

Various Rating Actions Taken In Spanish RMBS Transaction Hipocat 7 Following Review

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OVERVIEW

- We have reviewed Hipocat 7 by conducting our credit and cash flow analysis under our European residential loans criteria, our structured finance ratings above the sovereign criteria, and our current counterparty criteria.
- Following our review, we have raised our ratings on the class A2, B, and C notes.
- At the same time, we have affirmed our rating on the class D notes.
- Hipocat 7 is a Spanish RMBS transaction that closed in June 2004 and securitizes first-ranking mortgage credits. Catalunya Banc (formerly named Caixa Catalunya) originated the pool, which comprises credits secured over owner-occupied properties, mainly in Catalonia.

MADRID (S&P Global Ratings) July 27, 2017--S&P Global Ratings has today raised its credit ratings on Hipocat 7, Fondo de Titulizacion de Activos' class A2, B, and C notes. At the same time, we have affirmed our rating on the class D notes (see list below).

Today's rating actions follow our credit and cash flow analysis of the most recent transaction information that we have received and the July 2017 investor report. Our analysis reflects the application of our European residential loans criteria, our structured finance ratings above the sovereign

(RAS) criteria, and our current counterparty criteria (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published on Dec. 23, 2016, "Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions," published on Aug. 8, 2016, and "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

The transaction features an interest deferral trigger for the class B to D notes. If triggered, the interest payments are subordinated below principal in the priority of payments. These triggers are based on the difference between the available funds and the outstanding balance of the notes. None of these interest deferral terms have been triggered to date and we do not expect them to be triggered in the short term.

Available credit enhancement for all classes of notes has increased since our previous review due to the amortization of the class A2 notes and the partial replenishment of the reserve fund.

Class	Available credit enhancement, excluding defaulted loans (%)
A2	28.46
B	22.32
C	10.45
D	2.53

Hipocat 7 features a reserve fund, which can amortize to a target amount. At present, it totals €6.57 million, which represents 2.53% of the outstanding notes balance. It is not at its required balance of €25.39 million because it has been used to provision for defaulted assets in the past.

As per the investor report dated July 2017, severe delinquencies of more than 90 days, excluding defaults, are 1.02%, which is below our Spanish residential mortgage-backed securities (RMBS) index, although they have been above the index in the past (see "Spanish RMBS Index Report Q1 2017," published on June 1, 2017).

Mortgage loans in arrears for more than 18 months are classified as defaulted in this transaction and, consequently, artificially written off. The outstanding balance of loans in default, at about 10%, is higher than in other Spanish RMBS transactions that we rate. Prepayment levels remain low and we believe that the transaction is unlikely to pay down significantly in the near term.

Around 69% of the collateral pool is concentrated in Catalonia, which was the home region of the originator. Specifically, around 63% of the pool is in the province of Barcelona. We have considered this high concentration limit in our analysis. Since the pool exceeds both the threshold province and region concentration limits, we have applied the highest province adjustment.

After applying our European residential loans criteria to this transaction, our credit analysis results show a decrease in the weighted-average foreclosure frequency (WAFF) and a decrease in the weighted-average loss severity (WALS) for each rating level. Based on recent information received from the trustee on the low use of the payment holiday flexibility by borrowers on this pool and our analysis of the performance of loans that used this flexibility in the past, we have reassessed our view of the risks in relation to payment holiday. At the same time, we have reflected the recent performance data in combination with improved macroeconomic conditions, by not projecting arrears in addition to the existing arrears in the pool in our credit analysis. The combination of these two variables has had a positive effect on our credit analysis.

Rating level	WAFF (%)	WALS (%)	CC (%)
AAA	28.73	21.54	6.19
AA	21.48	17.42	3.74
A	17.72	10.09	1.79
BBB	12.86	6.43	0.83
BB	8.30	4.14	0.34
B	6.94	2.36	0.16

CC--Credit coverage.

Under our RAS criteria, we applied a hypothetical sovereign default stress test to determine whether a tranche has sufficient credit and structural support to withstand a sovereign default and so repay timely interest and principal by legal final maturity.

Our RAS criteria designate the country risk sensitivity for RMBS as moderate. Our credit and cash flow analysis indicates that the class A2 and B notes now have sufficient credit enhancement to withstand our stresses at the 'AA+' and 'A' rating levels, respectively. Our RAS criteria cap our ratings in this transaction at six notches above our 'BBB+' foreign currency long-term sovereign rating on Spain for the class A2 notes and at four notches above our rating on Spain for the class B notes. We have therefore raised to 'AA+ (sf)' from 'BBB- (sf)' and to 'A (sf)' from 'BB (sf)' our ratings on the class A2 and B notes, respectively.

Our credit and cash flow analysis indicates that the class C notes now pass our stresses at the 'BB+' rating level, including the support from the swap. We have therefore raised to 'BB+ (sf)' from 'B+ (sf)' our rating on the class C notes.

The class D notes do not pass our cash flow stresses at the 'B' rating level. Our cash flow analysis for the class D notes shows that we do not expect a default to occur in the next 12 months. In line with paragraphs 92 and 93 of our European residential loans criteria, and our criteria for assigning 'CCC' category ratings, the collateral performance, the evolution of the level of

credit enhancement, and the macroeconomic conditions in Spain, we have affirmed our 'B- (sf)' rating on the class D notes (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published on Oct. 1, 2012).

Our European residential loans criteria set the minimum projected losses at 0.35% at the 'B' rating level. The projected losses that we compare with these credit coverage floors include the negative carry resulting from interest due on the rated liabilities during the foreclosure period. Projected losses with interest meet the minimum floor level at the 'B' rating level.

In our opinion, the outlook for the Spanish residential mortgage and real estate market is not benign and we have therefore increased our expected 'B' foreclosure frequency assumption to 3.33% from 2.00%, when we apply our European residential loans criteria, to reflect this view (see "Outlook Assumptions For the Spanish Residential Mortgage Market," published on June 24, 2016). We base these assumptions on our expectation of modest economic growth, continuing high unemployment, and house prices stabilization during 2017.

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RELATED CRITERIA

- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Dec. 23, 2016
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- Criteria - Structured Finance - General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012

- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

RELATED RESEARCH

- Spanish RMBS Index Report Q1 2017, June 1, 2017
- Outlook On Spain-Based BBVA And Santander Consumer Finance Revised To Positive Following Action On Sovereign, April 3, 2017
- Kingdom of Spain Outlook Revised To Positive On Strong And Balanced Economic Performance; 'BBB+/A-2' Ratings Affirmed, March 31, 2017
- European Economic Snapshots: Resilience Despite Political Risk, Feb. 28, 2017
- A Stronger Eurozone Economy, Despite Higher Volatility On Bond Markets, Feb. 20, 2017
- Europe's Housing Markets Continue To Recover Amid Extended QE, Feb. 15, 2017
- QE In The Eurozone: Lower For Longer Means Lower For Longer, Jan. 23, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Outlook Assumptions For the Spanish Residential Mortgage Market, June 24, 2016
- 2015 EMEA RMBS Scenario And Sensitivity Analysis, Aug. 6, 2015

RATINGS LIST

Class	Rating
To	From

Hipocat 7, Fondo de Titulizacion de Activos
 €1.4 Billion Mortgage-Backed Floating-Rate Notes

Ratings Raised

A2	AA+ (sf)	BBB- (sf)
B	A (sf)	BB (sf)
C	BB+ (sf)	B+ (sf)

Rating Affirmed

D	B- (sf)
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