Various Rating Actions Taken In Spanish RMBS Transactions Bankinter 5, 8, And 10 Following Criteria Updates

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OVERVIEW

- We have reviewed Bankinter 5, 8, and 10 by conducting our credit and cash flow analysis under our updated Spanish RMBS criteria and our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating.
- Our updated RAS criteria constrain our ratings on several classes of notes in each transaction.
- Following our review, we have taken various rating actions in all three transactions.
- Bankinter 5, 8, and 10 are Spanish RMBS transactions, which closed between December 2002 and June 2005 and securitize mainly first-ranking mortgage loans. Bankinter originated the pools, which comprise loans granted to prime borrowers secured over owner-occupied residential properties in Spain.

MADRID (Standard & Poor's) March 5, 2015--Standard & Poor's Ratings Services today took various credit rating actions in Bankinter 5 Fondo de Titulizacion Hipotecaria, Bankinter 8 Fondo de Titulizacion de Activos, and Bankinter 10, Fondo de Titulizacion de Activos.

Specifically, we have:

- Affirmed our rating on Bankinter 10's class E notes; and

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- Lowered our ratings on Bankinter 5's class A, B, and C notes, Bankinter 8's class A, B, and C notes, and Bankinter 10's class A2, B, C, and D notes (see list below).

Upon publishing our updated criteria for Spanish residential mortgage-backed securities (RMBS criteria) and our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating (RAS criteria), we placed those ratings that could potentially be affected "under criteria observation" (see "Italian And Spanish RMBS And Covered Bond Program Ratings Placed Under Criteria Observation," and "Italy And Spain RMBS Methodology And Assumptions," both published on Sept. 18, 2014, and "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on Sept. 19, 2014).

Following our review of these transactions, our ratings that could potentially be affected by the criteria are no longer under criteria observation.

Today's rating actions follow our credit and cash flow analysis of the most recent transaction information that we have received as of each transaction's latest payment date. Our analysis reflects the application of our RMBS criteria and our RAS criteria.

Under our RAS criteria, we applied a hypothetical sovereign default stress test to determine whether a tranche has sufficient credit and structural support to withstand a sovereign default and so repay timely interest and principal by the notes' legal final maturity.

Our RAS criteria designate the country risk sensitivity for RMBS as 'moderate'. Under our RAS criteria, these transactions' notes can therefore be rated four notches above the sovereign rating, if they have sufficient credit enhancement to pass a minimum of a "severe" stress. Under our RAS criteria, two additional notches of uplift can be achieved if certain conditions are met.

As all six of the conditions in paragraph 48 of the RAS criteria are met in Bankinter 8, we can assign ratings in this transaction up to a maximum of six notches (two additional notches of uplift) above the sovereign rating--as the credit enhancement for Bankinter 8's class A notes is sufficient to pass an "extreme" stress (see "Understanding Standard & Poor's Rating Definitions," published on June 3, 2009 for our definitions of severe and extreme levels of economic stress). We can assign a maximum of four notches of uplift in Bankinter 10.

As our long-term rating on the Kingdom of Spain is 'BBB', our RAS criteria cap at 'AA (sf)' the maximum potential rating for Bankinter 8's class A notes, and at 'A+ (sf)' for Bankinter 10's class A2 notes. The maximum potential rating for Bankinter 5's class A notes is the 'BBB' sovereign rating.

Bankinter 5, 8, and 10's notes amortize pro rata and can switch to sequential principal amortization if various documented conditions are met. The reserve funds in all three transactions are at their required levels, although the use of the reserve fund differs from one transaction to the other. In Bankinter 5, under the priority of payments, the reserve fund cannot be used to repay the notes' principal before the final transaction payment date.

Bankinter 8 and 10 feature interest deferral triggers, based on the level of principal deficiency experienced by each transaction, which aim to protect the more senior classes of notes in stressful scenarios by prioritizing the repayment of the senior notes. The triggers have never been breached and we don't expect them to be breached. Bankinter 5 does not feature an interest deferral trigger mechanism.

Credit Agricole Corporate And Investment Bank (A/Negative/A-1) is the swap counterparty in Bankinter 5, 8, and 10. Each transaction's hedge agreement mitigates basis risk arising from the different indexes between the securitized assets and the notes. We don't consider the replacement language in the swap agreements of these transactions to be in line with our current counterparty criteria, although the agreements feature a minimum required rating and replacement framework to which we give some credit in our analysis (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). Under our current counterparty criteria, our ratings in these transactions are capped at our long-term issuer-credit rating on the corresponding swap counterparty, plus one notch. Therefore, our ratings in all three transactions are capped at 'A+ (sf)', unless higher ratings are possible in our analysis without giving benefit to the swap agreement.

