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Rating Lowered On Spanish RMBS Transaction BANCAJA - BVA VPO 1's Class A Notes Following Review

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OVERVIEW

- We have conducted our credit and cash flow analysis of BANCAJA - BVA VPO 1 by taking into account the latest portfolio developments and the transaction's structural features, in which we analyzed the Spanish government's support for the pool's securitized subsidized loans. We have also applied our current counterparty criteria.
- Following our analysis, we have lowered to 'BBB- (sf)' from 'A (sf)' our rating on the class A notes.
- BANCAJA - BVA VPO 1 closed in April 2009. It securitizes a pool of Spanish state-subsidized and non-subsidized mortgage loans that Bancaja (now Bankia) and Banco de Valencia originated, mainly in the Valencia region. We have rated the class A notes since March 2011.

MADRID (Standard & Poor's) June 27, 2013--Standard & Poor's Ratings Services today lowered to 'BBB- (sf)' from 'A (sf)' its credit rating on BANCAJA - BVA VPO 1, FONDO DE TITULIZACION DE ACTIVOS' class A notes.

Today's rating action follows our credit and cash flow analysis of BANCAJA - BVA VPO 1 by taking into account the latest portfolio developments and the transaction's structural features, in which we analyzed the Spanish government's support for the pool's securitized subsidized loans. We also applied our current counterparty criteria (see "Counterparty Risk Framework

Methodology And Assumptions," published on June 25, 2013).

Most of the pool comprises residential mortgage loans backed by state-subsidized "Vivienda de Protección Oficial" (VPO) residential properties under the state property schemes, "Housing plan 1998-2001" and "Housing plan 2002-2005." As of March 2013, the former represented 26.6% of the pool's outstanding balance, and the latter, 56.7%.

Under VPO programs, the Spanish Housing Ministry and local authorities aim to benefit first-time buyers who, due to their financial situation, may find purchasing a property difficult. The subsidy may take two forms:

- The purchase price of VPO properties is lower than those on the open property market; and/or
- The Spanish Housing Ministry pays part of the installment to the originator on the borrower's behalf. Each subsidy has a different maturity date.

In our view, the Spanish government still pays a considerable percentage of the pool's monthly installments. Under stressful rating scenarios in our cash flow analysis, we assumed that the sovereign is unable to meet all of its obligations under the loans. Therefore, in stress scenarios above our 'BBB-' long-term sovereign rating on Spain, we increased our expected loss assumptions for this transaction. We consider the transaction's sensitivity to country risk through Spain to be material.

Although we find that VPO mortgage loans perform better than standard mortgages, the transaction's reliance on the Spanish sovereign due to the Spanish government's payments are affecting the pool's performance more significantly than in other transactions. Furthermore, as of April 2013, long-term delinquencies (defined in the transaction documents as loans in arrears for more than three months up to default) increased to 0.90% of the pool's outstanding balance, from 0.24% in April 2011. Cumulative defaults now represent 0.32% of the pool's closing balance. In our view, this deterioration is due to Spain's struggling economy, with the unemployment rate reaching 27.2% in April 2013. We have considered economic deterioration in our analysis by projecting further delinquencies.

Regarding the transaction's structural features, although it has a fully funded reserve fund, we cannot give credit to the swap agreement--despite the fact that it could offset the potential negative carry given the different indexes on which assets and liabilities are based. This is because the transaction's swap agreement does not contain any remedial actions in line with our current counterparty criteria.

Since our previous review of the transaction on March 24, 2011, we consider that the transaction's structural features cannot compensate for the collateral's deteriorating credit quality (although the deterioration is limited), and its dependence on the Spanish government's ability to service the payments due under the pool's securitized subsidized loans (see "Rating Assigned To Spanish RMBS Transaction BANCAJA – BVA VPO 1's Class A Notes"). As a result, in our cash flow analysis, our rating on the class A notes strongly relies on our 'BBB-' long-term sovereign rating on Spain. Following our cash flow analysis, we have lowered to 'BBB- (sf)' from 'A (sf)' our rating on the class A notes. The subsidized loans account for 83.3% of the pool.

BANCAJA - BVA VPO 1 closed in April 2009. It securitizes a pool of Spanish state-subsidized and non-subsidized mortgage loans that Caja de Ahorros de Valencia Castellón y Alicante (Bancaja; now Bankia S.A.) and Banco de Valencia S.A. originated, mainly in the Valencia region. We have rated the class A notes since March 2011.

STANDARD & POOR'S 17G-7 DISCLOSURE REPORT

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard & Poor's 17g-7 Disclosure Report included in this credit rating report is available at http://standardandpoorsdisclosure-17g7.com .

RELATED CRITERIA AND RESEARCH

Related Criteria

- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Methodology: Credit Stability Criteria, May 3, 2010
- Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Update To The Criteria For Rating Spanish Residential Mortgage-Backed Securities, Jan. 6, 2009
- Cash Flow Criteria for European RMBS Transactions, Nov. 20, 2003
- Criteria for Rating Spanish Residential Mortgage-Backed Securities, March 1, 2002

Related Research

- Europe's Recession Is Still Dragging Down House Prices In Most Markets, Jan. 17, 2013
- S&PCORRECT: Various Rating Actions On Spanish Banks Due To Rising Economic Risks, Nov. 23, 2012
- Various Rating Actions On Spanish Financial Institutions Following Sovereign Downgrade, Oct. 15, 2012
- Spain Ratings Lowered To 'BBB-/A-3' On Mounting Economic And Political Risks; Outlook Negative, Oct. 10, 2012
- Scenario Analysis: What's Driving Spanish Mortgage Arrears?, April 13,

2012

- European Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, March 14, 2012
- Rating Assigned To Spanish RMBS Transaction BANCAJA – BVA VPO 1's Class A Notes, March 24, 2011
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011
- Spanish RMBS Index Reports, published quarterly

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