

Rural Hipotecario XVII, FTA

New Issue

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Capital Structure

Class	Rating	Outlook	Amount (EUR)	CE (%)	Interest Rate (%)	Final Maturity	TT ^a (%)	TTLM ^b (x)	PLE ^c (%)	PLM ^d (x)
Bond A	A+sf	Stable	90,000,000	20.5	1.50	Jan 2057	91	15.7	4.7	4.4
Loan B	NR	-	11,124,000	9.5	0.25	Jan 2057	9	3.0		
Total			101,124,000							

^a Tranche Thickness (TT) – ratio of class size to collateral balance

^b Tranche Thickness Loss Multiple – TT% divided by Fitch's 'Bsf' rating loss expectation. See also Structured Finance Tranche Thickness Metrics, dated 29 July 2011

^c Portfolio Loss Expectation (PLE%) – The outstanding principal balance of the portfolio that Fitch expects will be lost over the life of the transaction. See also [Portfolio Loss Metrics](#), dated 24 September 2013

^d Portfolio Loss Multiple (PLM) – Credit Enhancement (%) divided by the PLE

Transaction Summary

The transaction is a multi-originator securitisation of a EUR101m static pool of Spanish residential mortgage loans, originated and serviced by Caja Rural (CR) de Navarra (BBB+/Stable/F2) and the unrated entities CR de Aragon, CR de Granada and CR de Teruel (the originators). Fitch Ratings has assigned final ratings to the notes issued by Rural Hipotecario XVII, FTA (the issuer, or SPV). The ratings address timely payment of interest and ultimate payment of principal by the legal final maturity date of the notes in January 2057.

Key Rating Drivers

High OLV Loans: Fitch's 'Bsf' rating loss rate assumption for the securitised portfolio is 5.8%, which is relatively high compared to previously rated securitisations of the same series (below 5%). The higher loss level is mainly driven by approximately 40% of the loans, which have an above average original loan-to-value (OLTV) of up to 100%. However, the portfolio's weighted average (WA) OLV of 76% remains in line with market average.

High DTI Assumed: In the analysis of the transaction all borrowers were assumed to have a debt-to-income (DTI) ratio of 50%, due to inconsistencies in income documentation identified during file reviews conducted by Fitch. The unadjusted WA DTI of the portfolio is around 30%, based on reported borrowers' income and a stressed base rate of 5%.

Solid Data Quality: We believe that the overall quality of the portfolio data is solid, despite inconsistencies in income documentation. Deloitte conducted an external audit on the loan-by-loan data templates provided by the originators. Reported income was not an audited field, but the auditor reviewed 18 additional loans' attributes and identified no material errors.

Interest Deferral Trigger: Loan B interest payments rank senior to principal redemption at closing, but would be deferred in case gross cumulative defaults on the securitised portfolio exceed 10%. The structural credit enhancement (CE) totals 20.5% at closing and is provided by the subordination of loan B and a reserve fund of EUR9.6m.

No Excess Spread: A liquidity reserve (LR) of EUR10.1m covers interest shortfalls resulting from the negative difference between the WA margin of the loans (1.25% at closing) and that of the notes (1.50%).

Related New Issue Appendix

[Rural Hipotecario XVII, FTA](#)

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Key Parties

- Originators and collateral servicers: CR de Navarra (BBB+/Stable/F2), CR de Aragon, CR de Granada, and CR de Teruel (all not rated by Fitch)
- Collection account banks: the originators and collateral servicers
- SPV account bank and paying agent: Barclays Bank PLC, Spanish Branch (A/Stable/F1)
- Back-Up servicer: Banco Cooperativo Español (BBB/Stable/F3)
- SPV trustee / SPV management company: Europea de Titulización, S.A. (not rated by Fitch)
- Hedge provider: not applicable

Rating Sensitivity¹

This section of the report provides an insight into the model-implied rating sensitivities to hypothetical changes in defaults and/or recoveries on the assets in a stressed environment. These increased defaults and/or recoveries on assets are relative to the weighted average (WA) frequency of foreclosure (WAFF) of the mortgage portfolio and the WA recovery rate (WARR) of the mortgage pool, respectively.

The model-implied rating sensitivities based on these assumptions are only indicative of some potential outcomes and do not consider other risk factors to which the transaction is exposed.

