Prime RMBS
Spain
New Issue

Bankinter 19, Fondo de Titulizacion de Activos

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Related Research

- *EMEA Residential Mortgage Loss Criteria (February 2010)*
- *EMEA Residential Mortgage Loss Criteria Addendum – Spain (February 2010)*
- *EMEA RMBS Cash Flow Analysis Criteria*
- *Counterparty Criteria for Structured Finance Transactions (March 2011)*
- *Criteria for Structured Finance Loss Severity Ratings (February 2009)*

Ratings

Class	Amount (EURm)	Final Maturity	Rating[a]	LSR	CE (%)	Outlook
A	1,388.5	June 2052	AAsf	LS1	11.1	Stable
B	20.7	June 2052	NRsf	n.a.	9.7	n.a.
C	31.4	June 2052	NRsf	n.a.	7.5	n.a.
Total issuance	**1,440.6**					

Closing occurred on 27 April 2009. The ratings assigned above are based on the portfolio information as of 30 November 2010, provided by the originator

Transaction Summary

Bankinter 19, Fondo de Titulizacion de Activos (Bankinter 19) is the 19th securitisation of mortgage loans originated and serviced in Spain by Bankinter (the seller, 'A'/Negative/'F1'). Bankinter 19 (the issuer) initially closed on 27 April 2009. Upon the assignment of ratings to the class A notes by Fitch Ratings, the issuer increased its reserve fund to 7.5% of the current notes outstanding, from 3.7%. The transaction documents were amended to reflect the agency's applicable criteria.

The rating addresses the payment of interest on the class A notes, in line with the terms and conditions outlined in the transaction documentation, subject to an interest deferral trigger for the class B and C notes. The ratings also address the repayment of principal of the senior notes by the legal final maturity date.

Key Rating Drivers

- **Heterogeneous portfolio composition:** The portfolio comprises a combination of prime mortgage loans for home acquisition with low loan-to-value (LTV) ratios (nearly 40% of the portfolio has original loan-to-value ratios (OLTVs) of less than 60%). The pool also includes loans with adverse characteristics, commercial and consumer loans, second lien loans, credit facilities, loans to non Spaniards, second homes, and loans with further advances granted.
- **Missing data**: The loan-by-loan level data received for the analysis did not contain full information on borrower income and borrower employment type. For loans where such information was incomplete, the agency applied the most conservative assumptions. Additionally, for loans that have received further advances prior to their securitisation, information on the highest original loan value was also missing (12.5% of the pool). Given that OLTV is one of the main drivers of loan-by-loan foreclosure frequency estimation, in cases where the original balance was missing, the agency conservatively assumed a 100% OLTV.
- **Plain vanilla structure:** The structure of the transaction is pass-through, with a combined waterfall. Note amortisation is sequential, subject to pro-rata triggers. The credit enhancement of the tranches is provided by subordination and a currently fully funded reserve fund, which may amortise, provided set triggers have been met. The structure also includes an interest deferral mechanism for class B and C notes, which is dependent on the level of defaults incurred in the life of the deal.
- **Counterparty exposure:** In terms of counterparty risk, the transaction is highly exposed to Bankinter, which acts as the notes' financial agent, swap counterparty, issuer treasury account and collateral servicer. At present, Bankinter remains an eligible counterparty under Fitch's structured finance

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counterparty criteria. The transaction documentation includes Fitch downgrade language linked to Bankinter.

Rating Sensitivity[1]

This section provides more insight into the model-implied sensitivities the transaction faces when one risk factor is stressed, while holding others constant. The results below should only be considered as one of many possible outcomes, as the transaction remains exposed to multiple risk factors, all of which are dynamic variables.

Rating Sensitivity to Defaults

The change in ratings (ie rating migration) as a result of an increase in weighted-average foreclosure frequency (WAFF) is shown in the Rating Sensitivity to WAFF table below. The level of credit support provided by the reserve fund means that an increase in the rate of default of 15% and 25% would show a limited migration in the ratings of the class A notes of three notches.

