

Rating Action: Moody's upgrades three Notes on two Spanish RMBS deals

25 Nov 2020

Frankfurt am Main, November 25, 2020 -- Moody's Investors Service ("Moody's") has today upgraded the ratings of three Notes and affirmed the ratings of seven Notes in two Spanish RMBS deals. The rating action reflects:

- Better than expected collateral performance

- The increased levels of credit enhancement for the affected Notes

Moody's affirmed the ratings of the Notes that had sufficient credit enhancement to maintain the current ratings on the affected Notes.

Issuer: BANKINTER 9, FTA

...EUR 656M Class A2 (P) Notes, Affirmed Aa1 (sf); previously on Jun 29, 2018 Upgraded to Aa1 (sf)

...EUR 244.2M Class A2 (T) Notes, Affirmed Aa1 (sf); previously on Jun 29, 2018 Affirmed Aa1 (sf)

...EUR 15.3M Class B (P) Notes, Affirmed Baa2 (sf); previously on Jun 29, 2018 Upgraded to Baa2 (sf)

...EUR 17.2M Class B (T) Notes, Affirmed Aa1 (sf); previously on Jun 29, 2018 Affirmed Aa1 (sf)

...EUR 7.1M Class C (P) Notes, Upgraded to Ba3 (sf); previously on Jun 29, 2018 Affirmed B1 (sf)

...EUR 7M Class C (T) Notes, Upgraded to A3 (sf); previously on Jun 29, 2018 Upgraded to Baa1 (sf)

Issuer: IM CAJA LABORAL 1, FTA

...EUR 856.3M Class A Notes, Affirmed Aa1 (sf); previously on Jun 29, 2018 Affirmed Aa1 (sf)

...EUR 10.8M Class B Notes, Affirmed Aa3 (sf); previously on Jun 29, 2018 Upgraded to Aa3 (sf)

...EUR 14.9M Class C Notes, Affirmed A2 (sf); previously on Jun 29, 2018 Upgraded to A2 (sf)

...EUR 18M Class D Notes, Upgraded to Ba1 (sf); previously on Jun 29, 2018 Affirmed Ba3 (sf)

Maximum achievable rating is Aa1 (sf) for structured finance transactions in Spain, driven by the corresponding local currency country ceiling of the country.

RATINGS RATIONALE

The rating action is prompted by:

- Decrease in key collateral assumptions, namely the portfolio Expected Loss (EL) assumptions due to better than expected collateral performance

- An increase in credit enhancement for the affected tranches

Revision of Key Collateral Assumptions

As part of the rating action, Moody's reassessed its lifetime loss expectation for the portfolio reflecting the collateral performance to date.

The performance of the transactions has continued to improve since the last rating actions for both transactions. Total delinquencies have decreased in the past year, with 90 days plus arrears currently standing at 0.38%, 0.00% and 0.33% of current pool balance, respectively, for BANKINTER 9, FTA (Pool A), BANKINTER 9, FTA (Pool B) and IM CAJA LABORAL 1, FTA. Cumulative defaults remain low at 0.45%, 0.60% and 0.92% of original pool balance, respectively, for BANKINTER 9, FTA (Pool A), BANKINTER 9, FTA

(Pool B) and IM CAJA LABORAL 1, FTA.

Moody's decreased the expected loss assumption to 0.25%, 0.35% and 0.60% as a percentage of original pool balance, respectively, for BANKINTER 9, FTA (Pool A), BANKINTER 9, FTA (Pool B) and IM CAJA LABORAL 1, FTA, from 0.49%, 0.59% and 0.80%, respectively, due to the improving performance.

Moody's has also assessed loan-by-loan information as a part of its detailed transaction review to determine the credit support consistent with target rating levels and the volatility of future losses. As a result, Moody's has maintained the MILAN CE assumption to 6.00%, 7.00% and 7.00%, respectively, for BANKINTER 9, FTA (Pool A), BANKINTER 9, FTA (Pool B) and IM CAJA LABORAL 1, FTA.

Increase in Available Credit Enhancement

Non-amortizing reserve funds led to the increase in the credit enhancement available in these transactions.

For instance, the credit enhancement for the most senior tranches affected by today's rating action on BANKINTER 9, FTA (Pool A), BANKINTER 9, FTA (Pool B) and IM CAJA LABORAL 1, FTA increased respectively to 3.67%, 6.85% and 3.35% from, respectively, 2.46%, 5.40% and 2.40% since the last rating actions.

Counterparty Exposure

Today's rating actions took into consideration the Notes' exposure to relevant counterparties, such as servicer, account banks or swap providers. In particular, the ratings on Class C (T) Notes in BANKINTER 9, FTA and on Class C and Class D Notes in IM CAJA LABORAL 1, FTA are constrained by the linkage with the respective swap counterparties.

The coronavirus outbreak, the government measures put in place to contain it, and the weak global economic outlook continue to disrupt economies and credit markets across sectors and regions. Our analysis has considered the effect on the performance of consumer assets from the current weak Spanish economic activity and a gradual recovery for the coming months. Although an economic recovery is underway, it is tenuous and its continuation will be closely tied to containment of the virus. As a result, the degree of uncertainty around our forecasts is unusually high.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in May 2020 and available at https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBS_1228742. Alternatively, please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

The analysis undertaken by Moody's at the initial assignment of ratings for RMBS securities may focus on aspects that become less relevant or typically remain unchanged during the surveillance stage. Please see "Moody's Approach to Rating RMBS Using the MILAN Framework" for further information on Moody's analysis at the initial rating assignment and the on-going surveillance in RMBS.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include: (1) performance of the underlying collateral that is better than Moody's expected; (2) an increase in available credit enhancement; (3) improvements in the credit quality of the transaction counterparties; and (4) a decrease in sovereign risk.

Factors or circumstances that could lead to a downgrade of the ratings include: (1) an increase in sovereign risk; (2) performance of the underlying collateral that is worse than Moody's expected; (3) deterioration in the Notes' available credit enhancement; and (4) deterioration in the credit quality of the transaction counterparties.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody's.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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