Rating Sensitivity to Defaults

Rating Sensitivity to Default Rates

	Class A
Original rating	A+sf
15% increase in default rates	Asf
30% increase in default rates	A-sf
Source: Fitch	

Rating Sensitivity to Recovery Rates

Rating Sensitivity to Recovery Rates

	Class A
Original rating	A+sf
15% decrease in recovery rates	A+sf
30% decrease in recovery rates	A+sf
Source: Fitch	

Rating Sensitivity to Shifts in Multiple Factors

Rating Sensitivity to Default and Recovery Rates

	Class A
Original rating	A+sf
15% increase in default rates, 15% decrease in recovery rates	Asf
30% increase in default rates, 30% decrease in recovery rates	BBB+sf
Source: Fitch	

Model, Criteria Application and Data Adequacy

Fitch estimates collateral default and recovery rates for Spanish residential transactions using a country-specific, loan-by-loan mortgage default model (see *Criteria Addendum: Spain – Residential Mortgage Loss and Cash Flow Assumptions*, dated June 2014). The agency also uses a proprietary cash flow model to complete the rating analysis and simulate the transaction cash flows and capital structure.

The agency received a loan-by-loan data template on the securitised pool, including all the fields it requires under its RMBS criteria. An internationally recognised audit firm (Deloitte) conducted an audit report regarding the data template, which included a detailed review of 614 loans, representing over 50% of the securitised portfolio. The auditor identified no material data errors. Fitch believes the sample size, the scope of the audit report and the lack of material error findings suggest the data provided by the originators was of acceptable quality.

Related Criteria

[Global Structured Finance Rating Criteria \(May 2014\)](#)

[EMEA RMBS Master Rating Criteria \(May 2014\)](#)

[EMEA Residential Mortgage Loss Criteria \(May 2014\)](#)

[Criteria Addendum: Spain - Residential Mortgage Loss and Cash Flow Assumptions \(June 2014\)](#)

[EMEA RMBS Cash Flow Analysis Criteria \(May 2014\)](#)

[Counterparty Criteria for Structured Finance and Covered Bonds \(May 2014\)](#)

¹ These sensitivities only describe the model-implied impact of a hypothetical change in input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance

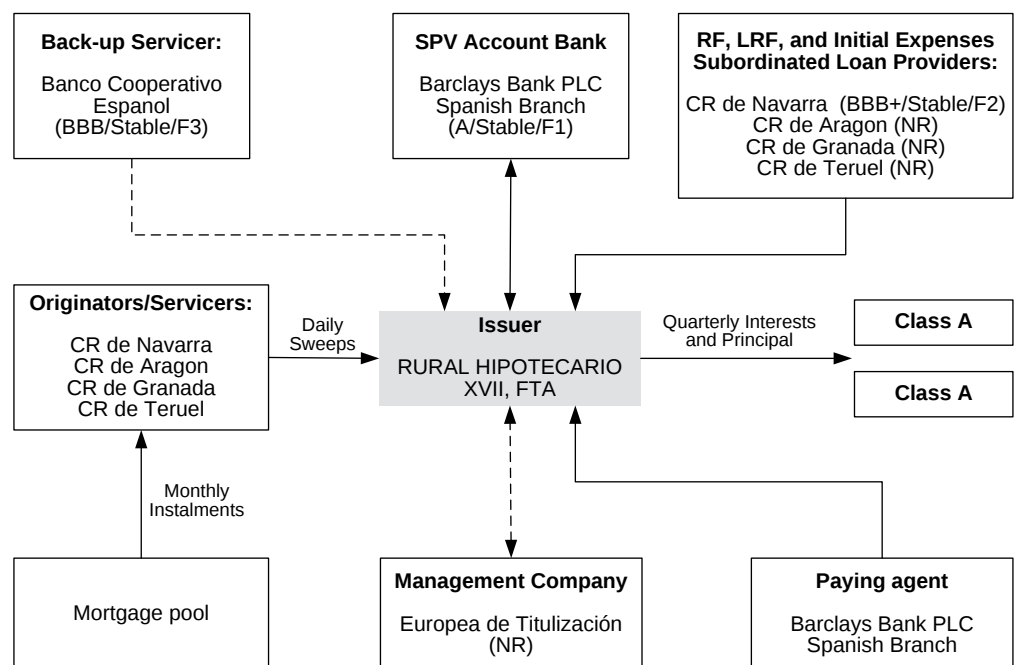
Fitch also received and analysed historical performance data from the originators' securitised mortgage book provided by the SPV trustee. This data set included cumulative and dynamic mortgage arrears and data on prepayments. In our view, historical performance data on previous securitisations supports an expected lifetime default assumption of 7.9%. Note that to derive our 'Bsf' rating lifetime default assumption of 9.8%, Fitch adds a 25% buffer to expected lifetime defaults.

The collateral review also involved an analysis of the originator's real estate repossessions, during which, the agency determined the experienced loss severity rate. While this sample was limited in size, it permitted Fitch to introduce seller-specific calibrations on the recovery estimates over the Spanish standard assumption.

