

Rating Action: Moody's downgrades 10 notes in four Bankinter Spanish RMBS transactions

Global Credit Research - 15 Mar 2013

Madrid, March 15, 2013 -- Moody's Investors Service has today downgraded by two to six notches the ratings of seven junior notes and by one to two notches the ratings of three senior notes in four Spanish residential mortgage-backed securities (RMBS) transactions: Bankinter 2, FTH; Bankinter 3, FTH; Bankinter 4, FTH; and Bankinter 5, FTH. At the same time, Moody's confirmed the rating of one security in Bankinter 3. Insufficiency of credit enhancement to address sovereign risk and exposure to counterparty risk have prompted today's action.

Today's rating action concludes the review of four Spanish RMBS transactions placed on review on 2 July 2012, following Moody's downgrade of Spanish government bond ratings to Baa3 from A3 on 13 June 2012 (http://www.moody.com/research/Moodys-downgrades-to-A3sf-notes-in-328-Spanish-ABS-RMBS--PR_249914). This rating action also concludes the review of three Spanish RMBS transactions placed on review on 23 November 2012, following Moody's revision of key collateral assumptions for the entire Spanish RMBS market (http://www.moody.com/research/Moodys-review-of-Spanish-RMBS-sector-triggers-rating-actions-on-PR_260528).

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 primarily reflects the insufficiency of credit enhancement to address sovereign risk. The rating action for Bankinter 2's A4 tranche, also reflects increased counterparty risks. Moody's confirmed the ratings of securities whose credit enhancement and structural features provided enough protection against sovereign and counterparty risk.

The determination of the applicable credit enhancement driving today's rating actions reflects the introduction of additional factors in Moody's analysis to better measure the impact of sovereign risk on structured finance transactions (see "Structured Finance Transactions: Assessing the Impact of Sovereign Risk", 11 March 2013. This report is Available on www.moody.com and can be accessed via the following link (http://www.moody.com/viewresearchdoc.aspx?docid=PBS_SF319988)

-- Additional Factors Better Reflect Increased Sovereign Risk

Moody's has supplemented its analysis to determine the loss distribution of securitised portfolios with two additional factors, the maximum achievable rating in a given country (the Local Currency Country Risk Ceiling) and the applicable portfolio credit enhancement for this rating. With the introduction of these additional factors, Moody's intends to better reflect increased sovereign risk in its quantitative analysis, in particular for mezzanine and junior tranches.

The Spanish country ceiling, and therefore the maximum rating that Moody's will assign to a domestic Spanish issuer including structured finance transactions backed by Spanish receivables, is A3. Moody's Individual Loan Analysis Credit Enhancement (MILAN CE) represents the required credit enhancement under the senior tranche for it to achieve the country ceiling. By lowering the maximum achievable rating for a given MILAN, the revised methodology alters the loss distribution curve and implies an increased probability of high loss scenarios.

-- Exposure to Counterparty Risk

The conclusion of Moody's rating review also takes into consideration the exposure to Bankinter (Ba1/NP), acting either as issuer account bank, swap counterparty or subordinated credit provider.

The inability of key transaction parties to perform their roles and difficulty in replacing them in certain stressed scenarios increase the risk of payment disruption and performance deterioration in structured finance transactions. Moody's approach for addressing such counterparty risks is described in "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines" and "Approach to Assessing

Linkage to Swap Counterparties in Structured Finance Cashflow Transactions". These approaches have been subject to two Request for Comment.

The downgrade of the rating of Bankinter 2's A4 tranche reflects the failure to mitigate increased exposure to Bankinter as subordinated credit provider. The subordinated credit is in place to provide available funds to duly fulfil certain payment or withholding obligations of the fund, in the order of priority of payments provided for therein, if the available funds fall short.

As part of its analysis Moody's assessed the exposure of Bankinter 3 and Bankinter 4 to Bankinter as swap counterparty. The revised ratings of the notes, which are driven by the insufficiency of credit enhancement to address sovereign risk, are consistent with this exposure.

Bankinter is the Issuer Account Bank for Bankinter 5, however the guarantee of Crédit Agricole CIB mitigates this exposure.

-- Other Developments May Negatively Affect the Notes

In consideration of Moody's new adjustments, any further sovereign downgrade would negatively affect structured finance ratings through the application of the country ceiling or maximum achievable rating, as well as potentially increased portfolio credit enhancement requirements for a given rating.

As the euro area crisis continues, the ratings of structured finance notes remain exposed to the uncertainties of credit conditions in the general economy. The deteriorating creditworthiness of euro area sovereigns as well as the weakening credit profile of the global banking sector could further negatively affect the ratings of the notes.

Moody's describes additional factors that may affect the ratings in "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines: Request for Comment" (http://www.moody's.com/research/The-Temporary-Use-of-Cash-in-Structured-Finance-Transactions-Eligible-PBS_SF289341) and "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cashflow Transactions: Request for Comment" (http://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBS_SF289772), both published on 2 July 2012.

The reserve fund in Bankinter 3 is not amortising following the breach of one of its triggers, which compares portfolio weighted average spread to the sum of (1) the average spread of classes A and B plus (2) 40 basis points. Moody's confirmed the rating of the senior tranche in this transaction under the assumption that this trigger will not cure in the medium term. If the trigger cures and the reserve fund starts to amortise, the ratings of the notes may be negatively affected.

PRINCIPAL METHODOLOGY

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

In reviewing these transactions, Moody's used ABSROM to model the cash flows and determine the loss for each tranche. The cash flow model evaluates all default scenarios that are then weighted considering the probabilities of the lognormal distribution assumed for the portfolio default rate. In each default scenario, Moody's calculates the corresponding loss for each class of notes given the incoming cash flows from the assets and the outgoing payments to third parties and noteholders. Therefore, the expected loss or EL for each tranche is the sum product of (1) the probability of occurrence of each default scenario; and (2) the loss derived from the cash flow model in each default scenario for each tranche.

As such, Moody's analysis encompasses the assessment of stressed scenarios.

LIST OF AFFECTED SECURITIES

Issuer: BANKINTER 2 FONDO DE TITULIZACION HIPOTECARIA

....EUR222.5MA4 Notes, Downgraded to Baa1 (sf); previously on Nov 23, 2012 Confirmed at A3 (sf)

....EUR12.8MB Notes, Downgraded to B1 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

Issuer: BANKINTER 3 FONDO DE TITULIZACION HIPOTECARIA

....EUR1273.6MA Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR33.7M B Notes Downgraded to Baa3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR15.2M C Notes, Downgraded to Ba2 (sf); previously on Jul 2, 2012 Baa3 (sf) Placed Under Review for Possible Downgrade

Issuer: BANKINTER 4 FONDO DE TITULIZACION HIPOTECARIA

....EUR987.6MA Notes, Downgraded to Baa2 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR21.5M B Notes, Downgraded to Ba1 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

....EUR15.9M C Notes, Downgraded to B2 (sf); previously on Jul 2, 2012 Baa3 (sf) Placed Under Review for Possible Downgrade

Issuer: BANKINTER 5 FONDO DE TITULIZACION HIPOTECARIA

....EUR684.1MANotes, Downgraded to Baa2 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Remained On Review for Possible Downgrade

....EUR14.9M B Notes, Downgraded to Ba2 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

....EUR11M C Notes, Downgraded to B2 (sf); previously on Jul 2, 2012 Baa3 (sf) Placed Under Review for Possible Downgrade

REGULATORY DISCLOSURES

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of these transactions in the past six months.

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