

FITCH AFFIRMS 21 TRANCHES OF MBS BANCAJA SERIES; DOWNGRADES 2 OTHERS

Fitch Ratings-London-09 February 2015: Fitch Ratings has affirmed 21 and downgraded two tranches of six MBS Bancaja, FTA transactions, a series of Spanish prime RMBS comprising loans originated and serviced by Bancaja, which was taken over by Bankia S.A. (BBB-/Negative/F3). The Outlooks have been revised to Negative from Stable on four tranches and to Stable from Negative on one tranche.

A full list of rating actions is available at the end of this commentary.

KEY RATING DRIVERS

Improved Arrears Performance

A combination of sufficient credit enhancement and improved asset performance has led to the affirmations of the notes in MBS Bancaja 1-2 and 7-8, as well as the revision of Outlook to Stable from Negative on class E in MBS Bancaja 2. The improved arrears performance is reflected in the reduced pace of new arrears. Fitch estimates that on average the 0-to-90 day arrears decreased by over 1.4 percentage points (pp) over the past 12 months, reflecting an improved economic environment in Spain.

While Bancaja 3 and 4 have seen some asset performance in the past 12 months, the trend seen in the two transactions, in particular MBS Bancaja 4, is not representative of its peers. Loans in arrears by more than 90 days in MBS Bancaja 4 have remained at 2.6% of the current balance for the past two quarters. The data received suggests that loans that are being identified as defaulted and provisioned for are offset by new loans entering late-stage arrears. This, together with lower levels of credit enhancement, has led Fitch to downgrade the class B and C notes of MBS Bancaja 4.

Reserve Draws for Bancaja 3 and 4

The transaction structures allow for the full provisioning of defaulted loans, which are defined as loans in arrears by more than 18 months. While the annualised constant default rate has decreased across all transactions, on average by 1.3pp over the past 12 months, gross excess spread and recoveries in MBS Bancaja 3 and 4 remain insufficient to fully cover the period provisions. As a result, the reserve funds in these two transactions decreased by 9pp and 5pp in the last 12 months and presently stand at 76% (MBS Bancaja 3) and 36% (MBS Bancaja 4) of their respective targets.

Fitch expects gross cumulative defaults to increase further, leading to additional draws. This expectation comes as late-stage arrears (2.2% in MBS Bancaja 3 and 2.6% in MBS Bancaja 4) remain higher than Fitch's three-month plus arrears Spanish RMBS index of 1.7%. For this reason the Outlooks were revised to Negative from Stable on four tranches of MBS Bancaja 3 and 4.

Other Reserve Funds Stable

Some replenishment was reported in MBS Bancaja 1 and 2, where the funds available in the reserves are up to 94% and 91% of the target, from their most recent troughs of 93% and 89% respectively in January 2014. We do not expect further draws on these reserves due to a stable inflow of period recoveries, which are the highest across the whole series.

The reserve funds of MBS Bancaja 7 and 8 are fully funded. Fitch does not expect any future draws because the reserve funds in these transactions cannot be utilised to provision for defaults. They are only available to meet class A interest and senior fees in case of interest shortfalls.

Account Bank Exposure

In line with Fitch's criteria, the ratings in MBS Bancaja 7 and 8 are capped at 'A+sf', as the account bank rating trigger of 'BBB+/'F2' specified in the transaction documentation, can only support note ratings up to 'A+sf'.

RATING SENSITIVITIES

Deterioration in asset performance may result from economic factors, in particular the increasing effects of unemployment. Portfolio deterioration beyond Fitch's stresses would trigger negative rating actions.

The rating actions are as follows:

MBS Bancaja 1, FTA

Class A (ES0361794003) affirmed at 'AA+sf'; Outlook Stable

Class B (ES0361794011) affirmed at 'AA+sf'; Outlook Stable

Class C (ES0361794029) affirmed at 'AA-sf'; Outlook Stable

Class D (ES0361794037) affirmed at 'A-sf'; Outlook Stable

MBS Bancaja 2, FTA

Class A (ES0361795000) affirmed at 'AA+sf'; Outlook Stable

Class B (ES0361795018) affirmed at 'AA+sf'; Outlook Stable

Class C (ES0361795026) affirmed at 'AA-sf'; Outlook Stable

Class D (ES0361795034) affirmed at 'A-sf'; Outlook Stable

Class E (ES0361795042) affirmed at 'BB+sf'; Outlook revised to Stable from Negative

Class F (ES0361795059) affirmed at 'CCsf'; Recovery Estimate 90%

MBS Bancaja 3, FTA

Class A2 (ES0361796016) affirmed at 'AA-sf'; Outlook Stable

Class B (ES0361796024) affirmed at 'AA-sf'; Outlook revised to Negative from Stable

Class C (ES0361796032) affirmed at 'Asf'; Outlook revised to Negative from Stable

Class D (ES0361796040) affirmed at 'BB+sf'; Outlook Negative

Class E (ES0361796057) affirmed at 'CCsf'; Recovery Estimate 45%

MBS Bancaja 4, FTA

Class A2 (ES0361797014) affirmed at 'A+sf'; Outlook revised to Negative from Stable

Class A3 (ES0361797022) affirmed at 'A+sf'; Outlook revised to Negative from Stable

Class B (ES0361797030) downgraded to 'BBB-sf' from 'BBB+sf'; Outlook Stable

Class C (ES0361797048) downgraded to 'BBsf' from 'BBB-sf'; Outlook Stable

Class D (ES0361797055) affirmed at 'Bsf'; Outlook Negative

Class E (ES0361797063) affirmed at 'CCsf'; Recovery Estimate 0%

MBS Bancaja 7, FTA

Class A (ES0361746003) affirmed at 'A+sf'; Outlook Stable

MBS Bancaja 8, FTA

Class A (ES0361747001) affirmed at 'A+sf'; Outlook Stable

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Sources of information - in addition to those mentioned in the applicable criteria, the sources of information used to assess the ratings were Investor and Servicer reports and loan-by-loan data provided by Europea de Titulizacion, S.G.F.T, S.A. and European Data Warehouse.

Applicable criteria 'Global Structured Finance Rating Criteria', dated 20 May 2014; 'EMEA RMBS Master Rating Criteria' dated 28 May 2014; 'EMEA Residential Mortgage Loss Criteria', dated 28 May 2014; 'EMEA RMBS Cash Flow Analysis Criteria' dated 28 May 2014; 'Criteria Addendum: Spain- Residential Mortgage Loss and Cash Flow Assumptions Criteria Addendum', dated 4 June 2014; 'Counterparty Criteria for Structured Finance Structured Finance and Covered Bonds' and 'Counterparty Criteria for Structured Finance Structured Finance and Covered Bonds: Derivative Addendum', dated 13 May 2014; and 'Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds', dated 11 April 2014 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Global Structured Finance Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=754389

EMEA RMBS Master Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749271

EMEA Residential Mortgage Loss Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749272

EMEA RMBS Cash Flow Analysis Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749273

Criteria Addendum: Spain - Residential Mortgage Loss and Cash Flow Assumptions

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=736756

Counterparty Criteria for Structured Finance and Covered Bonds

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744158

Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=744175

Criteria for Sovereign Risk in Developed Markets for Structured Finance and Covered Bonds

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=741479

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