Transaction and Legal Structure

Figure 1

Structure Diagram



Source: Fitch

Legal Framework

The issuer is Rural Hipotecario XVII, FTA, a limited-liability special-purpose vehicle (SPV) incorporated under the laws of Spain. Its sole purpose is to acquire the mortgage loans from the sellers as collateral for the issuance of quarterly paying liabilities.

Under Spanish law mortgage loans are not actually transferred, as this would entail a lengthy process of re-registering the mortgages at the property registry. Instead, mortgage originators are permitted to issue mortgage participations (Participaciones Hipotecarias or PH) or mortgage certificates (Certificados de Transmision de Hipoteca or CTH).

At closing date, the SPV acquired the mortgage certificates and mortgage participations over the collateral mortgage loans, with the proceeds obtained via issuance of securitisation notes.

The SPV management company is Europea de Titulización, a limited-liability company incorporated under Spanish laws and supervised by the capital markets regulator Comisión Nacional del Mercado de Valores (CNMV). Its activities are limited to the management of securitisation funds, including cash reconciliation, payment and waterfall calculations, reporting,

and the monitoring of applicable triggers. The management company is also responsible for taking any action in the interests of the noteholders, such as the replacement of the servicer or the account bank.

Representations and Warranties

The seller provided the SPV with specific representations and warranties (R&Ws) concerning the characteristics of the mortgages, and the general and legal circumstances of the loans in the portfolio. For more details, see the related *Appendix*, which includes all the R&Ws given by the transaction parties. The R&Ws are substantially comparable to those typically contained in Spanish RMBS transactions, as described in Fitch's research *Representations, Warranties, and Enforcement Mechanisms in Global Structured Finance Transactions*, dated 17 April 2012.

In addition to the standard R&Ws for this type of transaction, the R&Ws also include the following representation, which relates specifically to this transaction: at closing, none of the mortgage loans are delinquent by more than one month.

Permitted Variations

As stipulated in Article 25 of Royal Decree 685/1982, the seller, in administering the mortgage loans, may not, without the consent of the SPV managing company, voluntarily cancel the mortgages forming the collateral for reasons other than the full amortisation of the loan. Furthermore, it will not renounce, modify or restructure the mortgage loans, or in general take any action that diminishes the legal effectiveness or the economic value of the mortgage loans, except for the modifications listed below.

- Changes in loan margins as long as the WA margin of the collateral does not fall below 100bp. We judge this possibility to have no rating impact for the following reasons: (a) the WA margin of the portfolio at closing is already moderate (125bp), and (b) in our CF analysis we assume further margin compression down the line, due to allocation of voluntary prepayments to the highest margin paying loans.
- Changes in the remaining tenor of the mortgage loan through modification of the amortisation profile. However, no extension can go beyond the longest scheduled final maturity of the collateral, June 2053. The outstanding amount of the mortgage loans on which the extension of maturity could be allowed will not exceed 10% of the initial pool principal balance for each originator.
- If the borrowers fulfil the requirements of Royal Decree-6/2012, and they are considered to be at the verge of social exclusion, the servicer can act in accordance with the banking code of good practices "Código de Buenas Prácticas". We expect this provision would apply to a limited number of borrowers.

Historically, limited loan modifications or restructurings have been reported for existing RMBS transactions. However, in light of the downturn in the housing market and macroeconomic conditions, many lenders have expanded their loan modification and restructuring programmes as part of loss mitigation strategies. Fitch expects all loan modifications or restructurings to be conducted within the context of transaction documentation provisions.

Substitution of Assets

As is the case in most Spanish RMBS transactions, loans that are discovered to be in breach of the R&Ws must be either fully amortised or substituted by the seller with a compliant loan. The substitution will have to be approved by the management company and follow the rules laid out in the transaction documentation and Spanish securitisation law. The substitution cost will be borne by the originator.

Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Asset Analysis

At closing date, the portfolio had an outstanding balance of EUR101m and comprised 811 mortgage loans. The aggregate portfolio had a WA OLTV of 76%, which is average compared with other Spanish RMBS transactions rated by Fitch.

No Lender Adjustment

Fitch derives its expected case default probabilities taking into consideration the underwriting and servicing practices of the lenders, as well as historical performance of the lenders' mortgage books.

Fitch's expected lifetime default assumption of 7.9% is commensurate with historical roll rates into default and with the lenders' underwriting and servicing procedures.

Affordability Adjustment

Fitch considers that the originator's underwriting guidelines were in line with market practice except that, in general, there was no binding limit regarding debt to income (DTI).

Fitch has been provided with information on the borrowers' net income at the time of the loan origination for 100% of the portfolio. However, during the operational visits and file reviews performed on the originators, there were inconsistencies between the net income reported and the documented net income.

