



Tagging Info

Fitch Takes Rating Actions on Valencia Hipotecario Series

Ratings Endorsement Policy

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Fitch Ratings-London/Madrid-31 August 2012: Fitch Ratings has affirmed 13, downgraded three and removed from Rating Watch Negative (RWN) nine tranches of the Valencia Hipotecario (Valencia) 1-5 Spanish RMBS series. A full list of rating actions is at the end of this commentary. The Valencia RMBS series comprises residential mortgaged loans originated by Banco de Valencia ('BB-/Stable/'B') to borrowers located mainly in the Valencia region.

The main drivers of the downgrades are the weak credit performance of the collateral and the continued difficulties in the Spanish mortgage market. The removal of the RWN follows the implementation of remedial actions on ineligible counterparties in all five deals.

Arrear levels in all five transactions have risen as a result of the tough market conditions. For example, the level of arrears by more than three months range between 0.5% and 4.8% of current collateral balance compared with 0.2% and 4.0% six months ago.

Valencia 4 continues to be the worst performer in the series, with higher arrear levels and cumulative gross defaults reaching 7.1% of the initial pool balance compared with 6.4% six months ago. As a result of the high frequency of defaults, excess spread has been insufficient to clear period provisions and as such the reserve fund has been fully depleted and there is now a large build up in the implicit principal deficiency ledger on the class C (100% of the current balance) and class B (34%) notes.

The agency analysed updated sale prices of repossessed properties of defaulted loans in the Valencia 4 deal. On average, the market value decline on each property was approximately 51.3%, which implied a weighted average recovery rate of around 40%. At this rate of recovery, the agency estimates the future proceeds from the sale of repossessed properties will not provide enough credit support for the senior note at the 'Asf' rating but will at the 'BBsf' stress. This analysis is reflected in the downgrade of the note to 'BBsf'.

The Valencia 2 and 3 deals are also subject to downgrades with the mezzanine notes in each deal being downgraded to 'BBB+sf' and 'BBBsf', respectively. Performance in both deals has deteriorated slightly, with both transactions experiencing a rise in arrears in the past six months and the Valencia 3 deal making reserve fund draws.

The weaker performance and the updated assumptions captured in Fitch's latest Spanish RMBS criteria (see 'EMEA Residential Mortgage Loss Criteria Addendum - Spain' dated 24 July 2012) meant the credit enhancement for the mezzanine notes is insufficient and therefore the Class B notes in both deals have been downgraded.

Fitch has removed all tranches rated 'BBB+sf' and above from RWN as remedial actions on ineligible counterparties have been undertaken, with the treasury account bank being transferred from Banco Santander to Barclays Bank ('A/Stable/'F1') in July 2012 in all five deals.

The rating actions are as follows:

Valencia Hipotecario 1, Fondo de Titulizacion de Activos:

Class A (ISIN ES0382744003): affirmed at 'AA-sf'; Outlook Negative; off RWN

Class B (ISIN ES0382744011): affirmed at 'AA-sf'; Outlook Negative; off RWN

Class C (ISIN ES0382744029): affirmed at 'BBB+sf'; Outlook Stable; off RWN

Valencia Hipotecario 2, Fondo de Titulizacion de Hipotecaria:

Class A (ISIN ES0382745000): affirmed at 'AA-sf'; Outlook Negative; off RWN

Class B (ISIN ES0382745018): downgraded to 'BBB+sf' from 'A+sf'; Outlook Negative; off RWN

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

Class D (ISIN ES0382745034): affirmed at 'CCCsf'; Recovery Estimate of 65%

Valencia Hipotecario 3, Fondo de Titulizacion de Activos:

Class A2 (ISIN ES0382746016): affirmed at 'AA-sf'; Outlook Negative; RWN off
Class B (ISIN ES0382746024): downgraded to 'BBBsf' from 'Asf'; Outlook Negative; off RWN
Class C (ISIN ES0382746032) affirmed at 'BB+sf'; Outlook Negative;
Class D (ISIN ES0382746040): affirmed at 'CCCsf'; Recovery Estimate of 50%

Valencia Hipotecario 4, Fondo de Titulizacion de Activos:

Class A (ISIN ES0382717009): downgraded to 'BBsf' from 'A-sf'; Outlook Negative; off RWN
Class B (ISIN ES0382717017): affirmed at 'CCCsf'; Recovery Estimate of 20%
Class C (ISIN ES0382717025) affirmed at 'CCsf'; Recovery Estimate of 0%
Class D (ISIN ES0382717033): affirmed at 'CCsf'; Recovery Estimate of 0%

Valencia Hipotecario 5, Fondo de Titulizacion de Activos:

Class A (ISIN ES0382718007): affirmed at 'Asf'; Outlook Stable; off RWN

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Sources of information- in addition to those mentioned in the applicable criteria, the sources of information used to assess these ratings were Investor Reports

Applicable criteria, 'Global Structured Finance Rating Criteria' dated 6 June 2012' EMEA Residential Mortgage Loss Criteria' dated 7 June 2012, and 'EMEA Residential Mortgage Loss Criteria Addendum - Spain dated 24 July 2012 'Counterparty Criteria for Structured Finance Transactions' and 'Counterparty Criteria for Structured Finance Transactions: Derivative Addendum', dated 30 May 2012 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

EMEA Residential Mortgage Loss Criteria
EMEA Criteria Addendum - Spain - Mortgage and Cashflow Assumptions
Counterparty Criteria for Structured Finance Transactions
Counterparty Criteria for Structured Finance Transactions: Derivative Addendum
Global Structured Finance Rating Criteria

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