

Rating Action: Moody's upgrades 11 notes in four MBS Bancaja Spanish RMBS Transactions

Global Credit Research - 05 Sep 2014

London, 05 September 2014 -- Moody's Investors Service has today upgraded the ratings of eleven notes, confirmed the ratings of one note and affirmed the ratings of nine notes in four Spanish residential mortgage-backed securities (RMBS) transactions: MBS Bancaja 1, FTA, MBS Bancaja 2, FTA, MBS Bancaja 3, FTA and MBS Bancaja 4, FTA.

Today's rating action concludes the review of 10 notes placed on review on 17 March 2014, following the upgrade of the Spanish sovereign rating to Baa2 from Baa3 and the resulting increase of the local-currency country ceiling to A1 from A3 (https://www.moodys.com/research/PR_292078). The sovereign rating upgrade reflected improvements in institutional strength and reduced susceptibility to event risk associated with lower government liquidity and banking sector risks.

Please refer to the end of the Ratings Rationale section for a list of affected ratings.

RATINGS RATIONALE

Today's upgrade reflects (1) the increase in the Spanish local-currency country ceiling to A1 and (2) sufficiency of credit enhancement in the affected transactions.

-- Reduced Sovereign Risk

The Spanish sovereign rating was upgraded to Baa2 in February 2014, which resulted in an increase in the local-currency country ceiling to A1. The Spanish country ceiling, and therefore the maximum rating that Moody's assigns to a domestic Spanish issuer including structured finance transactions backed by Spanish receivables, is A1 (sf).

The increase of credit enhancement due to deleveraging in MBS Bancaja 1, FTA and MBS Bancaja 2, FTA and the sufficiency of credit enhancement in MBS Bancaja 3, FTA and MBS Bancaja 4, FTA combined with the reduction in sovereign risk has prompted the upgrade of the notes.

-- Key collateral assumptions

Moody's has reassessed its lifetime loss expectation taking into account the collateral performance of the transactions to date. The portfolios in MBS Bancaja 3, FTA and MBS Bancaja 4, FTA show deteriorating default growth rate. The cumulative defaults as a percentage of the original pool balance reached 3.0% versus 2.0% in December 2012 in MBS Bancaja 3, FTA and 5.0% versus 2.95% in January 2013 in MBS Bancaja 4, FTA. As a result, Moody's increased its expected loss assumption to 2.95% in MBS Bancaja 3, FTA and 4.5% in MBS Bancaja 4, FTA up from 2.6% and 3.9% of the original pool balance respectively.

Moody's review of collateral in MBS Bancaja 1, FTA and MBS Bancaja 2, FTA indicated stable performance, and the rating agency maintained its lifetime expected loss assumption at 0.6% and 1.65% of the original pool balance respectively.

-- Exposure to Counterparties

Moody's rating analysis also took into consideration the exposure to key transaction counterparties. Including the roles of servicer, account bank, and swap provider.

Today's rating action takes into account servicer commingling exposure to Bankia, S.A..

Moody's also assessed the exposure to Royal Bank of Scotland plc, Barclays Bank PLC, JPMorgan Chase Bank, NA and BNP Paribas acting as swap counterparties in each deal when revising ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in March 2014. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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) further reduction in sovereign risk, (2) performance of the underlying collateral that is better than Moody's expected, (3) deleveraging of the capital structure and (4) improvements in the credit quality of the transaction counterparties.

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 expects, (3) deterioration in the notes' available credit enhancement and (4) deterioration in the credit quality of the transaction counterparties.

LIST OF AFFECTED RATINGS:

Issuer: MBS BANCAJA 1, FTA

....EUR630.6M A Notes, Affirmed A1 (sf); previously on Mar 17, 2014 Upgraded to A1 (sf)

....EUR14.5M B Notes, Affirmed A1 (sf); previously on Mar 17, 2014 Upgraded to A1 (sf)

....EUR31.1M C Notes, Upgraded to A1 (sf); previously on Mar 17, 2014 Baa2 (sf) Placed Under Review for Possible Upgrade

....EUR13.8M D Notes, Upgraded to Baa3 (sf); previously on Mar 17, 2014 Ba2 (sf) Placed Under Review for Possible Upgrade

Issuer: MBS BANCAJA 2, FTA

....EUR754.4M A Notes, Affirmed A1 (sf); previously on Mar 17, 2014 Upgraded to A1 (sf)

....EUR13.2M B Notes, Upgraded to A1 (sf); previously on Mar 17, 2014 Baa1 (sf) Placed Under Review for Possible Upgrade

....EUR10.4M C Notes, Upgraded to Baa1 (sf); previously on Mar 17, 2014 Baa3 (sf) Placed Under Review for Possible Upgrade

....EUR8.8M D Notes, Upgraded to Baa3 (sf); previously on Mar 17, 2014 Ba3 (sf) Placed Under Review for Possible Upgrade

....EUR13.2M E Notes, Upgraded to B3 (sf); previously on Mar 20, 2013 Downgraded to Caa1 (sf)

....EUR9.2M F Notes, Affirmed C (sf); previously on Jun 28, 2005 Definitive Rating Assigned C (sf)

Issuer: MBS BANCAJA 3, FTA

....EUR668M A2 Notes, Upgraded to A3 (sf); previously on Mar 17, 2014 Baa2 (sf) Placed Under Review for Possible Upgrade

....EUR13.2M B Notes, Upgraded to Ba2 (sf); previously on Mar 17, 2014 Ba3 (sf) Placed Under Review for Possible Upgrade

....EUR11.6M C Notes, Upgraded to B3 (sf); previously on Mar 20, 2013 Downgraded to Caa1 (sf)

....EUR7.2M D Notes, Affirmed Caa3 (sf); previously on Mar 20, 2013 Downgraded to Caa3 (sf)

....EUR10M E Notes, Affirmed C (sf); previously on Jun 15, 2011 Downgraded to C (sf)

Issuer: MBS BANCAJA 4, FTA

....EUR1182.1M A2 Notes, Upgraded to Baa2 (sf); previously on Mar 17, 2014 Baa3 (sf) Placed Under Review for Possible Upgrade

....EUR300M A3 Notes, Upgraded to Baa2 (sf); previously on Mar 17, 2014 Baa3 (sf) Placed Under Review for

Possible Upgrade

....EUR30.5M B Notes, Confirmed at B3 (sf); previously on Mar 17, 2014 B3 (sf) Placed Under Review for Possible Upgrade

....EUR18.9M C Notes, Affirmed Caa3 (sf); previously on Mar 20, 2013 Downgraded to Caa3 (sf)

....EUR18.5M D Notes, Affirmed Ca (sf); previously on Mar 20, 2013 Downgraded to Ca (sf)

....EUR23.1M E Notes, Affirmed C (sf); previously on Mar 25, 2011 Downgraded to C (sf)

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.

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of these transactions in the past six months.

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.

As the section on loss and cash flow analysis describes, 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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