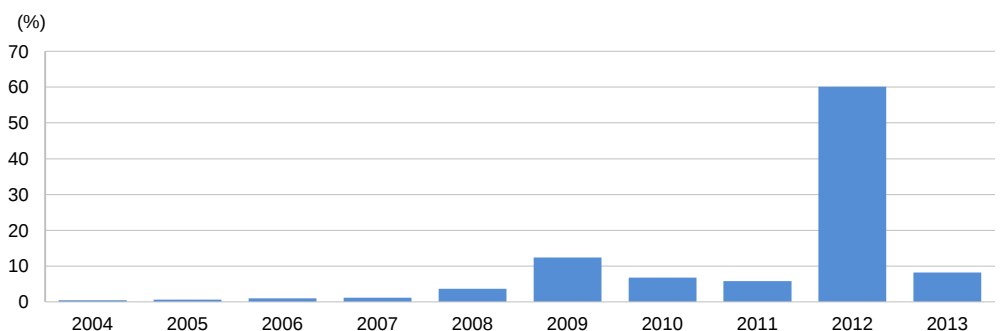
To address these inconsistencies, we have assumed all borrowers have a DTI ratio of 50% and fall within our most conservative definition of DTI, which is Class 5. The unadjusted WA DTI of the portfolio is around 30%, based on reported borrowers' income and a stressed base rate of 5%.

Apart from inconsistencies in income documentation, we believe that the overall portfolio data availability was solid. Fitch considers that the information obtained from the seller, together with the data available from previous securitisations and the pool audit report, is of sufficient quality for rating the transaction.

Seasoning

Figure 2

Pool Distribution by Vintage



Source: Fitch

The pool is mainly post-crisis originated with most loans concentrated in 2012. The securitised pool has an average seasoning of 2.5 years, which is below average compared to other Spanish RMBS transactions. We believe this has a neutral effect on expected portfolio performance: on the one hand we regard this as a positive feature, since post-crisis vintages are generally associated with more prudent lending practices; on the other, less seasoned portfolios have a higher default probability, all else being equal.

Quick Sale Adjustment

Fitch received limited information on properties taken into possession for loans serviced by the sellers. Although the sample was small, it permitted us to compare observed average discounts against the typical discount captured by our criteria assumptions for rating Spanish RMBS. In light of these observations, we applied a QSA of 45%, which is the standard QSA applied in Spanish RMBS transactions, in accordance with our criteria assumptions.

Geographical Concentration Adjustment

The securitised portfolio has a material concentration in the region of Aragon (40% of the loans in volume terms). We believe that portfolios with significantly higher than average regional concentrations are more vulnerable to local economic downturns compared to a diversified portfolio. To reflect this, we have increased the default probability of loans located in Aragon by 15%.

Standard Adjustments

Fitch has identified subsets of the pool with other risky credit characteristics, which are captured as standard adjustments within Fitch's default model. The most important of these adjustments relate to the following characteristics: non-standard full-time employment (21%) and mortgage tenor of more than 30 years (48%). Fitch has applied default probability hits on these subsets of loans of 1.6x and 1.2x, respectively.

Default Model Output

Figure 3 illustrates the asset analysis results across different rating scenarios. Fitch has used these WAFF and WARR levels when modelling the transaction cash flows.

Figure 3

Fitch Default Model Output

Rating level (%)	WAFF ^a	WARR ^b
A+sf	24.6	30.2
Bsf	9.8	41.0

^a Lifetime weighted-average foreclosure frequency

^b Weighted-average recovery rate on defaulted loans

Source: Fitch

Fitch modelled the cash flows from the mortgages based on the WARR and WAFF provided by the loan-by-loan collateral analysis. We have tested different default vectors combined with different prepayments (high/low) and interest-rate environments (rising/stable/decreasing). The assumptions used under individual scenarios were in accordance with Fitch's cash flow analysis criteria for RMBS.

The cash flow analysis showed that the CE provided for the class A notes would be sufficient to withstand the combination of stresses inclusive of default hurdles and losses that is commensurate with an 'A+sf' rating.

Financial Structure

Credit Enhancement

Subordination

Class A notes benefit from sequential paydown, with class B loan principal payments subordinated to class A interest and principal payments. Loan B interest payments rank senior

to principal amortisation at closing, but would be deferred in case gross cumulative defaults (defined as mortgages in arrears for longer than 18 months) on the securitised portfolio exceed 10%.

At closing structural CE for the class A notes, equivalent to 20.5%, was provided by the subordination of class B loan (11%) and a non-amortising reserve fund of 9.5%.

Non-Amortising Reserve Fund

The non-amortising reserve fund was fully funded to its required amount at closing, equal to 9.5% of the initial principal balance of the notes (EUR9.6m). This reserve fund may be used to meet any cash shortfall, providing credit protection to the securitisation notes.

