



**Fitch: SF Impact of Spanish, Italian & Irish Sovereign Rating Actions** 01 Feb 2012  
12:41 PM (EST)

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**Link to Fitch Ratings' Report:** [Fitch: SF Impact of Sovereign Rating Actions](#)

Fitch Ratings-London/Milan-01 February 2012: Fitch Ratings has revised the Outlook on 253 tranches of Spanish and Italian structured finance (SF) transactions to Negative. In addition, the 12 tranches of five Irish RMBS transactions have been affirmed, removed from Rating Watch Negative (RWN) and assigned a Negative Outlook. This means all 'AAAsf' rated tranches of Italian and Spanish SF and all 'AAsf' rated tranches of Irish SF have a Negative Outlook. Fitch has also downgraded 15 tranches of credit-linked and/or state guaranteed SF transactions in Spain and Italy. The full list of affected tranches can be found on [www.fitchratings.com](http://www.fitchratings.com) or by clicking the link above.

The rating actions follow the downgrade of the Long-term Issuer Default Ratings (IDR) of Spain to 'A' and Italy to 'A-', as well as the affirmation of, and removal of RWN from, Ireland's 'BBB' IDR (see 'Fitch Takes Rating Actions on Six Eurozone Sovereigns' dated 27 January 2012 at [www.fitchratings.com](http://www.fitchratings.com)). The Outlook for the sovereign ratings for all three countries is Negative.

A falling sovereign IDR is an indicator of a heightened likelihood of extreme stress scenarios and therefore signals increased uncertainty about future SF transaction performance. In situations of higher uncertainty, Fitch does not consider it appropriate to assign the highest SF ratings solely based on higher stress assumptions, but will instead cap SF ratings with reference to the sovereign's IDR. SF transactions may achieve a rating of up to six notches above a eurozone sovereign's IDR.

The latest downgrades of the Spanish and Italian sovereign ratings have left their IDRs at a level at which a cap on SF ratings could be considered. The Negative Outlook for the sovereign ratings is therefore being reflected in the ratings for all Spanish and Italian 'AAAsf' tranches. The Negative Outlook for Spanish 'AAAsf' tranches also reflects concerns that the near-term outlook for its economy is deteriorating, which is likely to have detrimental effects on the asset markets underlying SF transactions, as well as the sector's systemic reliance upon Spanish banks.

The ratings of Irish SF tranches remain capped at 'AAsf' and the Negative Outlook on the tranches rated at this level reflects the Negative Outlook on the sovereign.

The downgrades to the two ABS, four CMBS and nine Structured Credit credit-linked and/or state guaranteed tranches directly follow the downgrades of the Spanish and Italian sovereign IDRs. For Spanish SME tranches that are guaranteed by the sovereign, Fitch has assigned two Stable and two Positive Outlooks reflecting the Outlooks on the tranches to which they rank pro-rata in terms of interest and principal payments. This reflects the agency's view that these tranches are no longer credit-linked to the rating of the sovereign, but dependent on the credit enhancement level and the performance of the underlying assets in the respective transactions.

Fitch recognises the likelihood that the downgrades of the sovereign IDRs will put pressure on the ratings of financial institutions in Spain and Italy. This is of concern for SF transactions in these countries as various counterparty roles are fulfilled by their domestic banks. Fitch's Counterparty Criteria for Structured Finance Transactions states that a counterparty with ratings of at least 'A'/F1' is generally eligible to support the ratings of tranches of 'AA-sf' or above. The agency assumes that appropriate remedial action would be taken for each transaction should the counterparty ratings fall below this level. In the

absence of suitable remedial action, the ratings of tranches currently rated above the relevant counterparty could be adversely affected.

In jurisdictions such as Spain and Italy, where a decreasing number of counterparties are defined as eligible, the risk of concentration of counterparty roles into a very limited number of eligible entities could pose an additional risk to the country's SF market as a whole. This situation may lead to lower ratings from a particular country if it became clear that parties to SF transactions from that country are generally unable or unwilling to take the appropriate remedial action to ensure ratings can be maintained.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

Applicable criteria, "EMEA Residential Mortgage Loss Criteria" dated 16 August 2011, "EMEA Criteria Addendum - Italy - Mortgage Loss and Cash Flow Assumptions" dated 10 August 2011, "EMEA Criteria Addendum - Spain - Mortgage Loss and Cash Flow Assumptions" dated 11 August 2011, "EMEA Consumer ABS Rating Criteria", dated 14 July 2011, "EMEA CMBS Rating Criteria" dated 4 April 2011, "Criteria for Rating European Granular Corporate Balance-Sheet Securitisations (SME CLOs)" dated 6 June 2011, "Global Rating Criteria for Corporate CDOs" dated 10 August 2011 and "Global Rating Criteria for Single- and Multi-Name Credit-Linked Notes" dated 24 February 2011 are available at [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

[EMEA Residential Mortgage Loss Criteria](#)

[EMEA Criteria Addendum - Italy - Mortgage Loss and Cash Flow Assumptions](#)

[EMEA Criteria Addendum - Spain - Mortgage Loss and Cash Flow Assumptions](#)

[EMEA Consumer ABS Rating Criteria](#)

[EMEA CMBS Rating Criteria](#)

[Criteria for Rating European Granular Corporate Balance-Sheet Securitisations \(SME CLOs\)](#)

[Global Rating Criteria for Corporate CDOs](#)

[Global Rating Criteria for Single- and Multi-Name Credit-Linked Notes](#)

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