MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns definitive ratings to one class of Dutch non-conforming RMBS notes issued by Principal Residential Investment Mortgages 1 S.A.

Global Credit Research - 25 Feb 2011

EUR 103.8 million of rated debt securities affected

London, 25 February 2011 -- Moody's Investors Service has today assigned definitive credit ratings to the following class of notes issued by Principal Residential Investment Mortgages 1 S.A.:

Aaa(sf) to Euro 103,800,000 Class A Mortgage-Backed Notes 2011 due 2040

The class B notes are not rated by Moody's.

RATINGS RATIONALE

The transaction represents a securitisation of approximately EUR 200 million Dutch non-conforming mortgage loans backed by residential properties located in the Netherlands and originated by Sparck Hypotheken B.V. (not rated) and Quion 88 B.V. (not rated). The portfolio is serviced by Vesting Finance Servicing B.V. (not rated).

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 principal with respect of the notes by the legal final maturity. Moody's ratings only address the credit risk associated with the transaction. Non-credit risks have not been addressed, but may have a significant effect on yield to investors.

Moody's rating does not address the timeliness of payment or ultimate payment of the Subordinated Interest Part (as defined in the transaction documents) and any related amounts due to noteholders.

The ratings of the notes take into account the credit quality of the underlying mortgage loan pool, from which Moody's determined the MILAN Aaa Credit Enhancement and the portfolio expected loss, as well as the transaction structure and any legal considerations as assessed in Moody's cash flow analysis.

The expected portfolio loss of 4.50% of current balance of the portfolio at closing and the MILAN Aaa required Credit Enhancement of 30% served as input parameters for Moody's cash flow model, which is based on a probabilistic lognormal distribution as described in the report "The Lognormal Method Applied to ABS Analysis", published in September 2000. The key driver for the MILAN Aaa Credit Enhancement number is the non-conforming nature of the underlying loan pool which comprises (a) a proportion of 26.8% linked to self-certified borrowers and (b) a proportion of 45.8% linked to borrowers with a negative registration with the Dutch credit bureau. Other key drivers include (i) the weighted average loan-to-foreclosure-value (LTFV) of 103.5%, which is higher than the average observed in other Dutch RMBS transactions, (ii) the very high proportion of interest-only loans (93.5%) and the small size of the pool, which leads to significant borrower concentration. Furthermore, 8.8% of the pool is in arrears at closing of the transaction. However, no loan is more than 90 days in arrears at the cut-off date. The MILAN Aaa Credit Enhancement number is substantially higher than recently closed Dutch RMBS transactions backed by prime mortgage loans, but is in line with recently reviewed other Dutch RMBS transactions backed by non-conforming mortgage loans, Eurosail-NL 2007-1, Eurosail-NL 2007-2, EMF-NL Prime 2008-A and EMF-NL 2008-2.

The key drivers for the portfolio expected loss are (i) the proportion of loans in arrears (8.8%) at closing and our estimate of the roll rate to default and recovery rate for these loans, (ii) benchmarking with comparable transactions in the Dutch market and (iii) the current economic conditions in the Netherlands. We have based our estimates for the recovery rates for defaulted loans on the historic recovery data of foreclosures received from the sellers.

The borrowers pay in a collection account in the name of the sellers. Amounts are swept to the issuer account on a monthly basis. We have taken the risk of commingling upon default of the sellers into account by modelling the loss of one month of receivables in the cash flow analysis.

Furthermore, approximately 6.0% of the portfolio is linked to life insurance policies (life mortgage loans), which are exposed to set-off risk in case an insurance company goes bankrupt. The seller has provided loan-by-loan insurance company counterparty data, which we used in the analysis of the set-off risk.

57.8% of the portfolio is linked to a floating interest rate which can reset on a monthly basis and 0.5% of the portfolio is linked to a floating interest rate which can reset on a 3-monthly basis. 41.7% of the portfolio at the cut-off date is linked to a fixed interest rate. The loans with a fixed interest can revert to a floating rate or a new fixed rate. Furthermore, borrowers with a loan linked to floating rate also have the option to request a fixed rate. The interest rate resets introduce uncertainty for the weighted average yield on the portfolio during the life of the transaction and we have therefore applied a stressed assumption for the portfolio yield in the cash flow analysis.

The interest on the notes is linked to 1-month Euribor. An interest rate cap is provided by Natixis (Aa3/P-1) and has a strike of 4.0%; if 1-month Euribor exceeds 4.0%, Natixis will pay the difference between the market rate and the strike rate to the issuer. Through this cap agreement the costs of the class A notes to the transaction are limited, which we have taken into account in the cash flow analysis.

The subordination under the class A notes is 48% of the outstanding portfolio at closing. The reserve fund is funded at 1.0% of the outstanding portfolio at closing. The reserve fund will be replenished before the payment of the subordinated interest part towards the class A and the interest on the class B notes. The total credit enhancement for the Aaa (sf) rated notes is 49.0% at closing.