Provisioning for Defaults

The transaction benefits from a provisioning mechanism whereby defaulted loans, defined as loans more than 18 months in arrears, will be recorded as a loss and will form part of the principal redemption due amount.

No Excess Spread

Unlike most Spanish RMBS securitisations rated by Fitch, the WA margin of the loans lies below the margin payable on the notes. Hence, the transaction has no excess spread available to replenish any debit balances that arise on the principle deficiency ledger (PLD). The replenishment of such principal deficiencies is fully dependent on recoveries from foreclosed assets.

As a consequence of such structural features, the notes are more vulnerable to front-loaded mortgage loan defaults. This is because in a front-loaded default scenario the PDL would build up more rapidly, generating a high cost of carry of defaulted loans until recovery.

In our CF model, we have tested a front-loaded default vector which assumes that all defaults are spread within the first six years of the transaction, with over 50% of defaults concentrated within the first two years. The foreclosure timing used to calculate the carry cost of defaulted loans until recovery within the cash flow model ranges from 48 to 60 months, subject to the rating scenario.

Liquidity Reserve

A liquidity reserve (LR) of EUR10.1m was funded at closing to cover for class A note interest shortfalls resulting from the difference between the WA margin of the loans (1.25% at closing) and that of the notes (1.50%).

The LR is drawn quarterly by an amount equivalent to 0.3% of the outstanding balance of the notes. Any drawn amounts in excess of class A interest shortfalls will be allocated to class B interest or class A principal, in accordance with the transaction's waterfall. Hence, in addition to covering for interest shortfalls, the LR also provides a variable amount of CE on class A principal due amounts, which is dependant to the amortisation profile of the class A notes.

Available Funds

The available funds used to face SPV payment obligations, in accordance with the priority of payments, at each quarterly payment date are the following:

1. principal collections;
2. interest collections;
3. all amounts standing to the credit of the reserve fund and of the liquidity reserve;
4. proceeds from recoveries or repurchase of mortgage assets; and
5. SPV bank account interests proceeds.

Priority of Payments

The transaction uses a combined waterfall of payments. The principal allocated under the waterfall is equal to the outstanding balance of the notes, less the non-defaulted portfolio balance. On each quarterly payment date, available funds will be distributed according to the following order of priority:

1. senior fees and expenses;
2. interest payments on the class A notes;
3. liquidity reserve replenishment;
4. interest payments on the class B notes (if cumulative defaults are lower than 10%);
5. principal due on the class A notes;
6. principal due on the class B loan;
7. interest payments on the class B notes (if cumulative defaults exceed 10%);
8. reserve fund replenishment; and
9. other subordinated amounts.

Unhedged Transaction

The transaction is exposed to interest basis and reset risk, derived from the mismatch between the reference indices for the collateral and the notes. The notes' reference index is three-month Euribor (with quarterly resets), while the loans are linked to 12-month Euribor with annual resets. Fitch has adjusted its cash flow model to take into account potential losses derived from basis and interest rate reset risk under foreseeable interest-rate scenarios.

Counterparty Risk

Sellers and Servicers

The sellers will continue acting as servicers of the collateral, as is the case for all Spanish RMBS transactions. As part of its analysis, Fitch has reviewed and analysed the sellers' origination and servicing guidelines, meeting managers responsible for the mortgage loan department.

Under Spanish securitisation law, if the seller is unable to continue servicing the collateral, the management company must appoint a replacement servicing company. The transaction benefits from a back-up servicer, Banco Cooperativo Español, which would step in as back-up servicer upon a servicer termination event.

Banco Cooperativo Español has the same IT system as the four servicers and other rural savings banks. In our view, this would make the management of the loan catalogue and the eventual transfer of assets to a new entity easier, especially as Rural Servicios Informáticos, the IT provider, already has experience in transferring mortgages among merged rural saving banks.

Payment Interruption

If a servicer becomes insolvent, the asset collections and cash sweeps to the SPV bank account are likely to be interrupted while alternative arrangements are made. The effect could be a short-term liquidity shock, which may lead to an interruption of payments to the notes.

Fitch believes that payment interruption risk on the securitisation notes in the event of a servicer disruption is effectively mitigated by the liquidity reserve, which may be used in any circumstance to cover class A interest shortfalls. In addition, in our view the back-up servicer agreement with Banco Cooperativo would facilitate the servicer replacement process, reducing potential exposure to a servicing disruption period to a maximum of three months.

Immaterial Commingling Risk

Payments made by the borrowers, and any other amounts to which the SPV is entitled as holder of the mortgage certificates, will be placed in the SPV account daily, reducing to a minimum the volume of collections that could be commingled with the insolvency estate of the defaulted servicer or collection account holder. Fitch therefore believes that potential commingling risk is not material to the rated notes.

