



Fitch Affirms Valencia Hipotecario Series

Fitch Ratings-London-24 July 2015: Fitch Ratings has affirmed the Valencia Hipotecario series, three Spanish RMBS transactions originated by Banco de Valencia (now CaixaBank, S.A.; BBB/Positive/F2).

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

Stable Performance

The affirmations reflect the robust performance of the securitised portfolios. Cumulative gross defaults remain limited and stand at between 0.4% (VH1) and 2.8% (VH3) of the initial pool, an increase of between 12bp (VH1) and 39bp (VH3) compared with 12 months ago. Late stage arrears (mortgages with at least three monthly payments overdue) show marginal improvements, currently between 0.8% (VH1) and 1.3% (VH2) of the current pool, a decrease of between 15bp (VH1) and 66bp (VH2) compared with 12 months ago. Both indicators are below Fitch's Spanish RMBS index, where gross defaults and late stage arrears are 5% and 1.5%, respectively.

While Fitch views the performance of all three transactions as above average compared with the Fitch-rated Spanish RMBS portfolio, the agency notes that the performance of VH1 has been stronger than that of VH2 and VH3. Fitch believes that this is due to the higher seasoning of the deal (the average year of origination in VH1 is 2001, compared with 2004 in VH3's case), stronger borrower financial condition as measured by the weighted average debt to income ratio (47.7% in VH1, compared to 62.4% and 72.7% in VH2 and VH3, respectively), and lower exposure to adverse borrower and loan characteristics such as mortgage tenors beyond 30 years (4.19% in VH1 compared to 16.86% and 29.85% in VH2 and VH3, respectively).

Reserve Fund Replenishments

The transactions' structures allow for the full provisioning of defaulted loans, which are defined as loans in arrears by more than 18 months. Since January 2015, gross excess spread and recoveries have been sufficient to fully cover period defaults, leading to replenishments of the respective reserve funds. As of June 2015 the cash reserves of VH1, VH2 and VH3 were between 84.9% (VH3) and 99.9% (VH1) of the respective target levels.

Sufficient Credit Enhancement (CE)

VH1 may switch to pro-rata in the next 12 months as the relevant triggers are close to being met. We do not expect the necessary pro-rata triggers to be met for the other deals in the near future. However, Fitch believes that available CE is sufficient to withstand the associated rating stresses, which is reflected in the affirmations.

Maturity Extensions

Fitch has analysed the extent of maturity extensions that have taken place. The peak in number of maturity extensions occurred during 2010-2012. Since then, the yearly number of maturity extensions has decreased substantially. We have accounted for this by classifying all loans subject to maturity extensions as loans in arrears for more than three months, and thus increased their probability of default. The additional stress applied to these loans had no material effect on our view of the current credit support available to the rated tranches, as reflected in their affirmation.

Strong House Price Decline

Fitch's analysis of the properties in the underlying portfolios, suggest high degree of concentration in the Valencia region, where price declines over the past years have been above the Spanish national average. As a result, recoveries from the sale of properties taken into possession have been limited. This has been taken into consideration in our analysis by stressing our distressed sale discount assumption (or quick sale adjustment), and hence reducing the expected recoveries.

Payment Interruption Risk

The current reserve fund levels provide sufficient liquidity to cover at least six months of senior fees and interest on the senior notes in case of default of the servicer or the collection account bank.

RATING SENSITIVITIES

Deterioration in asset performance may result from economic factors, in particular the increasing effect of unemployment. A corresponding increase in new defaults and associated pressure on excess spread levels and reserve funds could result in negative rating action.

DUE DILIGENCE USAGE

No third party due diligence was provided or reviewed in relation to this rating action.

DATA ADEQUACY

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pools and the transactions. There were no findings that were material to this analysis. Fitch has not reviewed the results of any third party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Fitch did not undertake a review of the information provided about the underlying asset pools ahead of the transactions' initial closing. The subsequent performance of the transactions over the years is consistent with the agency's expectations given the operating environment and Fitch is therefore satisfied that the asset pool information relied upon for its initial rating analysis was adequately reliable.

Overall, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

Sources of Information:

The information below was used in the analysis.

-Loan-by-loan data provided by European Data Warehouse as at May 2015 in VH1, and April 2015 in VH2 and VH3.

-Transaction reporting provided by Europea de Titulizacion SGFT, S.A. as at April 2015 in VH1 and VH2, and June 2015 in VH3.

- Maturity extension provided by Europea de Titulizacion SGFT, S.A. with a cut-of date of 31 March 2015

- Information on repossessed properties provided by Europea de Titulizacion SGFT, S.A. with a cut-of date of 31 March 2015

Models

The model below was used in the analysis. Click on the link for a description of the model.

EMEA RMBS Surveillance Model. (https://www.fitchratings.com/web_content/pages/rmbs/emea-rmbs-surveillance-model.htm)

The rating actions are as follows:

Valencia Hipotecario 1, Fondo de Titulizacion de Activos (VH1):

Class A (ISIN ES0382744003): affirmed at 'AA+sf'; Outlook Stable

Class B (ISIN ES0382744011): affirmed at 'AA-sf'; Outlook Stable

Class C (ISIN ES0382744029): affirmed at 'Asf'; Outlook Stable

Valencia Hipotecario 2, Fondo de Titulizacion de Hipotecaria (VH2):

Class A (ISIN ES0382745000): affirmed at 'AA+sf'; Outlook Stable

Class B (ISIN ES0382745018): affirmed at 'A-sf'; Outlook Stable

Class C (ISIN ES0382745026): affirmed at 'BB+sf'; Outlook Stable

Class D (ISIN ES0382745034): affirmed at 'CCCsf'; Recovery Estimate revised to 50% from 30%

Valencia Hipotecario 3, Fondo de Titulizacion de Activos (VH3):

Class A2 (ISIN ES0382746016): affirmed at 'AA-sf'; Outlook Stable

Class B (ISIN ES0382746024): affirmed at 'BBBsf'; Outlook Stable

Class C (ISIN ES0382746032): affirmed at 'BB+sf'; Outlook Negative

Class D (ISIN ES0382746040): affirmed at 'CCCsf'; Recovery Estimate revised to 70% from 60%

Contacts:

Lead Surveillance Analyst

Ricardo Garcia

Analyst

+44 20 3530 1749

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Committee Chairperson

Sanja Paic
Senior Director
+44 20 3530 1282

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email:
athos.larkou@fitchratings.com.

Additional information is available at www.fitchratings.com.

Applicable Criteria

EMEA Residential Mortgage Loss Criteria (pub. 31 Mar 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=864266)
Counterparty Criteria for Structured Finance and Covered Bonds (pub. 14 May 2014)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744158)
Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum (pub. 14 May 2014) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744175)
Criteria Addendum: Spain - Residential Mortgage Assumptions (pub. 10 Jun 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=866760)
Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds (pub. 20 Feb 2015) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=862115)
EMEA RMBS Cash Flow Analysis Criteria (pub. 31 Mar 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=864265)
EMEA RMBS Master Rating Criteria (pub. 31 Mar 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=864273)
Global Criteria for Lenders' Mortgage Insurance in RMBS (pub. 23 Jun 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=865195)
Global Structured Finance Rating Criteria (pub. 06 Jul 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=867952)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=988485)
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