



Fitch Upgrades 4 Tranches of Valencia Hipotecario Spanish RMBS, Affirms Others

Fitch Ratings-London-14 December 2018: Fitch Ratings has upgraded one tranche of Valencia Hipotecario 2, Fondo de Titulizacion de Hipotecaria (VH2) and three tranches of Valencia Hipotecario 3, Fondo de Titulizacion de Activos (VH3) and removed six tranches from Rating Watch Positive (RWP), as follows:

(VH2):

Class A ISIN (ES0382745000): affirmed at 'AAAsf'; Outlook Stable

Class B ISIN (ES0382745018): affirmed at 'A+sf'; off RWP; Outlook Stable

Class C ISIN (ES0382745026): upgraded to 'Asf' from 'BBBsf'; on RWP

Class D ISIN (ES0382745034): affirmed at 'CCCs'; off RWP; Recovery Estimate 90%

(VH3):

Class A ISIN (ES0382746016): upgraded to 'AA+sf' from 'AAAsf'; off RWP, Outlook Stable

Class B ISIN (ES0382746024): upgraded to 'A+sf' from 'A-sf'; off RWP, Outlook Stable

Class C ISIN (ES0382746032): upgraded to 'A-sf' from 'BBBsf'; off RWP, Outlook Stable

Class D ISIN (ES0382746040): affirmed at 'CCCs'; off RWP; Recovery Estimate 90%

KEY RATING DRIVERS

Updated Counterparty Rating Criteria

Fitch placed the tranches on RWP after revising its approach to commingling risk in June 2018. The changes relate to the eligibility criteria Fitch applies to collection account banks and collection account bank holders under new commingling risk classification. The risk classification depends on both the potential exposure to commingled funds as well as the transaction's ability to maintain timely payments on the notes if the commingled funds were lost.

According to the new criteria, commingling is considered an immaterial risk driver in transactions that transfer collected funds to the issuer within two business days. In VH2 and VH3, collected funds were swept daily to the issuing account bank. Details on the commingling loss have been sized on how this relates to the exposure. This explains the upgrade of VH2 (<https://www.fitchratings.com/web/10055660>) and the affirmation of VH3's tranches A, B and C. [Click here to our use of cookies click Accept.](#)

High Seasoning and Sound Asset Performance

ACCEPT

Three-month plus arrears (excluding defaults) have remained relatively low since our last review at 0.7% for VH3 and 0.9% for VH2 (both as of October 2018) of the portfolios' outstanding balance. Cumulative gross defaults (defined as loans in arrears for more than 18 months) stabilised at 3.3% and 3.8% of the initial portfolio balance for VH2 and VH3, respectively.

Both portfolios have built substantial seasoning, which currently is at 14 years for VH3 and 15 years for VH2. As a result, the weighted average indexed current loan-to-value (LTV) ratios have reduced to 31.6% and 36.9%, compared with the weighted average original LTVs of around 70%. For this reason, Fitch expects performance to remain stable over the short to medium term.

Credit Enhancement (CE) Trends

Both transactions include amortisation mechanisms that allow the notes to be repaid on a pro-rata basis as long as performance and tranche thickness (tranche size relative to total outstanding) triggers are fulfilled. Note repayment will switch back to sequential when the pool balance reaches less than 10% of the original balance at closing. 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.

VH2's cash reserve fund (RF) has amortised to its floor of EUR5 million. This will allow some CE build-up given the pool will amortise.

VH3's RF has nearly amortised to its floor of EUR5.2 million, meaning CE will increase on the next interest payment dates. VH3's class B and C notes started to amortise when the respective pro-rata conditions were satisfied (December 2016 and December-2017, respectively) and have currently both amortised to about 40% of their original balance, causing an increase in CE. The upgrade of the C notes also reflects the resulting improved resilience to Fitch's stresses.

