

28 FEB 2023

Fitch Downgrades 2 Tranches of Rural Hipotecario RMBS Series

Fitch Ratings - Madrid - 28 Feb 2023: Fitch Ratings has downgraded two tranches of Rural Hipotecario XI and XII and affirmed all the remaining notes' ratings for Rural Hipotecario X, XI, XII and XIV, FTA. A full list of rating actions is below.

Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Rural Hipotecario XIV, FTA				
• A ES0374268003	LT	A+sf ●	Affirmed	A+sf ●
• B ES0374268011	LT	Asf ●	Affirmed	Asf ●
Rural Hipotecario XI, FTA				
• Class A ES0323975005	LT	A+sf ●	Affirmed	A+sf ●
• Class B	LT	Asf ●	Downgrade	A+sf ●

ENTITY/DEBT	RATING		RECOVERY	PRIOR
ES0323975013				
Class C LT ES0323975021	Asf		Affirmed	Asf
Rural Hipotecario XII, FTA				
Class A LT ES0323976003	A+sf		Affirmed	A+sf
Class B LT ES0323976011	Asf		Downgrade	A+sf
Class C LT ES0323976029	Asf		Affirmed	Asf
Rural Hipotecario X, FTA				
Class A LT ES0374275008	A+sf		Affirmed	A+sf

ENTITY/DEBT	RATING		RECOVERY	PRIOR
• Class				
B	LT	Asf 	Affirmed	Asf 
ES0374275016				

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Transaction Summary

The transactions comprise fully amortising residential mortgages originated and serviced by multiple rural savings banks in Spain with a back-up servicer arrangement with Banco Cooperativo Espanol S.A. (BBB/Stable/F2).

KEY RATING DRIVERS

Rating Capped by Counterparty Arrangements: The downgrades of Rural XI and XII class B ratings to 'Asf' reflect the excessive counterparty dependency on the transaction account bank (TAB) holding the cash reserve funds in accordance with Fitch's Structured Finance and Covered Bonds Counterparty Rating Criteria. The cash reserves represent a growing and main source of total credit enhancement (CE) to these notes at 57% and 61% of total CE for Rural XI and XII, respectively, as of November 2022. Further, the cash reserve contribution to CE will continue to increase as the transactions continue amortising in a pro-rata manner while the reserve fund is (or will be soon) at its absolute floor.

The class A notes' ratings on all deals remained capped at 'A+sf' by the TAB's minimum rating thresholds of 'BBB+' and 'F2', which are not compatible with the 'AAsf' rating category or 'AAAsf' as per Fitch's Counterparty Criteria.

Stable Performance Expectations: The actions reflect our broadly stable asset performance expectations for the securitised portfolios, supported by a low share of loans in arrears over 90 days (below 0.6% of the current portfolio balance as of the latest reporting dates in all cases), high portfolio seasoning of more than 10 years and low current loan-to-value ratios. However, downside performance risk has increased, as accelerated inflation is putting pressure on household financing, especially for more vulnerable borrowers like self-employed individuals.

The portfolios carry larger-than-average exposures to self-employed borrowers, at around 20% of the portfolio balances in all cases. These are considered higher-risk than loans granted to third-party

employed borrowers and are subject to a foreclosure frequency (FF) adjustment of 170%, in line with Fitch's criteria.

CE Trends: The rating actions reflect Fitch's view that CE ratios are able to compensate the credit and cash flow stresses that are commensurate with the current ratings. For Rural X, XI and XII, we expect CE to remain broadly stable due to the pro-rata amortisation of the notes. However, CE build-up will accelerate when the notes' amortisation switches to fully sequential, when the current notes balance falls below 10% of the original notes balance (currently at 19.1% for Rural X, 21.3% for Rural XI, 27.8% for Rural XII and 33.2% for Rural XIV).

Regional Concentration: The portfolios are exposed to substantial geographic concentration risk, mainly to the regions of Valencia (around 32% of Rural X and 35% of Rural XI's portfolio balance), Castilla La Mancha (around 36% of Rural XII's portfolio balance) and Aragon (around 88% of Rural XIV's portfolio balance). Fitch has applied a higher set of rating multiples to the base FF assumption to the portion of the portfolio that exceeds 2.5x the population within these regions relative to the total national population.

Rural X, Rural XI and Rural XII have an ESG Relevance Score of '5' for Governance: Transaction Parties & Operational Risk due to the modification of transaction documents after closing dates, with lower minimum ratings for the TAB, resulting in lower ratings.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Long-term asset performance deterioration such as increased delinquencies or larger defaults, which could be driven by adverse changes to macroeconomic conditions, interest-rate increases or borrower behaviour. Higher inflation, larger unemployment and lower economic growth could reduce borrowers' ability to pay their mortgage debt
- For ratings that are capped at the TAB provider's deposit rating due to excessive counterparty risk exposure, a downgrade of the TAB provider's deposit rating

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- For class A note ratings, changes to the minimum eligibility ratings for the TAB provider that are compatible with 'AAsf' or 'AAAsf' ratings in accordance with Fitch's Structured Finance and Covered bonds Ratings Criteria
- For ratings that are capped to the TAB provider's deposit rating due to excessive counterparty risk exposure, an upgrade of the TAB provider's deposit rating

Best/Worst Case Rating Scenario

International scale credit ratings of Structured Finance transactions have a best-case rating upgrade

scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of seven notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of seven notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAAsf' to 'Dsf'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

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

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

DATA ADEQUACY

Rural XIV

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool and the transaction. 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 transaction's closing, Fitch reviewed the results of a third-party assessment conducted on the asset portfolio information and concluded that there were no findings that affected the rating analysis.

Prior to the transaction closing, Fitch conducted a review of a small targeted sample of the originator's origination files and found the information contained in the reviewed files to be adequately consistent with the originator's policies and practices and the other information provided to the agency about the asset portfolio.

Overall, and together with any assumptions referred to above, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

Rural X, Rural XI, and Rural XII

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pools and the transactions. 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.

Fitch did not undertake a review of the information provided about the underlying asset pools ahead of the transactions' closing. The subsequent performance of the transactions over the years is consistent with the agency's expectations given the operating environment and Fitch is therefore satisfied that the asset pool information relied upon for its initial rating analysis was adequately reliable.

Overall, and together with any assumptions referred to above, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Rural X's class B and Rural XI's class B and C notes' ratings are capped at Societe Generale S.A.'s long-term deposit rating due to excessive counterparty dependency.

Rural XII's class B and C and Rural XIV's class B notes' ratings are capped at Santander S.A.'s long-term deposit rating due to excessive counterparty dependency.

ESG Considerations

Rural X, Rural XI and Rural XII have an ESG Relevance Score of '5' for Governance: Transaction Parties & Operational Risk due to the modification of transaction documents after closing dates, with lower minimum ratings for the TAB, resulting in lower ratings.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Applicable Criteria

[European RMBS Rating Criteria \(pub.17 Feb 2023\) \(including rating assumption sensitivity\)](#)

[Global Structured Finance Rating Criteria \(pub.26 Oct 2021\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub.29 Jul 2022\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub.01 Aug 2022\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub.10 Feb 2023\)](#)

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub.28 Dec 2022\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Multi-Asset Cash Flow Model, v2.12.2 [\(1\)](#)

ResiGlobal Model: Europe, v1.8.6 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Rural Hipotecario X, FTA

EU Issued, UK Endorsed

Rural Hipotecario XI, FTA EU Issued, UK Endorsed

Rural Hipotecario XII, FTA EU Issued, UK Endorsed

Rural Hipotecario XIV, FTA EU Issued, UK Endorsed

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