Operational Risk Analysis: Moody's has analysed the potential operational risks associated with the servicing and cash management functions in the transaction. We are of the opinion that the operational risks in this transaction are sufficiently mitigated by (i) the back-up servicing arrangement in place at closing, (ii) the independent cash management function and (iii) the available liquidity in this transaction. The portfolio is serviced by an unrated entity, Vesting Finance Servicing B.V. (Vesting). At closing GMAC RFC Nederland B.V. (GMAC NL) acts as a back-up servicer. GMAC NL has agreed to step in as main servicer at a pre arranged servicing fee, if the servicing agreement with Vesting is terminated. During the life of the transaction GMAC NL will receive monthly information overviews of the mortgage pool, which would make a possible servicing transfer easier. Furthermore, if the main servicer or the back-up servicer are no longer able to service the mortgage loan pool, the issuer and security trustee will use their best efforts to appoint a substitute servicer in case of a termination of the servicing. Moody's views this undertaking to be similar to a back-up servicer facilitator function.

The role of cash manager is performed by ATC Corporate Services (Luxembourg) S.A., which is part of the ATC group involved in many Dutch RMBS transactions. The cash management agreement enables the cash manager to continue to make payments under the notes in a situation when the cash manager receives no mortgage reports from the servicer. In this situation the cash manager can use the most recent available mortgage reports to make payment estimates.

The transaction has the benefit of two sources of liquidity; (i) a liquidity facility provided by Natixis (Aa3/P-1) and (ii) a fully funded reserve fund at closing. The size of the liquidity facility is 3.0% of the portfolio amount at closing and will amortise to 7% of the outstanding class A notes. The size of the reserve fund is 1.0% of the portfolio amount at closing and will amortise to 2.5% of the outstanding class A notes. We estimate that the available liquidity is sufficient to cover between 11 and 12 monthly interest payments on the class A notes.

The V-Score for this transaction is Medium/High, which is higher than the V-Score assigned for the Dutch RMBS sector. The primary source of uncertainty surrounding our assumptions is the non-conforming nature of the underlying assets, for which there is limited historical performance data available. Although the historical performance data for Dutch non-conforming mortgage products covers the recent crisis the data only covers approximately 5 years; a period in which the non-conforming mortgage product in the Netherlands was very much in development. A further source of uncertainty is the non standard transaction structure, which is more complex compared to prime Dutch RMBS transaction structures. There are acceleration triggers upon which the structure diverts cash flows to the repayment of the class A notes which add to the transaction complexity. The borrowers in the portfolio have the flexibility to reset their mortgage interest rates to either a floating rate or a fixed rate, which could lead to a compression of the weighted average yield over time. The evolution of the weighted average yield in the portfolio is a further source of uncertainty surrounding our assumption on the asset yield in the transaction.

V-Scores are a relative assessment of the quality of available credit information and of the degree of dependence on various assumptions used in determining the rating. High variability in key assumptions could expose a rating to more likelihood of rating changes. The V-Score has been assigned accordingly to the report "V-Scores and Parameter Sensitivities in the Major EMEA RMBS Sectors" published in April 2009.

Moody's Parameter Sensitivities: If the MILAN Aaa CE was increased from 30.0% to 36.0% (a stress of 1.2 times), the model output indicates that the class A note would no longer achieve Aaa and would have achieved a Aa1, assuming that the portfolio expected loss remains at 4.50% and all other factors remain equal. If the portfolio expected loss was increased from 4.50% of current balance to 13.50% of current balance (a stress of 3 times) and if the MILAN Aaa Credit Enhancement remained at 30.0%, the model output indicates that the class A note would still achieve Aaa.

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.

The principal methodologies used in rating this transaction were Moody's Updated MILAN Methodology for Rating Dutch RMBS published in September 2009, Cash Flow Analysis in EMEA RMBS: Testing Features with the MARCO Model (Moody's Analyser of Residential Cash Flows) published in January 2006, Moody's Updated Approach to NHG Mortgages in Rating Dutch RMBS, published in March 2009, and Moody's Updated Methodology for Set-Off in Dutch RMBS published in November 2009. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

In addition, Moody's publishes a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moodys.com/SFQuickCheck.

Moody's Investors Service received and took into account one or more third party due diligence report on the underlying assets or financial instruments in this transaction and the due diligence reports had a neutral impact on the rating.

REGULATORY DISCLOSURES

The rating has been disclosed to the rated entity or its designated agents and issued with no amendment resulting from that disclosure.

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London
Ivo Raschl
Vice President - Senior Analyst
Structured Finance Group
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

London
Annabel Schaafsma
Senior Vice President
Inactive User Group
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

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