

Rating Action: Moody's downgrades 13 notes in four Bankinter Spanish RMBS transactions

Global Credit Research - 20 Mar 2013

Madrid, March 20, 2013 -- Moody's Investors Service has today downgraded by two to six notches the ratings of ten junior notes and by one notch the ratings of three senior notes in four Spanish residential mortgage-backed securities (RMBS) transactions: Bankinter 6, FTA; Bankinter 7, FTH; Bankinter 8, FTA; and Bankinter 9, FTA. At the same time, Moody's confirmed the rating of two securities in Bankinter 9, FTA. 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 four 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. 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/researchdocumentcontentpage.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.

In all four affected transactions, Moody's maintained the current expected loss and MILAN CE assumptions. Expected loss assumptions remain at 0.44% for Bankinter 6 FTA, 0.48% for Bankinter 7 FTH, 0.49% for Bankinter 8 FTA, 0.39% for Bankinter 9 FTA(P) and 0.72% for Bankinter 9 FTA(T). The MILAN CE assumptions remain at 12.5% for Bankinter 9 FTA(T) and at 10% for the rest of the deals.

-- 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.

As part of its analysis Moody's assessed the exposure of Bankinter 7 and Bankinter 9 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 8, 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 "Approach to Assessing Linkage to Swap Counterparties in Structured Finance Cashflow Transactions: Request for Comment" (http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBS_SF289772), published on 2 July 2012.

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.moodys.com for a copy of this methodology.

Other factors used in these ratings are described in "The Temporary Use of Cash in Structured Finance Transactions: Eligible Investment and Bank Guidelines" published in March 2013.

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.

In the context of the rating review, the transactions have been remodeled and some inputs have been adjusted to reflect the new approach described above.

LIST OF AFFECTED RATINGS

Issuer: BANKINTER 6 FONDO DE TITULIZACION DE ACTIVOS

....EUR1295.3MA Notes, Downgraded to Baa1 (sf); previously on Nov 23, 2012 Confirmed at A3 (sf)

....EUR27.7M B Notes, Downgraded to Ba1 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

....EUR27M C Notes, Downgraded to B1 (sf); previously on Jul 2, 2012 Baa3 (sf) Placed Under Review for Possible Downgrade

Issuer: BANKINTER 7 Fondo de Titulización Hipotecaria

....EUR471.8MA Notes, Downgraded to Baa1 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR13M B Notes, Downgraded to Ba2 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

....EUR5.2M C Notes, Downgraded to B3 (sf); previously on Jul 2, 2012 Baa3 (sf) Placed Under Review for Possible Downgrade

Issuer: BANKINTER 8 FONDO DE TITULIZACION DE ACTIVOS

....EUR1029.3MA Notes, Downgraded to Baa1 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR21.4M B Notes, Downgraded to Ba1 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

....EUR19.3M C Notes, Downgraded to B1 (sf); previously on Jul 2, 2012 Baa3 (sf) Placed Under Review for Possible Downgrade

Issuer: BANKINTER 9, FONDO DE TITULIZACION DE ACTIVOS

....EUR656MA2 (P) Notes, Confirmed at Baa1 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

....EUR15.3M B (P) Notes, Downgraded to Ba3 (sf); previously on Nov 23, 2012 Downgraded to Baa2 (sf) and Remained On Review for Possible Downgrade

....EUR7.1M C (P) Notes, Downgraded to B3 (sf); previously on Jul 2, 2012 Baa3 (sf) Placed Under Review for Possible Downgrade

....EUR244.2MA2 (T) Notes, Confirmed at A3 (sf); previously on Jul 2, 2012 Downgraded to A3 (sf) and Placed Under Review for Possible Downgrade

....EUR17.2M B (T) Notes, Downgraded to Baa3 (sf); previously on Nov 23, 2012 Downgraded to Baa1 (sf) and Remained On Review for Possible Downgrade

....EUR7M C (T) Notes, Downgraded to Ba2 (sf); previously on Jul 2, 2012 Baa1 (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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