No Set-Off Risk

Fitch considers that the likelihood of structured finance or covered bond investors incurring losses as a result of the set-off of insured domestic deposits by obligors is highly remote in most EU countries. This view is based primarily on the high level of political support for protecting such deposits, reflected in deposit guarantee and bank resolution frameworks (see *Deposit Set-Off for EU Structured Finance and Covered Bonds*, dated 27 June 2013).

Moreover, Fitch derives comfort from Spanish law, where set-off rights are granted only under limited circumstances that do not typically apply to mortgage securitisations.

SPV Account Bank

The SPV management company, on behalf of the issuer, has opened the SPV account at Barclays Bank PLC, Spanish Branch (A/Stable/F1). The account holds all daily incoming cash flows from the collection account until their distribution to the noteholders.

If the rating of Barclays Bank PLC is lowered below 'BBB+/'F2', the management company will be obliged to take one of the following steps within 30 calendar days: obtain a first demand and unconditional guarantee from a third-party entity rated at least 'BBB+/'F2' covering the obligations held under the bank account agreement; or replace the bank with a third-party entity rated at least 'BBB+/'F2'. If Barclays Bank's ratings were subsequently returned to at least 'BBB+/'F2', it could regain its role as the SPV Account Bank.

Fitch considers the remedial actions described above to sufficiently mitigate against counterparty risks and are commensurate with the 'A+sf' rating for the class A notes.

Notes Paying Agent

Quarterly distributions to the noteholders will be executed by Barclays Bank PLC, Spanish Branch, which will act as paying agent.

If the rating of Barclays Bank PLC is lowered below 'BBB-/'F3', the management company will be obliged to take one of the following steps within 30 calendar days: obtain a first demand and unconditional guarantee from a third-party entity rated at least 'BBB-/'F3' covering the obligations held under the paying agency agreement; or replace the paying agent by another entity rated at least 'BBB-/'F3'.

Fitch believes that the remedial actions described sufficiently mitigate against counterparty risk and are commensurate with the 'A+sf' rating for the class A notes.

Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events. Its structured finance performance analytics team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Fitch expects to receive the investor report, together with the updated loan portfolio and details of restructured loans, each quarter.

Details of the transaction's performance are available to subscribers at www.fitchratings.com.

Appendix A: Origination and Servicing

Origination and servicing practices are fairly homogeneous among the four sellers of the Rural Hipotecario XVII transaction.

The main findings of Fitch's review are set out below.

Summary strengths

- Mortgage book is composed of plain vanilla mortgage products with limited flexibilities.
- Loans are originated through traditional origination channels, with no broker origination.
- Common IT systems would facilitate servicer replacement if needed.
- Each seller operates in a limited area and has a good knowledge of its customer base.
- OLTV tested at origination is typically based on the lowest of purchase price and valuation.
- Third party guarantees are typically requested in case OLTV exceeds 80%.

Summary weaknesses

- Limited statistical performance data / relatively undeveloped monitoring practices.
- Few formal credit policy restrictions other than OLTV rules and authorisation limits by volume.
- No specific limits for DTI, combined with low level of income verification. It is at the discretion of the relevant analyst to consider payment capacity as sufficient or insufficient.
- File reviews detected that reported net income data in the data templates was consistently higher as documented in the physical mortgage files held at the originators.
- The scoring tool is indicative, but not binding.

Implications for the Analysis

While the originators' mortgage loan book is mainly comprised of mortgages with prime characteristics and moderate WA OLTV levels, we judge some origination and servicing standards to be below market average, in particular with regards to borrower payment capacity verification and data availability. These issues have been addressed by Fitch as follows.

- Low level of borrower payment capacity verification: This has been addressed within our credit analysis by classifying all loans as DTI Class 5, the highest DTI level.
- Default and recovery vintage data for the sellers' entire mortgage book was not provided. This was mitigated by the detailed analysis of historical performance data of securitised portfolios of the originators in RMBS transactions rated by Fitch.

As already mentioned, although data quality and availability are below average, Fitch considers that the information obtained from the sellers, together with the information available from previous securitisations and pool audit report, is of sufficient quality for rating the transaction.

Origination and Underwriting Guidelines

The sellers in this transaction are part of the Spanish Credit Cooperative Group and are not rated by Fitch, except for CR de Navarra (BBB+/Stable/F2). Each seller has contributed to the securitised portfolio in RHXVII with the following mortgage loan amounts:

- CR de Navarra: EUR32m;
- CR de Aragon: EUR26m;
- CR de Granada: EUR22m; and
- CR de Teruel: EUR21m.

We believe that the securitised portfolio is reflective of the originators' total mortgage loan book, which is mainly comprised of mortgages with prime characteristics, with low to moderate WA OLTV in the range of 60% to 70%.

