



Fitch Upgrades MBS Bancaja 2's Class D & E Notes; Affirms MBS Bancaja 7 & 8

Fitch Ratings-London-02 February 2017: Fitch Ratings has upgraded MBS Bancaja 2's class D and E notes and affirmed the remaining notes. Fitch has also affirmed MBS Bancaja 7 and 8, as follows:

MBS Bancaja 2

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) upgraded to 'A+sf' from 'A-sf'; Outlook Stable

Class E (ES0361795042) upgraded to 'BBBsf' from 'BB+sf'; Outlook Stable

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

MBS Bancaja 7

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

MBS Bancaja 8

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

The three transactions are part of the MBS Bancaja series, which is a series of Spanish prime MBS comprising loans serviced by Bankia S.A. (BBB-/Stable/F3)

KEY RATING DRIVERS

Stable Credit Enhancement

The upgrade of MBS Bancaja 2's class D and E notes reflects the stable credit enhancement and performance of the underlying portfolio. An upgrade of the class A to C notes is constrained by the Spanish Country Ceiling of 'AA+' and variable credit enhancement due to the pro-rata amortisation feature.

The pro-rata amortisation allows junior and mezzanine notes to amortise prior to senior notes subject to performance triggers related to delinquent levels and fully funded reserve fund. As of the November 2016 payment date, all triggers on MBS Bancaja 2's class A to D notes were met; therefore the principal available funds were entirely applied pro-rata between them. The class E notes did not receive any principal repayment as the trigger with regards to arrears over 90 days has not been met.

MBS Bancaja 7's and MBS Bancaja 8's credit enhancement has improved, but their ratings are capped at 'A+sf' due to the account bank replacement provisions set at 'BBB+/'F'2. The account is currently held at Banco Bilbao Vizcaya Argentaria (BBVA; A-/Stable/F2).

Stable Credit Performance

As of October 2016, MBS Bancaja 2's performance had improved compared to previous year, with delinquencies over three months decreasing to 0.84% from 1.57% of the outstanding balance. MBS Bancaja 7's and MBS Bancaja 8's performance has improved significantly with the same arrears measure decreasing to 1.31% from 2.71% and to 1.23% from 2.64%, respectively.

Commingling Exposure

Fitch believes MBS Bancaja 2 is exposed to a commingling loss of around 50% of the monthly collections in the event of default of the collection account bank. This is based on information provided by the servicer, which indicates that borrower payments are concentrated on a few particular dates of every month. The agency has captured this additional stress in its analysis. A dynamic commingling reserve of 1.5 times monthly payments is posted in an eligible institution for MBS Bancaja 7 and MBS Bancaja 8, hence the agency did not size for commingling risk.

Variation from Criteria

Fitch has reduced the magnitude of the foreclosure frequency adjustment to broker-originated loans and foreign borrowers to 40% and 100%, respectively (from 200% in both cases). Broker-originated loans and loans granted to foreign borrowers are typically exposed to greater performance volatility than traditional loans, but the large seasoning of the loans in scope and their payment history over the past two years suggest some resilience in periods of economic crisis.

Fitch has increased the foreclosure frequency by 150% to loans secured by commercial properties, considering the weaker performance of these assets compared with residential backed mortgages.

In addition, we have increased the foreclosure frequency for loans subject to maturity extensions by 250% as such loans could

signal a weaker borrower profile. The transactions allow for maturity extensions to a maximum of 10% of the initial portfolio balance.

These calibrations are explained by the comparable performance observed on broker-originated loans versus loans originated via traditional channels, foreign borrowers versus Spanish borrowers and residential backed mortgages versus commercial backed mortgages, which has been possible via the loan-by-loan data provided by the European Data Warehouse.

Adjustment for Income Data

Fitch has assumed a debt-to-income ratio of class 5 for loans without income information provided. This affected 6.23% (MBS Bancaja 2), 1.5% (MBS Bancaja 7) and 0.84% (MBS Bancaja 2) of the outstanding balance.

RATING SENSITIVITIES

Deterioration in asset performance may result from economic factors. A corresponding increase in new defaults and associated pressure on excess spread and reserve funds, beyond Fitch's assumptions, could result in negative rating action. Furthermore, an abrupt shift of the underlying interest rates might jeopardise the underlying loan affordability of the underlying borrowers.

The ratings are sensitive to changes in Spain's Country Ceiling of 'AA+' and consequently changes to the highest achievable 'AA+sf' rating of Spanish structured finance notes.

USE OF THIRD-PARTY DUE DILIGENCE PURSUANT TO RULE 17G-10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

DATA ADEQUACY

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pools and the transactions. The findings were reflected in this analysis by assuming a DTI of class 5 for those loans without income information provided. Fitch has not reviewed the results of any third party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Prior to the transactions closing, Fitch did not review the results of a third party assessment conducted on the asset portfolio information.

SOURCES OF INFORMATION

The information below was used in the analysis.

Loan level data dated as listed below was used to run the surveillance model and the relevant data source was Europea de Titulizacion:

30 November 2016 for MBS Bancaja 2, FTA

30 November 2016 for MBS Bancaja 7, FTA

30 December 2016 for MBS Bancaja 8, FTA

Issuer and servicer reports provided by Europea de Titulizacion since close of the deals and until

25 November 2016 for MBS Bancaja 2, FTA

25 November 2016 for MBS Bancaja 7, FTA

25 December 2016 for MBS Bancaja 8, FTA

MODELS

ResiEMEA. (<https://www.fitchratings.com/jsp/creditdesk/ToolsAndModels.faces?context=2&detail=135>)

EMEA RMBS Surveillance Model. (https://www.fitchratings.com/web_content/pages/rmbs/emea-rmbs-surveillance-model.htm)

EMEA

Cash Flow Model. (https://www.fitchratings.com/web_content/pages/sf/emea-cash-flow-model.htm)

Contacts:

Lead Surveillance Analyst

Laurent Bernhard

Analyst

+44 20 3530 1487

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Committee Chairperson
Alessandro Pighi
Senior Director
+44 20 3530 1794

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email: athos.larkou@fitchratings.com.

Additional information is available at www.fitchratings.com.

Applicable Criteria

Counterparty Criteria for Structured Finance and Covered Bonds (pub. 01 Sep 2016)

(<https://www.fitchratings.com/site/re/886006>)

Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum (pub. 18 Jul 2016)

(<https://www.fitchratings.com/site/re/884964>)

Criteria Addendum: Spain Residential Mortgage Assumptions (pub. 02 Dec 2016) (<https://www.fitchratings.com/site/re/891432>)

Criteria for Country Risk in Global Structured Finance and Covered Bonds (pub. 26 Sep 2016)

(<https://www.fitchratings.com/site/re/881269>)

EMEA RMBS Rating Criteria (pub. 29 Nov 2016) (<https://www.fitchratings.com/site/re/891276>)

Global Structured Finance Rating Criteria (pub. 27 Jun 2016) (<https://www.fitchratings.com/site/re/883130>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1018491&cft=0)

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