Figure 1
Rating Sensitivity to WAFF

	Class A
Original rating	AAsf
WAFF increase by 15%	A+sf
WAFF increase by 25%	Asf

Source: Fitch

Rating Sensitivity to Recovery Rates (RR)

The ratings of the notes are dependent on the recoveries incurred on defaulted loans, as can be seen from the Rating Sensitivity to WARR table below. If recovery rates were decreased by 25%, the rating migration on the senior notes would, once again, be limited to three notches.

Figure 2
Rating Sensitivity to WARR

	Class A
Original rating	AAsf
WARR decrease by 15%	A+sf
WARR decrease by 25%	Asf

Source: Fitch

Rating Sensitivity to Shifts in Multiple Factors

The combination of an upward movement in WAFF levels and a decline in WARR levels would have a greater impact on the ratings of the class A notes. With the current level of credit support, the ratings of the class A notes would migrate to 'BBB+'.

Figure 3
Rating Sensitivity to Movements in Multiple Factors

	Class A
Original rating	AAsf
WAFF increase by 15%; WARR decrease by 15%	Asf
WAFF increase by 25%; WARR decrease by 25%	BBB+sf

Source: Fitch

[1] These sensitivities only describe the model-implied impact of a change in one of the 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

The results of the rating sensitivity analysis assume that the respective stresses occur immediately, in other words, it does not take into account the de-leveraging of the deal. As the portfolio continues to de-leverage, similar analysis is likely to yield different results and will be dependent on the performance of the underlying assets, as well as the level of credit support available to the rated tranches at any given time.

Model, Criteria Application and Data Adequacy

Fitch received a loan-by-loan breakdown of the outstanding pool as of 30 November] 2010. For 43.8% of the pool, the servicer was not able to provide data on annual income, which is why in its analysis Fitch classified such loans as belonging to class 5 debt-to-income (DTI) (defined as above 50%). In addition, the employment status of 50.6% of the loans in the portfolio was not clearly identified. In its analysis, Fitch treated such loans as “unknown”, applying an additional default probability hit of 25%.

Fitch also identified that 27% of the portfolio had been granted further loans following their origination. For 53.9% of such loans, the agency received the total original loan amounts while for the remaining 1,338 loans, the total original balances were not available. As OLTV is one of the main drivers in the estimation of the WA foreclosure frequency, for loans where the total original balance was missing, the agency conservatively assumed a 100% OLTV.

The agency also identified 0.1% of loans with OLTVs greater than 100%. Most of these loans were identified to be second lien and are likely to have been less than 100% OLTV at the time of origination, with further guarantees provided but then withdrawn as the loan deleveraged. For such loans, Fitch has applied an additional default probability hit of 20%.

With the conservative adjustments described above, the agency considered the information received sufficient to conduct its loan-by-loan level analysis and derive appropriate default and recovery estimates for each rating scenario. The analysis of the portfolio was completed using Fitch’s Spanish RMBS default model. The transaction’s cash flows were simulated using the agency’s proprietary cash flow model.

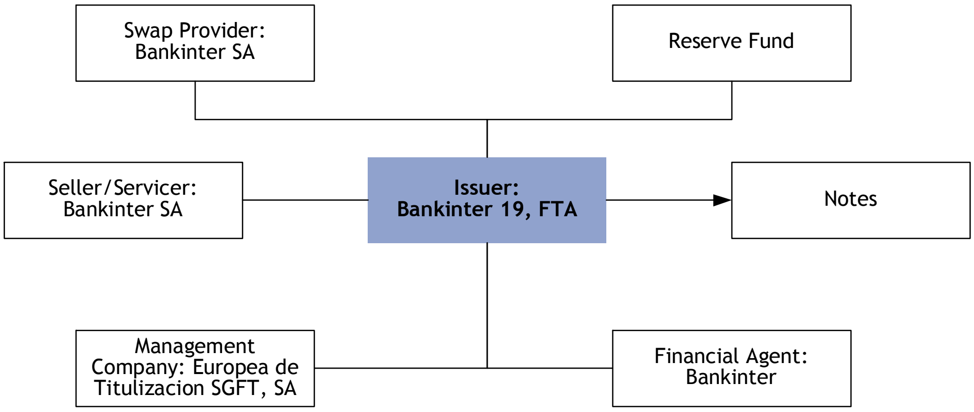
For the purpose of the analysis, Fitch also received the following data series linked to the aggregated mortgage book of Bankinter, with cut-off in Q410:

- static 90 days+ arrears data for the loans originated from 2003 to 2010;
- static 90 days+ arrears data and cumulative recoveries for the previous Bankinter transactions;
- static default data and cumulative recoveries for the previous Bankinter transactions; and
- data on a sample of sold repossessed properties.