The available credit enhancement (based on the collateral balance excluding defaults and including cash reserve available in the transaction) has increased for all classes of notes in all three transactions since our previous reviews (see "Related Research").

Class	Available credit enhancement (%)		
	Bankinter 5	Bankinter 8	Bankinter 10
A	11.35	11.17	
A2			7.63
B	7.33	7.32	5.23
C	4.37	3.86	2.63
D			0.41

Available excess spread covers defaulted loans and maintains each reserve fund at its required level in all three transactions. The level of excess spread in these transactions is relatively low. Although the reserve fund in Bankinter 5 is at its required level, due to the transaction's structural features, it cannot be used to repay the notes' principal until the notes' legal final maturity.

Severe delinquencies of more than 90 days are relatively stable and below our Spanish RMBS index in all three transactions (see "Spanish RMBS Index Report Q2/Q3 2014: Delinquencies Continue To Rise As The Housing Market Slowly

Recovers," published on Jan. 2, 2015). Defaults are defined as mortgage loans in arrears for more than 18 months in these transactions. Cumulative defaults are also generally lower than in other Spanish RMBS transactions that we rate.

Prepayment levels remain low and the transactions are unlikely to pay down significantly in the near term, in our opinion.

	Severe delinquencies (%)[1]	Cumulative defaults (%)[2]
Bankinter 5	0.33	0.18
Bankinter 8	0.68	0.35
Bankinter 10	0.60	0.42

[1]As a percentage of the outstanding portfolio.
[2]As a percentage of the closing portfolio.

After applying our RMBS criteria to these transactions, our credit analysis results show a decrease in the weighted-average foreclosure frequencies (WAFF) for most rating levels, and an increase in the weighted-average loss severities (WALS) for each rating level in all three transactions.

The decreases in the WAFF are mainly due to our updated treatment of original loan-to-value ratios and the different adjustments that we apply to seasoned loans under our revised RMBS criteria. The increases in the WALS are mainly due to the application of our revised market value decline assumptions. The overall effect is an increase in the required credit coverage for each rating level in each transaction.

Following the application of our RAS criteria and our RMBS criteria, we have determined that our assigned rating on each class of notes in these transactions should be the lower of (i) the rating as capped by our RAS criteria and (ii) the rating that the class of notes can attain under our RMBS criteria. Our ratings on the class A notes in Bankinter 5 and 8, and the class A2 and B notes in Bankinter 10 are constrained by the rating on the sovereign.

Our credit and cash flow results indicate that the available credit enhancement for Bankinter 5's class A notes is not sufficient to withstand our stresses above the sovereign rating. We have therefore lowered to 'BBB (sf)' from 'A+ (sf)' our rating on Bankinter 5's class A notes.

Our credit and cash flow results under our RAS criteria indicate that the available credit enhancement for Bankinter 8's class B notes is not sufficient to withstand our stresses above the sovereign rating. The available credit enhancement (without credit given to the swap agreement) for the class A notes is commensurate with a lower rating than that currently assigned. We have therefore lowered to 'AA- (sf)' from 'AA (sf)' and to 'BBB (sf)' from 'A+ (sf)' our ratings on Bankinter 8's class A and B notes, respectively.

Our credit and cash flow results indicate that the available credit enhancement for Bankinter 8's class C notes is commensurate with a lower rating than that currently assigned. We have therefore lowered to 'BB (sf)'

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from 'A- (sf)' our rating on Bankinter 8's class C notes.

Our credit and cash flow results under our RAS criteria, and without credit given to the swap agreement, indicate that the available credit enhancement for Bankinter 10's class A2 notes is commensurate with a lower rating than that currently assigned. We have therefore lowered to 'A+ (sf)' from 'AA (sf)' our rating on Bankinter 10's class A2 notes.

After applying our RMBS criteria, our ratings on Bankinter 5's class B and C notes, and Bankinter 10's class B, C, and D notes are not subject to a counterparty ratings cap or a sovereign ratings cap. Our credit and cash flow results indicate levels of available credit enhancement that are commensurate with lower ratings than those currently assigned. Considering the limited structural mitigants in Bankinter 5, and based on our credit and cash flow results, we have lowered to 'BB (sf)' from 'A+ (sf)' and to 'B (sf)' from 'BBB (sf)' our ratings on the class B and C notes, respectively. In Bankinter 10, we have lowered to 'BBB (sf) from 'A+ (sf)', to 'BB (sf)' from 'A- (sf)', and to 'B- (sf)' from 'B (sf)' our ratings on the class B, C, and D notes, respectively.

