

Rating Action: Moody's upgrades ratings in two Spanish RMBS transactions

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Milan, January 29, 2020 -- Moody's Investors Service, ("Moody's") has today upgraded the ratings of three notes in two Spanish RMBS deals.

The upgrades in HIPOCAT 8, FTA reflect the increase in credit enhancement for the affected notes due to the material replenishment of the reserve fund driven by, amongst others, unexpected receipt of recoveries from previously defaulted collateral. They also reflect better than expected collateral performance.

The upgrade in FTA RMBS Santander 2 reflects better than expected collateral performance and the increased levels of credit enhancement for class B notes.

Moody's affirmed the ratings of the notes that had sufficient credit enhancement to maintain the current rating.

FTA RMBS Santander 2

...EUR2520M Class A Notes, Affirmed Aa1 (sf); previously on Jun 29, 2018 Upgraded to Aa1 (sf)

...EUR480M Class B Notes, Upgraded to B1 (sf); previously on Jun 29, 2018 Affirmed Caa1 (sf)

HIPOCAT 8, FTA

...EUR1155.5M Class A2 Notes, Affirmed Aa1 (sf); previously on Apr 29, 2019 Affirmed Aa1 (sf)

...EUR26.2M Class B Notes, Affirmed Aa1 (sf); previously on Apr 29, 2019 Affirmed Aa1 (sf)

...EUR35.6M Class C Notes, Upgraded to Aa1 (sf); previously on Apr 29, 2019 Upgraded to A3 (sf)

...EUR32.7M Class D Notes, Upgraded to Ba1 (sf); previously on Apr 29, 2019 Upgraded to B3 (sf)

Maximum achievable rating is Aa1 (sf) for structured finance transactions in Spain, driven by the corresponding local currency country ceiling of the country.

RATINGS RATIONALE

The rating actions are prompted by:

- Decreased key collateral assumptions, namely the portfolio Expected Loss (EL) and MILAN CE assumptions due to better than expected collateral performance.

- An increase in credit enhancement for the affected tranches. For HIPOCAT 8, in particular, this is due to significant replenishment of the reserve fund driven by, amongst others, unexpected receipt of recoveries from previously defaulted collateral.

Revision of Key Collateral Assumptions

As part of the rating action, Moody's reassessed its lifetime loss expectation for the portfolio reflecting the collateral performance to date.

The performance of the transactions has continued to improve since the last rating actions. Total delinquencies have decreased in the past year, with 90 days plus arrears currently standing at 0.47% and 0.42% of current pool balance, respectively, for FTA RMBS Santander 2 and HIPOCAT 8, FTA. Cumulative defaults currently stand at 1.78% and 6.38% of original pool balance, respectively, for FTA RMBS Santander 2 and HIPOCAT 8, FTA, only slightly up from 1.34% and 6.34% as of the previous rating actions on these deals.

Moody's decreased the expected loss assumption to 6.01% and to 3.63% as a percentage of original pool balance from 7.69% and 3.80%, respectively, on FTA RMBS Santander 2 and HIPOCAT 8, FTA due to the improving performance.

Moody's updated the MILAN CE due to the Minimum Expected Loss Multiple, a floor defined in Moody's methodology for rating EMEA RMBS transactions. As a consequence, the MILAN credit enhancement assumptions were reduced to 30% and 13.50% from 32% and 15%, respectively, for FTA RMBS Santander 2 and HIPOCAT 8, FTA.

Increase in Available Credit Enhancement

Sequential amortization and replenishment of reserve funds led to the increase in the credit enhancement available in these transactions.

The reserve fund balance for HIPOCAT 8, FTA has increased to EUR 19.9 million as of December 2019 from EUR 11.6 million since the last rating action in April 2019. Deleveraging and reserve fund replenishment has led to the increase in the credit enhancement available for the Classes C and D to 22.47% and 8.82% from 17.07% and 4.65% respectively since the last rating action in April 2019. This transaction has benefited from unexpected receipt of recoveries from previously defaulted collateral in addition to standard recoveries. For example, HIPOCAT 8, FTA reported EUR 5.9 million additional available funds as of June 2019. The credit enhancement for Class B notes of FTA RMBS Santander 2 increased to 7.19% from 6.09% since the last rating actions in June 2018.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in July 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The analysis undertaken by Moody's at the initial assignment of ratings for RMBS securities may focus on aspects that become less relevant or typically remain unchanged during the surveillance stage. Please see Moody's Approach to Rating RMBS Using the MILAN Framework for further information on Moody's analysis at the initial rating assignment and the on-going surveillance in RMBS.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include (1) performance of the underlying collateral that is better than Moody's expected, (2) an increase in available credit enhancement, (3) improvements in the credit quality of the transaction counterparties and (4) a decrease in sovereign risk.

Factors or circumstances that could lead to a downgrade of the ratings include (1) an increase in sovereign risk, (2) performance of the underlying collateral that is worse than Moody's expected, (3) deterioration in the notes' available credit enhancement and (4) deterioration in the credit quality of the transaction counterparties.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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