The data set received was representative of the loans that have been securitised in Bankinter 19 and was used to validate Fitch’s default and recovery assumptions for this pool.

Transaction and Legal Structure

Figure 4
Structure Diagram



Source: Transaction documents

Legal Framework

The fund is regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to transform into fixed-income securities a portfolio of mortgage certificates (certificados de transmision hipotecaria (CTHs)) and participaciones hipotecarias (PHs) acquired from Bankinter. The CTHs and PHs were subscribed by Bankinter 19, Fondo Titulizacion Activos, managed by Europea de Titulizacion S.G.F.T., whose sole function is to manage asset-backed notes on behalf of such funds.

Representations and Warranties — Standard for the Spanish Market

As of the closing date, the originator provided the issuer with specific representations and warranties relating to the mortgage loan characteristics. The representations and warranties also cover general and legal circumstances with respect to the underlying assets. Among others, the originator warrants the following.

- All mortgage loans exist, are valid and enforceable in accordance with current legislation.
- For second or lower lien mortgage loans, the prior lien is a mortgage loan or credit registered in the name of Bankinter
- All the mortgage loans have been granted by a branch of the seller, as well as through subrogations granted to developers.
- Bankinter, to date, has no knowledge that any of the borrowers is in a position to oppose a settlement right.
- The mortgaged properties are all completed and located in Spain; they have also been appraised by an institution registered and approved by the Bank of Spain.
- Payments made on the loans are direct debit through an account held with Bankinter, with interest and principal payments made monthly.
- Each mortgage guarantee is registered in the relevant property registry.
- At close the LTV ratio of each mortgage loan and credit facility loans did not exceed 100%.
- Loans in the eligible pool are granted to individuals for the purchase of a home, parking space, commercial property, fixed assets, as well as home improvement.

Substitution

According to the transaction documentation, and in line with the Spanish securitisation law, any loans in the pool failing to comply with the representations and warranties will either be fully amortised or substituted out of the pool. Any loans that replace such loans will have similar characteristics (eg amount, loan-to-value ratio), and must be approved by Europea de Titulizacion.

Permitted Variations

According to Article 25 of the Royal Decree 685/1982, when administering the securitised pool, the seller may not voluntarily cancel the underlying loans for reasons other than their full amortisation, without the consent of the management company. In addition, Bankinter is not allowed to renounce the mortgage loans, modify or restructure them, cancel them in whole or in part, or permit an extension, or in general take any action that diminishes the legal effectiveness or the economic value of the underlying assets, except for the modifications listed below.

Interest rate modification: The transaction documentation permits the servicer to renegotiate the interest rate charged on individual loans. The revised interest rate should be at “arm’s length”, comparable to those available on the market and in line with that being offered to borrowers who do not form part of the securitised portfolio. Fitch found that the servicer is also able to renegotiate the interest rate to a fixed rate.

Renegotiation of interest rates may not be exercised if it would cause the WA margin of the total pool to fall below 30 basis points (bp). The risk of loans reverting to fixed rate is partially mitigated by the basis swap and the cap on the WA margin of the pool. As of 30 November 2010, the margin of the pool stood at 52bp. Additionally, according to Bankinter, the loans in its overall pool remain linked to Euribor.

Loan maturity modification: The servicer is also allowed to alter the maturity date of the loans in the pool. The modification of mortgage loan maturity is subject to the following:

- the new maturity must not exceed 17 December 2048;
- the loan repayment frequency is maintained or increased;
- the portion of loans that have seen their maturity extended may not exceed 10% of the original pool balance; and
- the request to alter the loan maturity must come from the borrower.

Such modifications are standard for Spanish RMBS transactions. In its analysis, Fitch assumed that 10% of the original pool has its maturity extended until 17 December 2048. In its analysis, the agency also assumed that the WA margin of the pool is at 30bp from day one.