An exception to this is the portfolio securitised by CR de Navarra, which has an above average WA OLTV of 89% and is composed of loans on the 80%-100% OLTV bucket. Fitch's Criteria captures a higher default probability for this subset of loans.

Organisation and Approval Process

All rural saving banks have different approval levels, depending mainly on the size of the transaction and OLTV limits, but in general approval responsibilities are distributed as follows.

- The retail branch. The branch stores the required information and prepares a proposal. It is able to approve the mortgage if all the parameters are within certain limits.
- The second level involves the risk department. In the event that the mortgage application parameters fall beyond the branches' approval limits, a credit proposal is prepared at branch level and sent to the credit analysis department. The credit department presents a recommendation to the credit committee, which decides on the loan approval.
- Other approval levels. Approval for high volume loans is given by different commissions, with more senior staff involved.

The main underwriting guidelines throughout all origination phases relate to OLTV. In general, the maximum OLTV limit is 80%, with loans exceeding this threshold (as is the case of the loan book securitised by CR de Navarra) requiring additional guarantees. The originators do not work with brokers, and their exposure to foreigners is very limited. Fitch regards this as a strength of the underwriting guidelines.

Capacity to pay must be documented and proved via annual income and tax statements, and through the latest payrolls. Nevertheless, the underwriting guidelines do not establish any specific limits on DTI. It is at the discretion of the relevant analyst whether to consider payment capacity sufficient or insufficient. We regard this as a weakness of the underwriting guidelines.

Independent Appraisals

Appraisers are external agencies certified by the Bank of Spain, and are assigned by the centralised analysis departments. Full appraisals are required for a mortgage to be granted.

Scoring

The originators, like all other rural savings banks that are part of the Spanish Credit Cooperative Group, have access to a scoring tool developed by Banco Cooperativo Español. However, there are no restrictions on loan approvals based on scoring (i.e. scoring assessment is only qualitative and not binding).

Servicing and Recoveries

Performance Monitoring

Monitoring practices are less developed compared with other Spanish lenders. The originators track dynamic arrears levels by asset type (such as residential mortgages or SMEs) but breakdowns by subgroups of assets are typically not available (e.g. self-employed borrowers, high OLTV loans). Automatic alerts are sent when a borrower is incorporated to a credit bureau (CIRBE, EXPERIAN), or when a particular event happens (e.g. no income during a certain period).

Similarly, statistical data is limited. For example, there is no information on the volume of loan applications rejected at the branch level, as rejected applications are not recorded in the IT system. As underwriting guidelines are recommendation based and there are no formal

rejection triggers, there is no information on exceptions. A further weakness is that historical performance data on the total mortgage book is not available.

Collections

The four originators use the IRIS IT system to track the performance of underwritten loans – this allows branches and central recovery staff to monitor loan-by-loan performance and input notes as it relates to borrower condition and recovery strategy.

The IRIS application consolidates borrower and loan information, tracks the arrears status, sends automatic notifications and alerts to the branches, and manages the automatic letters and notifications sent to borrowers.

Branches are able to input borrower and loan notes into the system until the loans are 45/60 days past due – when central recovery managers take over to ensure more formal control over the process.

Refinancings

Refinancing rates are below market average and range between 3% and 10%. Refinancing efforts are typically concentrated in the early arrears stage (up to 90 days past due), although it is normal that a refinancing agreement is finally closed after 90 days past due. As a general rule loan term extensions are preferred. Grace periods, margin reductions or any other type of flexibility may be considered case by case.

Foreclosed Properties

The rural saving banks manage their assets in different ways depending on the volume of properties in possession. In all cases they sell properties through their branches and also work with external agents to sell their repossessed properties.

Appendix B: Transaction Overview

Rural Hipotecario XVII, FTA

Spain/Prime RMBS

Figure 4

Capital Structure

Class	Ratings ^a	Size (%)	Size (EUR)	CE ^b (%)	Interest rate	PMT freq.	Final maturity	Margin (%)	ISIN
Bond A	A+sf	89	90,000,000	20.5	3M Euribor	Quarterly	Jan 2057	1.50	ES0305033005
Loan B	NR	11	11,124,000	9.5	3M Euribor	Quarterly	Jan 2057	0.25	
Total		100	101,124,000						

Reserve fund (EUR) 9,606,780

Liquidity reserve (EUR) 10,112,400

Reserve fund floor (EUR) 9,606,780

^a Class A notes have a Stable Outlook^b Credit enhancement shown includes reserve fund