We have affirmed our 'CCC- (sf)' rating on Bankinter 10's class E notes following the application of our criteria for assigning 'CCC' category ratings (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published on Oct. 1, 2012).

In addition to the decreased WAFF and the increased WALS, the more severe cash flow modeling assumptions under our RMBS criteria (including additional stresses on servicing fees, delinquencies, back-ended default curves, delayed recession timing, and longer recovery timing) contributed to greater overall stresses on the transactions. These assumptions led to us lowering our ratings on affected mezzanine and junior tranches, in Bankinter 5 in particular. Although the performance of Bankinter 5's securitized collateral is good, the transaction's structural features are in our opinion weak, and cannot mitigate the application of more severe cash flow modeling assumptions.

We also consider credit stability in our analysis (see "Methodology: Credit Stability Criteria," published on May 3, 2010). To reflect moderate stress conditions, we adjusted our WAFF assumptions by assuming additional arrears of 8% for one-year and three-year horizons. This did not result in our rating deteriorating below the maximum projected deterioration that we would associate with each relevant rating level, as outlined in our credit stability criteria.

In our opinion, the outlook for the Spanish residential mortgage and real estate market is not benign and we have therefore increased our expected 'B' foreclosure frequency assumption to 3.33% from 2.00%, when we apply our RMBS criteria, to reflect this view (see "Outlook Assumptions For The Spanish Residential Mortgage Market," published on Sept. 18, 2014). We base these assumptions on our expectation of modest economic growth, continuing high unemployment, and house prices leveling off in 2015.

On the back of improving but still depressed macroeconomic conditions, we don't expect the performance of the transactions in our Spanish RMBS index to improve in 2015.

We expect severe arrears in the portfolio to remain at their current levels, as there are a number of downside risks. These include weak economic growth, high unemployment, and fiscal tightening. On the positive side, we expect interest rates to remain low for the foreseeable future.

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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 Reports included in this credit rating report are available at http://standardandpoorsdisclosure-17g7.com.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, Sept. 19, 2014
- Italy And Spain RMBS Methodology And Assumptions, Sept. 18, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

Related Research

- Low Interest Rates Are Only Slowly Reviving Europe's Housing Markets, Feb. 5, 2015
- Spanish RMBS Index Report Q2/Q3 2014: Delinquencies Continue To Rise As The Housing Market Slowly Recovers, Jan. 2, 2015
- Credit Conditions: The Eurozone Crawls Into 2015 With Weak Momentum, Dec. 4, 2014
- Standard & Poor's Ratings Definitions, Nov. 20, 2014
- Italian And Spanish RMBS And Covered Bond Program Ratings Placed Under Criteria Observation, Sept. 18, 2014
- Outlook Assumptions For The Spanish Residential Mortgage Market, Sept. 18, 2014
- Low Interest Rates Are Underpinning Europe's House Price Recovery, July 28, 2014
- European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors, July 8, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014
- Various Rating Actions Taken In Spanish RMBS Transactions Bankinter 5, 6, And 8 Following Review, June 4, 2014
- Various Rating Actions Taken In Spanish RMBS Transactions Bankinter 10, 11, And 13 Following Review, June 4, 2014

RATINGS LIST

Class	Rating	
	To	From

Bankinter 5 Fondo de Titulizacion Hipotecaria
€710 Million Mortgage-Backed Floating-Rate Notes

Ratings Lowered

A	BBB (sf)	A+ (sf)
B	BB (sf)	A+ (sf)
C	B (sf)	BBB (sf)

Bankinter 8 Fondo de Titulizacion de Activos
€1.07 Billion Mortgage-Backed Floating-Rate Notes

Ratings Lowered

A	AA- (sf)	AA (sf)
B	BBB (sf)	A+ (sf)
C	BB (sf)	A- (sf)

Bankinter 10, Fondo de Titulizacion de Activos
€1.74 Billion Mortgage-Backed Floating-Rate Notes

Ratings Lowered

A2	A+ (sf)	AA (sf)
B	BBB (sf)	A+ (sf)
C	BB (sf)	A- (sf)
D	B- (sf)	B (sf)

Rating Affirmed

E	CCC- (sf)

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