



Rating Action: Moody's upgrades ratings in FTA SANTANDER HIPOTECARIO 3 and HIPOCAT 9, FTA transactions

17 Jul 2023

Madrid, July 17, 2023 -- Moody's Investors Service, ("Moody's") has today upgraded the ratings of 7 notes in FTA SANTANDER HIPOTECARIO 3 and HIPOCAT 9, FTA. The rating action reflects better than expected collateral performance and the increased levels of credit enhancement for the affected notes.

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

Issuer: FTA SANTANDER HIPOTECARIO 3

....EUR613M Class A1 Notes, Upgraded to Aa3 (sf); previously on Feb 2, 2022 Upgraded to Baa2 (sf)

....EUR1540M Class A2 Notes, Upgraded to Aa3 (sf); previously on Feb 2, 2022 Upgraded to Baa2 (sf)

....EUR420M Class A3 Notes, Upgraded to Aa3 (sf); previously on Feb 2, 2022 Upgraded to Baa2 (sf)

....EUR79.2M Class B Notes, Upgraded to Caa1 (sf); previously on Feb 2, 2022 Upgraded to Caa3 (sf)

Issuer: HIPOCAT 9, FTA

....EUR500M Class A2a Notes, Affirmed Aa1 (sf); previously on Apr 20, 2021 Affirmed Aa1 (sf)

....EUR236.2M Class A2b Notes, Affirmed Aa1 (sf); previously on Apr 20, 2021 Affirmed Aa1 (sf)

....EUR22M Class B Notes, Upgraded to Aa1 (sf); previously on Apr 20, 2021 Upgraded to Aa2 (sf)

....EUR18.3M Class C Notes, Upgraded to Baa3 (sf); previously on Apr 20, 2021 Upgraded to Ba2 (sf)

....EUR23.5M Class D Notes, Upgraded to Ba1 (sf); previously on Apr 20, 2021 Upgraded to Ba3 (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 action is prompted by decreased key collateral assumption, namely the portfolio Expected Loss (EL) assumption in FTA SANTANDER HIPOTECARIO 3 due to better than expected collateral performance, and an increase in credit enhancement for the affected tranches.

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 be stable in the past year. Total delinquencies have increased in

the past year, with 90 days plus arrears currently standing at 0.49% of current pool balance in FTA SANTANDER HIPOTECARIO 3 and at 0.28% of current pool balance in HIPOCAT 9, FTA. In FTA SANTANDER HIPOTECARIO 3, cumulative defaults currently stand at 8.85% of original pool balance, up from 8.80% a year earlier. In HIPOCAT 9, FTA, cumulative defaults remain unchanged at 11.6% of original pool balance.

In FTA SANTANDER HIPOTECARIO 3, Moody's decreased the expected loss assumption to 6.50% as a percentage of original pool balance from 6.55% due to the improving performance. The revised expected loss assumption corresponds to 3.55% as a percentage of current pool balance.

In HIPOCAT 9, FTA, Moody's maintained the expected loss assumption at 5.63% as a percentage of original pool balance, which translates to an expected loss assumption of 2.90% as a percentage of current pool balance.

Moody's has also assessed loan-by-loan information as a part of its detailed transaction review to determine the credit support consistent with target rating levels and the volatility of future losses. As a result, Moody's has maintained the MILAN CE assumption at 14% in FTA SANTANDER HIPOTECARIO 3 and at 12% in HIPOCAT 9, FTA.

Increase in Available Credit Enhancement:

In FTA SANTANDER HIPOTECARIO 3, sequential amortization led to the increase in the credit enhancement available in this transaction. For instance, the credit enhancement for the most senior tranche affected by today's rating action increased to 12.71% from 9.98% since the last rating action.

In HIPOCAT 9, FTA, a non-amortizing reserve fund led to the increase in the credit enhancement available in this transaction. For instance, the credit enhancement for the most senior tranche affected by today's rating action increased to 59.91% from 54.41% since the last rating action. While the notes are currently paid pro rata, upon the pool factor decreasing below 10% of original pool balance, this will trigger sequential amortization.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in July 2022 and available at <https://ratings.moody.com/rmc-documents/390481>. Alternatively, please see the Rating Methodologies page on <https://ratings.moody.com> for a copy of this methodology.

Please note that a Request for Comment was published in which Moody's requested market feedback on potential revisions to one or more of the methodologies used in determining these Credit Ratings. If the revised methodologies are implemented as proposed, the Credit Ratings referenced in this press release might be positively affected. Request for Comments can be found on the rating methodologies page on <https://ratings.moody.com>.

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 in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

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