

Rating Action: Moody's downgrades 3 notes and confirms 3 notes in 4 Bankinter Spanish RMBS transactions

Global Credit Research - 23 Jan 2014

Madrid, January 23, 2014 -- Moody's Investors Service has today downgraded the ratings of three mezzanine notes in three Spanish residential mortgage-backed securities (RMBS) transactions: Bankinter 4, FTH (Bankinter 4); Bankinter 7, FTH (Bankinter 7) and Bankinter 9, FTA (Bankinter 9). Swap counterparty exposure has prompted today's action. At the same time, Moody's confirmed the ratings of three notes in Bankinter 3, FTH (Bankinter 3), Bankinter 4 and Bankinter 9, as a result of the rating agency's detailed analysis of swap counterparty exposure. Other ratings in these deals, which were not on review for possible downgrade, have been affirmed.

Today's rating action concludes the review of the ratings in these four Spanish RMBS transactions, which Moody's placed on review on 14 November 2013, in relation to swap counterparty exposure following the introduction of the rating agency's updated approach to assessing swap counterparty linkage in structured finance transactions (https://www.moodys.com/research/Moodys-reviews-for-downgrade-EMEA-RMBS-and-ABS-transactions-due--PR_286515). This rating action also concludes the review of the rating of the C(T) notes in Bankinter 9, which Moody's placed on review on 4 December 2013 also as a result of swap counterparty exposure (https://www.moodys.com/research/Moodys-reviews-for-downgrade-the-rating-of-CT-notes-in--PR_288050).

See towards the end of the ratings rationale section of this press release for a detailed list of affected ratings.

RATINGS RATIONALE

Today's rating action reflects the impact on the four transactions of their exposure to Bankinter, S.A. (Bankinter, Ba1/NP) as swap counterparty, following the introduction of the rating agency's updated approach to assessing swap counterparty linkage in structured finance cash flow transactions ("Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cash Flow Transactions" published on the 12 November 2013).

As part of its review, Moody's has incorporated the risk of additional losses on the notes in the event of them becoming unhedged following a swap counterparty default. Assets backing the notes in these four deals are referenced to the 12-month Euro Interbank Offered Rate (EURIBOR) and 12-month Madrid Inter-Bank Offered Rate (MIBOR), while notes are referenced to three-month EURIBOR. The four transactions include a swap agreement with Bankinter to hedge this risk. All the swaps are basis risk swaps, which do not provide excess spread to the transactions. Net swap payments in recent periods were in favour of the swap counterparty in the four transactions, given the current interest rate environment. However, net swap payments could be in favour of the issuer in future. While high margins on the assets compared to the notes could partially offset basis risk, the margins on the loans are low (i.e., weighted average margins on the loans stood at 66 basis points (bps) in Bankinter 3, 57 bps in Bankinter 4, 62 bps in Bankinter 7 and 56 bps and 44bps for both sub pools of Bankinter 9 as of the July 2012 pool cuts).

Moody's understands that a swap collateral account has been opened with Bankinter and that the swap counterparty is currently posting collateral for Bankinter 3 and Bankinter 4, but not for Bankinter 7 and 9. No collateral needs to be posted for Bankinter 7 and 9, according to collateral posting computations made by the valuation agent.

Key modelling assumptions, sensitivities, cash-flow analysis and stress scenarios for the affected transactions have not been updated, as the assessment of counterparty exposure has primarily driven the rating action.

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

Factors or circumstances that could lead to a downgrade of the ratings affected by today's action would be the worse-than-expected performance of the underlying collateral, deterioration in the credit quality of the counterparties and an increase in sovereign risk.

Factors or circumstances that could lead to an upgrade of the ratings affected by today's action would be the better-than-expected performance of the underlying assets, and a decline in both counterparty and sovereign risk.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in November 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

LIST OF AFFECTED SECURITIES

Issuer: BANKINTER 3, FTH

....EUR1273.6M A Notes, Affirmed A3 (sf); previously on Mar 15, 2013 Confirmed at A3 (sf)

....EUR33.7M B Notes, Affirmed Baa3 (sf); previously on Mar 15, 2013 Downgraded to Baa3 (sf)

....EUR15.2M C Notes, Confirmed at Ba2 (sf); previously on Nov 14, 2013 Ba2 (sf) Placed Under Review for Possible Downgrade

Issuer: BANKINTER 4, FTH

....EUR987.6M A Notes, Affirmed Baa2 (sf); previously on Mar 15, 2013 Downgraded to Baa2 (sf)

....EUR21.5M B Notes, Downgraded to Ba2 (sf); previously on Nov 14, 2013 Ba1 (sf) Placed Under Review for Possible Downgrade

....EUR15.9M C Notes, Confirmed at B2 (sf); previously on Nov 14, 2013 B2 (sf) Placed Under Review for Possible Downgrade

Issuer: BANKINTER 7, FTH

....EUR471.8M A Notes, Affirmed Baa1 (sf); previously on Mar 20, 2013 Downgraded to Baa1 (sf)

....EUR13M B Notes, Downgraded to Ba3 (sf); previously on Nov 14, 2013 Ba2 (sf) Placed Under Review for Possible Downgrade

....EUR5.2M C Notes, Affirmed B3 (sf); previously on Mar 20, 2013 Downgraded to B3 (sf)

Issuer: BANKINTER 9, FTA

....EUR656M A2 (P) Notes, Affirmed Baa1 (sf); previously on Mar 20, 2013 Confirmed at Baa1 (sf)

....EUR244.2M A2 (T) Notes, Affirmed A3 (sf); previously on Mar 20, 2013 Confirmed at A3 (sf)

....EUR15.3M B (P) Notes, Downgraded to B1 (sf); previously on Nov 14, 2013 Ba3 (sf) Placed Under Review for Possible Downgrade

....EUR17.2M B (T) Notes, Affirmed Baa3 (sf); previously on Mar 20, 2013 Downgraded to Baa3 (sf)

....EUR7.1M C (P) Notes, Affirmed B3 (sf); previously on Mar 20, 2013 Downgraded to B3 (sf)

....EUR7M C (T) Notes, Confirmed at Ba2 (sf); previously on Dec 4, 2013 Ba2 (sf) Placed Under Review for Possible Downgrade

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 related to the monitoring of these transactions in the past six months.

Moody's did not use any models, or loss or cash flow analysis, in its analysis.

Moody's did not use any stress scenario simulations in its analysis.

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