Source: Transaction documents

Key Information

Closing date	08 July 2014	Issuer	Rural Hipotecario XVII, FTA
Country of assets	Spain	Originators/servicers	CR de Navarra (BBB+/Stable/F2), CR de Aragon, CR de Granada, CR de Teruel
Country of SPV	Spain	Collection account banks	CR de Navarra, CR de Aragon, CR de Granada, CR de Teruel
Structure	Static, Pass-through	SPV account bank	Barclays Bank PLC Spanish Branch (A/Stable/F1)
Analysts	Antonio Casado, Carlos Masip	Paying agent	Barclays Bank PLC Spanish Branch (A/Stable/F1)
		Management company	Europea de Titulización

Source: Fitch

Summary

Rating drivers

- High OLV loans:** Fitch's 'Bsf' rating loss rate assumption for the securitised portfolio is 5.8%, which is relatively high compared to those of previous rated securitisations of the same series (<5%). The higher loss level is mainly driven by approximately 40% of the loans, which have an above average original loan-to-value (OLTV) of up to 100%. However, the portfolio's weighted average (WA) OLV of 76% remains in line with market average.
- High DTI assumed:** In the analysis of the transaction all borrowers were assumed to have a debt-to-income ratio of 50%, due to inconsistencies in income documentation identified during file reviews conducted by Fitch. The unadjusted WA debt-to-income (DTI) of the portfolio is around 30%, based on reported borrowers' income and a stressed base rate of 5%.
- Solid data quality:** We believe that the overall portfolio data quality is solid, despite inconsistencies in income documentation. Deloitte conducted an external audit on the loan-by-loan data templates provided by the originators. Reported income was not an audited field, but the auditor reviewed 18 additional loans' attributes and identified no material errors.
- Interest deferral trigger:** Loan B interest payments rank senior to principal redemption at closing, but would be deferred in case gross cumulative defaults on the securitised portfolio exceed 10%. The structural credit enhancement (CE) totals 20.5% at closing and is provided by the subordination of loan B principal payments and a reserve fund of EUR9.6m.
- No excess spread:** A liquidity reserve (LR) of EUR10.1m covers interest shortfalls resulting from the negative difference between the WA margin of the loans (1.25% at closing) and that of the notes (1.50%).

Source: Fitch

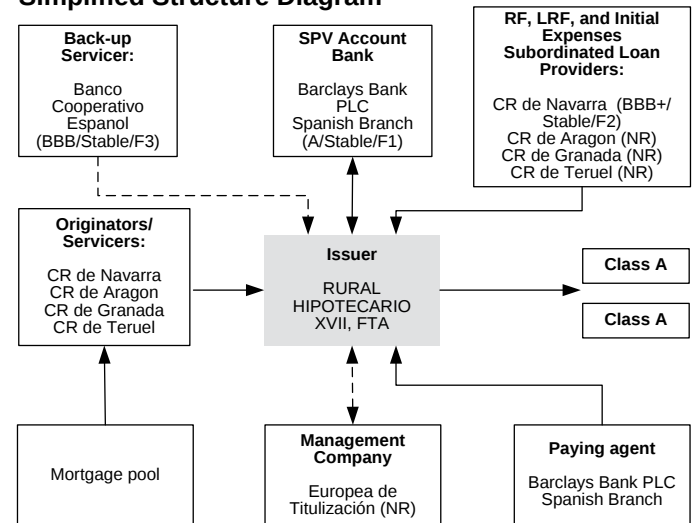
Fitch Default Model Results (%)

Rating level	A+sf	Asf	BBBsf	BBsf	Bsf
WAFF	24.6	22.7	16.8	12.8	9.8
WARR	30.2	31.3	34.5	37.8	41.0
WALR ^a	17.1	15.6	11.0	8.0	5.8

^a WALR = WAFF x (1-WARR)

Source: Fitch

Simplified Structure Diagram



Source: Fitch

Collateral Summary

Pool characteristics

Current principal balance (EUR)	101,413,456	First lien (%)	100
Average current loan per borrower (EUR)	125,047	Floating rate (%)	100
Number of loans	811	First homes (%)	95.0
Number of borrowers	811	Less liquid properties (%)	0.5
WA OLV (%)	76.0	VPO properties (%)	12.9
WA indexed CLTV (%)	82.1	Payment holidays	0
DTI (%) (assumed by Fitch)	>50 for all loans		

Mortgage characteristics (%)

Mortgage tenor of more than 30 years	48.1	Geographical concentration (%)	
Loan purpose other than acquisition	0.6	Aragón	40.0
Self-employed/Temporarily employed borrower	19.6	Navarra	19.3
Unemployed borrower	1.1	Andalucía	17.6
Non-Spanish borrowers	2.9	Pais Vasco	9.7
Second homes	5.0	Payments (%)	
Broker originated loans	0	Payment frequency	Monthly (100)
		Payment method	Direct debit (100)

Source: Fitch

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

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