Geographic Concentration Risk

The collateral portfolio is exposed to geographical concentration in Comunidad Valenciana and Murcia. As per its criteria, Fitch has applied further adjustments to the base foreclosure frequency assumption to the portion of the portfolio that exceeds two and a half times the population within these regions.

Excessive Counterparty Exposure

VH2's class C notes' rating is capped at the issuer account bank provider's rating (Barclays Bank plc; A/RWP) due to excessive counterparty risk. The cash reserve, held at the account bank, represents a very material component of the junior notes' CE. As such, the class C notes' maximum achievable rating is linked to the SPV account bank provider.

As Barclays Bank plc is currently on RWP, Fitch has placed Valencia Hipotecario 2's class C notes on RWP. Resolution of the RWP is directly linked to the resolution of the RWP on Barclays Bank plc, which may take longer than six months.

RATING SENSITIVITIES

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy (<https://www.thefitchgroup.com/site/privacy>). To agree to our use of cookies click Accept.

A deterioration of the Spanish macroeconomic environment, particularly in relation to employment conditions or to sharp interest rate increases could jeopardise the underlying borrowers' affordability. This could have negative rating implications, especially for junior tranches that are less protected by structural CE.

ACCEPT

VH2's class C notes' rating is dependent on the rating of the account bank, Barclays Bank plc, as CE for the notes is mainly provided by the RF held at the account bank.

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 pool and the transaction. 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.

Prior to the transaction closing, Fitch reviewed the results of a third party assessment conducted on the asset portfolio information and concluded that there were no findings that affected the rating analysis.

Prior to the transaction closing, Fitch conducted a review of a small targeted sample of the originators' origination files and found the information contained in the reviewed files to be adequately consistent with the originator's policies and practices and the other information provided to the agency about the asset portfolio.

Overall and together with the assumptions referred to above, 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 30 September 2018 and 31 August 2018 for VH2 and VH3, respectively
- Transaction reporting provided by Europea de Titulizacion as at 30 September 2018 and 31 August 2018 for VH2 and VH3, respectively

MODELS

ResiGlobal

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

EMEA Cash Flow Model

EMEA Cash Flow Model. (<https://www.fitchratings.com/site/structuredfinance/emeacfm>)

Contacts:

Lead Surveillance Analyst

Francesco Luzzi

Analyst

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy (<https://www.thefitchgroup.com/site/privacy>). To agree to our use of cookies click Accept.

ACCEPT

+44 20 3530 1979
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Committee Chairperson
Alessandro Pighi
Senior Director
Co-Head European RMBS
+44 20 3530 1794

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email: athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

Applicable Criteria

European RMBS Rating Criteria (pub. 05 Oct 2018) (<https://www.fitchratings.com/site/re/10047011>)
Global Structured Finance Rating Criteria (pub. 15 May 2018) (<https://www.fitchratings.com/site/re/10029600>)
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 01 Aug 2018) (<https://www.fitchratings.com/site/re/10039504>)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (pub. 01 Aug 2018) (<https://www.fitchratings.com/site/re/10039505>)
Structured Finance and Covered Bonds Country Risk Rating Criteria (pub. 23 Oct 2018) (<https://www.fitchratings.com/site/re/10047041>)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 02 Feb 2018) (<https://www.fitchratings.com/site/re/10018549>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (<https://www.fitchratings.com/site/dodd-frank-disclosure/10055660>)
Solicitation Status (<https://www.fitchratings.com/site/pr/10055660#solicitation>)
Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE.

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy (<https://www.thefitchgroup.com/site/privacy>). To agree to our use of cookies click Accept.

[HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS

ACCEPT

BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch

ACCEPT

to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. Learn more (<https://www.thefitchgroup.com/site/policies>).

We use cookies to deliver our online services, to understand how they are used and for advertising purposes. Details of the cookies we use and instructions on how to disable them are set out in our Privacy Policy (<https://www.thefitchgroup.com/site/privacy>). To agree to our use of cookies click Accept.

ACCEPT