



Fitch Upgrades 3 Tranches of Valencia Hipotecario RMBS, Affirms Others

Fitch Ratings-London-18 July 2017: Fitch Ratings has upgraded three tranches of three Valencia Hipotecario RMBS transactions and affirmed eight tranches as follows:

Valencia Hipotecario 1, Fondo de Titulizacion de Activos:

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

Class B (ISIN ES0382744011): upgraded to 'AA+sf' from 'AA-sf'; Outlook Stable

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

Valencia Hipotecario 2, Fondo de Titulizacion de Hipotecaria:

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

Class B (ISIN ES0382745018): upgraded to 'A+sf' from 'A-sf'; Outlook Stable

Class C (ISIN ES0382745026): upgraded to 'BBBsf' from 'BB+sf'; Outlook Stable

Class D (ISIN ES0382745034): affirmed at 'CCCsf'; revised Recovery Estimate 90% from 50%

Valencia Hipotecario 3, Fondo de Titulizacion de Activos:

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 Stable

Class D (ISIN ES0382746040): affirmed at 'CCCsf'; revised Recovery Estimate 90% from 70%

The transactions comprise residential mortgage loans serviced by CaixaBank, S.A. (BBB/Positive/F2) in Spain.

KEY RATING DRIVERS

Credit Enhancement (CE) Trends

All three transactions include amortisation mechanisms that allow the notes to be paid down pro-rata rather than sequentially as long as performance and tranche thickness (tranche size relative to total outstanding) triggers are fulfilled. Fitch views the available and projected CE across the series sufficient to withstand the associated rating stresses, which is reflected in the affirmations and upgrades.

Valencia Hipotecario 1's CE trends are expected to increase as the transaction will soon revert to sequential amortisation, as its portfolio balance is near the 10% limit as defined by transaction documents and pro-rata amortisation will no longer be permitted. CE for the senior notes of Valencia Hipotecario 2 and 3 is expected to remain broadly stable, as both transactions are most likely to revert to or maintain pro-rata amortisation of the notes as long as performance triggers are satisfied.

Stable Asset Performance

The securitised mortgage portfolios have built some substantial seasoning between 12 and 15 years. As such, the weighted average current loan-to-value (LTV) ratios have dropped to between 26% and 40%, compared with the weighted average original LTV of around 70%, and support Fitch's view that credit performance will remain stable in the near term.

The transactions have three-month plus arrears (excluding defaults) ranging between 0.3% (Valencia Hipotecario 1) and 1.1% (Valencia Hipotecario 2) of the portfolio outstanding balance, and cumulative gross defaults (defined as loans in arrears for more than 18 months) ranging between 0.5% and 3.6% of the initial portfolio balance for Valencia Hipotecario 1 and 3, respectively.

Geographic Concentration Risk

Fitch has applied a 15% increase to the base foreclosure frequency assumption for loans located in regions that represent each more than 35% of the portfolio balance, such as Valencia, which makes up 60% to 70% of the portfolios.

Restructured Loan Exposure

Fitch has received additional data that shows loan maturity extensions have taken place in the range between 8.3% (Valencia Hipotecario 1) and 1.6% (Valencia Hipotecario 2) of the outstanding collateral balance. In the absence of sufficient payment history data for such loans, Fitch has added their balance to the three months plus arrears bucket, which is linked to a higher default probability assumption.

RATING SENSITIVITIES

The ratings of the senior notes of Valencia Hipotecario 1 and 2 are sensitive to changes in Spain's Country Ceiling of 'AA+sf' and also to changes to the highest achievable 'AA+sf' rating for Spanish structured finance notes.

The rating of Valencia Hipotecario 1 class C is sensitive to changes in the respective SPV account bank's rating (Barclays Bank, A/Stable/F1), as the transaction cash reserves are kept at this bank account representing the only source of CE for this tranche.

A worsening of the Spanish macroeconomic environment, especially employment conditions or an abrupt shift of interest rates could jeopardise the underlying borrowers' affordability. This could have negative rating implications, especially for junior tranches that are less protected by structural CE.

USE OF THIRD-PARTY DUE DILIGENCE PURSUANT TO RULE 17G-10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch 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 affected the rating 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.

Issuer and servicer reports provided by Europea de Titulizacion SGFT since closing of the deals and until 31 May 2017 for Valencia Hipotecario 1, 30 April 2017 for Valencia Hipotecario 2 and 31 March 2017 for Valencia Hipotecario 3.

Loan level data dated 18 May 2017 for Valencia Hipotecario 1, 18 April 2017 for Valencia Hipotecario 2, and 16 March 2017 for Valencia Hipotecario 3, were sourced from the European Data Warehouse.

Discussions and updates from the trustee dated June 2017.

MODELS

ResiEMEA. (<https://www.fitchratings.com/site/structuredfinance/rmbs/resiemea>)

EMEA RMBS Surveillance Model.

(<https://www.fitchratings.com/site/structuredfinance/rmbs/emearsm>)

EMEA Cash Flow Model.

(<https://www.fitchratings.com/site/structuredfinance/emeacfm>)

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Applicable Criteria

Criteria Addendum: Spain Residential Mortgage Assumptions (pub. 02 Dec 2016)
(<https://www.fitchratings.com/site/re/891432>)

Criteria for Country Risk in Global Structured Finance and Covered Bonds (pub. 26 Sep 2016) (<https://www.fitchratings.com/site/re/881269>)

EMEA RMBS Rating Criteria (pub. 29 Nov 2016)
(<https://www.fitchratings.com/site/re/891276>)

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds - Excel File (pub. 17 Feb 2017) (<https://www.fitchratings.com/site/re/894478>)

Global Structured Finance Rating Criteria (pub. 03 May 2017)
(<https://www.fitchratings.com/site/re/897411>)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898537>)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898538>)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 17 Feb 2017) (<https://www.fitchratings.com/site/re/893890>)

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(<https://www.fitchratings.com/site/dodd-frank-disclosure/1026640>)

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