or other relevant parties, except if certain notification events occur and the giving of an enforcement notice and certain other events, like missed or non-timely payment of interest on the class A notes or the issuer's insolvency or other material events affecting the issuer (the "pledge notification events").

Set-Off

Set-Off Risk
Dexia Bank accepts deposits from its customers. Some of the borrowers in the Dexia Bank mortgage portfolio have deposits with Dexia Bank. Before a notice of assignment is given to the borrowers, the later may set-off their deposits against mortgage loans which have been securitized to the extent both the deposits and mortgage payments are due and payable. After notice of assignment, a borrower can still set-off the amounts due and payable on the mortgage loan against the deposits held by the seller prior to the notice of assignment. After insolvency of the seller/originator, no further right of set-off is permitted

under Belgian Law unless it is proved that both debts are closely connected. Under Penates-4, the borrowers in the mortgage portfolio will be notified of the sale of mortgages to the issuer if the rating of Dexia Bank falls below BBB(low), amongst other notification events.

Borrowers having deposits with a bank in Belgium can claim amounts up to EUR 1000,000 under the Belgian compensation scheme. DBRS has assumed that borrowers having deposits above this amount will potentially invoke set-off. The aggregate size of such deposits, above the protected deposit of EUR100,000, which can potentially be set-off is 2.43% (of mortgage portfolio balance).

In order to mitigate the deposit-set-off risk, in the event of fall in rating of Dexia Bank, an amount equal to 50% of the deposit of each borrower, in excess of the protected deposit (under the deposit guarantee scheme) or the loan balance, whichever is lower, will be made available to the issuer by Dexia Bank. This cash deposit with the issuer would mitigate the liquidity and any potential loss on account of deposit-set-off risk.

Representations and Warranties

The mortgage sale agreement contains representations and warranties given by Dexia Bank (as the seller) in relation to the mortgage portfolio and also contains the eligibility criteria for the loans purchased on closing by the issuer. In the event of breach of any of the representations and warranties or the eligibility criteria, Dexia Bank would be obliged to repurchase such loans from the mortgage portfolio. The significant representations and warranties are:

- The seller is a corporation under the laws of Belgium and has the necessary power and authority to perform its obligations under the mortgage sale agreement and the deed of sale and assignment.
- The seller is licensed as a credit institution by the National Bank of Belgium and as a mortgage institution by FSMA.
- The seller is solvent.
- The mortgage sale agreement and the deed of sale and assignment constitute the seller's valid and binding obligations enforceable in accordance with its terms.

Eligibility Criteria

- Each loan and its security are valid and binding obligations of the borrower and are enforceable in accordance with the terms of the relevant loan documents.
- No loan has an origination date prior to January 1995.
- Each loan was granted by the originator as a loan secured by a real property located in Belgium over which there is a mortgage securing the loan.
- The loans are annuity loans, interest-only loans, linear repayment loans (these refer to the type of repayment for loans in the mortgage portfolio).
- Each borrower was an individual resident in Belgium.
- Each loan and related mortgage is governed by Belgian law and is subject to Belgian Mortgage Credit Act.
- Each loan complies with all applicable consumer protection rules.
- Each loan is secured by a first ranking mortgage and/or a sequentially lower ranking mortgage and/or a mandate to create such mortgages.
- No pledge lien or counterclaim or other security interest has been created, or arisen, or now exists, between the seller and any borrower which would entitle such borrower to reduce the amount of any payment otherwise due under its loan.
- No loan is in arrears for more than one month or is a defaulted loan.
- Each mortgage exists and constitutes a valid, enforceable and subsisting mortgage over the relevant mortgage property.