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Ratings Raised In Spanish RMBS Transaction Bankinter 5 Following Sovereign Upgrade

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OVERVIEW

- On Oct. 2, 2015, we raised to 'BBB+' from 'BBB' our long-term sovereign rating on Spain.
- On Oct. 30, 2015, we placed on CreditWatch positive our ratings on certain classes of Spanish RMBS and ABS notes that could be affected by this upgrade, including our rating on Bankinter 5's class A notes.
- Following the application of our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating, we have raised and removed from CreditWatch positive our rating on Bankinter 5's class A notes.
- Due to an error, we did not previously raise our ratings on the notes to reflect the availability of the reserve fund to amortize outstanding note principal on the final payment date. Today's upgrades of the class A, B, and C notes correct this error.
- Bankinter 5 is a Spanish RMBS transaction, which closed in December 2002.

LONDON (Standard & Poor's) Jan. 14, 2016--Standard & Poor's Ratings Services today raised and removed from CreditWatch positive our rating on Bankinter 5 Fondo de Titulizacion Hipotecaria's class A notes. At the same time, we have raised our ratings on the class B and C notes (see list below).

Today's rating actions follow our Oct. 2, 2015 raising of our long-term sovereign rating on Spain to 'BBB+' from 'BBB' and the application of our updated criteria for rating single-jurisdiction securitizations above the

sovereign foreign currency rating (RAS criteria; see "Kingdom Of Spain Upgraded To 'BBB+' On Reforms; Outlook Stable" and "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015).

On Oct. 30, 2015, we placed on CreditWatch positive our rating on Bankinter 5's class A notes (see "Ratings On 88 Spanish RMBS And ABS Tranches Placed On CreditWatch Positive Following Sovereign And Bank Rating Actions").

We have also applied our Spanish residential mortgage-backed securities (RMBS) criteria as part of our credit and cash flow analysis (see "Italy And Spain RMBS Methodology And Assumptions," published on Sept. 18, 2014).

Under our RAS criteria, we have applied a hypothetical sovereign default stress test to determine whether a tranche has sufficient credit and structural support to withstand a sovereign default and so repay timely interest and principal by legal final maturity.

These criteria designate the country risk sensitivity for RMBS as moderate. This transaction's notes can therefore be rated four notches above the sovereign rating, if they have sufficient credit enhancement to pass a minimum of a severe stress. However, if all six of the conditions in paragraph 44 of our RAS criteria are met, we can assign ratings up to a maximum of six notches (two additional notches of uplift) above the sovereign rating, subject to credit enhancement being sufficient to pass an extreme stress (see "Understanding Standard & Poor's Rating Definitions," published on June 3, 2009 for our definitions of severe and extreme levels of economic stress).

Following the application of our RAS criteria and our RMBS criteria, we have determined that our assigned rating on each class of notes in this transaction should be the lower of (i) the rating as capped by our RAS criteria and (ii) the rating that the class of notes can attain under our RMBS criteria.

In Bankinter 5's priority of payment structure, in certain scenarios, the replenishment of the reserve fund ranks senior to the amortization of the bonds for all payment dates besides the final one. Due to an error, in our analysis, we continued to apply the replenishment of the reserve fund on the final payment date. As a result, the reserve fund was failing to provide credit enhancement to the notes in certain cash flow scenarios.

Following the correction of this error, under our Spanish RMBS credit and cash flow stresses, the class A, B, and C notes now have sufficient credit enhancement to support ratings at the 'AA (sf)', 'A (sf)', and 'BB+ (sf)' rating levels, respectively.

However, the class A and B notes cannot withstand the extreme and severe stresses, respectively, that we apply under our RAS criteria. Consequently, the maximum uplift for the class A notes is four notches above the long-term sovereign rating, and the class B notes are unable to be rated above the long-term rating on the sovereign.

In addition, the maximum potential rating for the notes is constrained at one notch above the issuer credit rating on the basis swap provider, Credit Agricole Corporate And Investment Bank (A/Stable/A-1), due to the replacement language not being in line with our current counterparty criteria (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

We have therefore raised to 'A+ (sf)' from 'BBB (sf)' and removed from CreditWatch positive our rating on the class A notes. At the same time, we have raised to 'BBB+ (sf)' from 'BB (sf)' our rating on the class B notes and to 'BB+ (sf)' from 'B (sf)' our rating on the class C notes.

In our opinion, the outlook for the Spanish residential mortgage and real estate market is not benign and we have therefore increased our expected 'B' foreclosure frequency assumption to 3.33% from 2.00%, when we apply our RMBS criteria, to reflect this view (see "Outlook Assumptions For The Spanish Residential Mortgage Market," published on Sept. 18, 2014). We base these assumptions on our expectation of continuing high unemployment in 2016.

Spain's economic recovery is gaining momentum, which is currently only supporting a marginal improvement in the collateral performance of transactions in our Spanish RMBS index. Despite positive macroeconomic indicators and low interest rates, persistent high unemployment and low household income ratios continue to constrain the RMBS sector's nascent recovery, in our view.

We expect severe arrears in the portfolio to remain vulnerable to downside risks. These include high unemployment and fiscal tightening. On the positive side, we expect interest rates to remain low for the foreseeable future and stronger economic growth.

Bankinter 5 is a Spanish RMBS transaction that closed in December 2002 and securitizes first-ranking mortgage loans. Bankinter S.A. originated the pool, which comprises loans granted to prime borrowers secured over owner-occupied residential properties in Spain.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Italy And Spain RMBS Methodology And Assumptions, Sept. 18, 2014
- Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And

'SD' Ratings, Oct. 24, 2013

- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Global Derivative Agreement Criteria, June 24, 2013
- Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

Related Research

- Ratings On 88 Spanish RMBS And ABS Tranches Placed On CreditWatch Positive Following Sovereign And Bank Rating Actions, Oct. 30, 2015
- Kingdom Of Spain Upgraded To 'BBB+' On Reforms; Outlook Stable, Oct. 2, 2015
- Eurozone Economic Outlook: Steady For Now, Despite Slower World Trade, Sept. 30, 2015
- Spanish RMBS Index Report Q2 2015: Index Composition Boosts Collateral Performance Slightly, Sept. 11, 2015
- 2015 EMEA RMBS Scenario And Sensitivity Analysis, Aug. 6, 2015
- Low Lending Rates And Stronger Economic Growth Are Reviving Europe's Housing Markets, July 30, 2015
- Despite The Turmoil In Greece, Europe's Fragile Growth Continues, July 14, 2015
- Various Rating Actions Taken In Spanish RMBS Transactions Bankinter 5, 8, And 10 Following Criteria Updates, March 5, 2015
- Outlook Assumptions For The Spanish Residential Mortgage Market, Sept. 18, 2014
- European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors, July 8, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014

RATINGS LIST

Class	Rating
To	From

Bankinter 5 Fondo de Titulizacion Hipotecaria
€710 Million Mortgage-Backed Floating-Rate Notes

Rating Raised And Removed From CreditWatch Positive

Ratings Raised In Spanish RMBS Transaction Bankinter 5 Following Sovereign Upgrade

A	A+ (sf)	BBB (sf)/Watch Pos
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Ratings Raised

B	BBB+ (sf)	BB (sf)
C	BB+ (sf)	B (sf)

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