

Ratings Affirmed In Spanish RMBS Transaction Hipocat 11 Following Review

Primary Credit Analyst:

Rocio Romero, Madrid (34) 91-389-6968; rocio.romero@spglobal.com

Secondary Contact:

Isabel Plaza, Madrid (34) 91-788-7203; isabel.plaza@spglobal.com

OVERVIEW

- We have reviewed Hipocat 11 by conducting our credit and cash flow analysis under our European residential loans criteria and current counterparty criteria.
- Following our review, we have affirmed our ratings on all classes of notes.
- Hipocat 11 is a Spanish RMBS transaction that closed in March 2007 and securitizes first-ranking mortgage credits. Catalunya Banc (formerly named Caixa Catalunya and now part of BBVA) originated the pool, which comprises credits secured over owner-occupied properties, mainly in Catalonia.

MADRID (S&P Global Ratings) Aug. 7, 2017--S&P Global Ratings today affirmed its credit ratings on Hipocat 11, Fondo de Titulizacion de Activos' class A2, A3, B, C, and D notes (see list below).

Today's affirmations 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 and our current counterparty criteria (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published on Dec. 23, 2016, and "Counterparty Risk Framework Methodology And

Assumptions," published on June 25, 2013).

The transaction features an interest deferral trigger for the class B and C notes. If triggered, the interest payments are subordinated below principal in the priority of payments. These triggers are based on cumulative gross defaults balance and once triggered they are irreversible. Both interest deferral terms have been triggered, so interest on the class B and C notes is subordinated to senior principal payment. Given the insufficiency of available resources, both classes of notes have missed their timely interest payment.

Available credit enhancement for all classes of notes is negative, as the performing collateral balance is less than their outstanding amounts. This is a deterioration compared with our previous review, in which the difference between nondefaulted principal balance and the class A2 and A3 notes was lower, though already negative at -4.59% (see "Various Rating Actions Taken In Spanish RMBS Transaction Hipocat 11 Following Application Of Updated Criteria," published on Nov. 18, 2014).

Class	Available credit enhancement, excluding defaulted credits (%)
A2	(6.02)
A3	(6.02)
B	(21.40)
C	(40.03)

Hipocat 11 features a reserve fund, which was fully funded at closing with the proceeds of the issuance of the class D notes and which can amortize to a target amount. It is fully depleted because it was used to provision for defaulted assets in the past.

Severe delinquencies of more than 90 days, excluding defaults, at 1.99%, are 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 credits in arrears for more than 18 months are classified as defaulted in this transaction, and, consequently, artificially written off. The outstanding balance of credits in default, at about 25%, is higher than in other Spanish RMBS transactions that we rate as severe delinquencies rolled into defaults in the past. Due to the lack of available resources, as of July 2017 the balance of defaulted collateral that the transaction was not able to provision for in advance totaled €137.48 million. Prepayment levels remain low and we believe that the transaction is unlikely to pay down significantly in the near term.

About 71% of the collateral pool is concentrated in Catalonia, which is the originator's home region. Specifically, about 61% and 5% of the pool is concentrated in the provinces of Barcelona and Girona, respectively. 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 higher 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 all rating levels.

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 credits that used this flexibility in the past and once the payment holiday period had elapsed, we have reassessed our view of the risks in relation to payment holidays. We have concluded that the use of the payment holiday flexibility feature in Hipocat transactions does not imply a potential payment shock. At the same time, we have reflected the recent performance data, in combination with improved macroeconomic conditions, and more specifically the decrease in the unemployment rate, 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. In addition, the current WAFF level reflects the benefit from the increased seasoning. The decreased WALS factors in the decrease in the current loan-to-value ratio, due to the amortization of the pool, coupled with the application of our revised market value decline assumptions. The overall effect is a decrease in the required credit coverage for each rating level.

Rating level	WAFF (%)	WALS (%)	CC (%)
AAA	36.12	37.53	13.56
AA	27.42	34.12	9.36
A	22.23	27.88	6.20
BBB	16.35	24.47	4.00
BB	10.37	22.07	2.29
B	8.51	19.83	1.69

CC--Credit coverage.

We have considered in our cash flow analysis the credits with the payment holiday option, by delaying a proportion of scheduled interest and principal receipts in line with our European residential loans criteria.

The collection account is held with Banco Bilbao Vizcaya Argentaria, S.A. (BBVA; BBB+/Positive/A-2) in the name of the servicer, BBVA. Consequently, the transaction is exposed to commingling risk. However, since our ratings in this transaction are at or below the rating on the servicer, we have not stressed commingling loss in our cash flow analysis in line with our current counterparty criteria. Therefore, our ratings on the notes are constrained by

our long-term issuer credit rating on BBVA.

BBVA is the swap counterparty. The replacement language in the swap agreement is in line with our current counterparty criteria. The hedge agreement mitigates basis risk arising from the different indexes used by the securitized assets and the notes, based on a notional. Under this agreement, the swap counterparty pays the coupon on the notes and includes an additional margin of 65 basis points. If the balance of credits taking a payment holiday exceeds 16% of the outstanding collateral balance, the swap notional (which is the performing balance up to 90 days in arrears) will include the balance of credits in payment holiday. The swap counterparty also pays the servicer fees in case of substitution.

The class A2 and A3 notes do not pass our cash flow stresses at the 'B' rating level. Our cash flow analysis for these classes of notes shows that we do not expect a default to occur in the next 12 months. In line with our European residential loans criteria, and our criteria for assigning 'CCC' category ratings, given the degree of financial stress, the negative level of credit enhancement for the class A2 and A3 notes, and the collateral performance, we consider that the class A2 and A3 notes are dependent upon favorable economic conditions to pay note interest and principal (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published on Oct. 1, 2012). We have therefore affirmed our 'CCC (sf)' ratings on the class A2 and A3 notes.

The class B, C, and D notes continue to experience ongoing interest shortfalls because of interest deferral trigger breaches and the lack of excess spread in the transaction. Our ratings in Hipocat 11 address the timely payment of interest and ultimate principal during the transaction's life. We have therefore affirmed our 'D (sf)' ratings on the class B, C, and D notes in line with our criteria (see "Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings," published on Oct. 24, 2013).

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 price stabilization during 2017.

Hipocat 11 is a Spanish RMBS transaction that closed in March 2007 and securitizes first-ranking mortgage credits. Catalunya Banc S.A. (formerly

named Caixa Catalunya and now part of BBVA) originated the pool, which comprises credits secured over owner-occupied properties, mainly in Catalonia.

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: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- 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

- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
- Credit Conditions: Europe Displays Financial Calm, But What About The Brexit And QE Clouds Ahead?, June 30, 2017
- Spanish RMBS Index Report Q1 2017, June 1, 2017
- European Economic Snapshots For 2Q 2017 Published, May 15, 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
- 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

- Various Rating Actions Taken In Spanish RMBS Transaction Hipocat 11 Following Application Of Updated Criteria, Nov. 18, 2014

RATINGS LIST

Class	Rating
-------	--------

Hipocat 11, Fondo de Titulizacion de Activos
€1.628 Billion Residential Mortgage-Backed Floating-Rate Notes

Rating Affirmed

A2	CCC (sf)
A3	CCC (sf)
B	D (sf)
C	D (sf)
D	D (sf)

Copyright © 2017 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.