Credit facility loan principal payment grace period: In addition to the standard loan modifications seen in other Spanish RMBS transactions, the presence of credit facility loans in Bankinter 19 introduces an atypical feature to the transaction structure. According to the transaction documentation, as part of its servicing strategy, Bankinter may grant a 12-month principal grace period to borrowers with credit facility loans. This modification is subject to the following restrictions:

- the grace period must come from the borrower;
- the portion of loans that have exercised their grace period option does not exceed 1% of the original pool balance;
- maximum period for which principal payments are not made is 12 months; and
- the loan repayment frequency is maintained or increased.

In the course of the transaction's life the management company is able to cancel, suspend or amend the servicer's rights to grant principal payment grace period.

According to Bankinter, a limited number of borrowers with credit facility loans (0.7% of Bankinter's total credit facility portfolio) in its overall pool have actually exercised this option. The risk arising from such loans has however been addressed in the conservative assumptions, as described in the *Asset Analysis* section of this report.

In addition to the permitted variations listed above, the borrowers with credit facility loans also have the option to extend their maturities for up to 120 months. For further details, please refer to the *Credit Facility Loans* section of the report.

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Asset Analysis

As of November 2010, the portfolio balance stood at EUR1.4bn and it comprised of 13,970 loans. Second lien mortgage loans make up 11.1% of the pool. The WA OLTV of the pool stood at 66.4%. The loans in the pool were 57.5 months seasoned, and as a result of deleveraging, the WA CLTV was calculated as 51.03%. In its analysis, Fitch gives 50% credit to upward house price movements and 100% for house price declines. This has led to the WA indexed WA CLTV of the pool being 55.3%.

Lender Adjustment

In its analysis of a transaction, Fitch also takes into account certain elements not factored into the loan-by-loan analysis, either because they are not available or because they are only applicable on an aggregate basis. Such factors include:

- historical performance of the mortgage loans originated by the lenders;
- length of historical performance observation period;
- performance of previously securitised deals; and
- undisclosed and incomplete information.

Fitch conducted an operational review of Bankinter as part of its assessment of the entity's origination, underwriting and servicing capabilities. In Fitch's view the underwriting and origination procedures of Bankinter are deemed standard and show no divergence from those practiced by other Spanish prime lenders, which is why no lender adjustment hit was applied.

Affordability

The loan-by-loan level information contained annual income data for 56.2% of the portfolio. For the remaining portion of the pool, where borrower income information was not available, the agency applied the most conservative assumptions, classifying such loan as class 5 DTI. In its analysis, Fitch conducts its own DTI calculations. The agency calculates borrower affordability based on the net borrower income data received from Bankinter, the term of the loan and a long-term interest rate expectation of 5%.

Figure 5
DTI distribution

DTI class/% of the pool	Fitch calculation
Class 1	5.4
Class 2	2.1
Class 3	2.0
Class 4	4.1
Class 5	86.4

Source: Loan-by-loan level data

Borrower Profile — Adjustments Driven by Missing Information

Bankinter identified 40.7% of the borrowers as employed with fixed term contracts. Self-employed borrowers made up 8.7% of the current pool respectively. For the remaining 50.6% of the borrowers in the pool no employment information was available. In its analysis, Fitch classified such borrowers as "Undefined" and applied the same 25% default probability hit as for the self-employed obligors.

Loans to Non-Residents: Market Average

According to the pool breakdown as of November 2010, 6.5% of the loans in the portfolio were to non-Spanish borrowers. This percentage is within the average seen in other Spanish RMBS transactions rated by Fitch. In its analysis and in line with the most current criteria, the agency applied an additional 100% default probability hit.

More Than two Borrowers: Limited Presence

Loans with more than two borrowers made up 2.0% of the total portfolio in November 2010. Such loans are typically an indication of weaker payment capacity, which is why the agency applies an additional 20% default probability hit, as per its criteria.

Loan Purpose

Most of the loans in the pool were granted for the purchase of a home (95.5%). The portfolio also comprises loans with more adverse characteristics, for which an additional 25% default probability was applied: 1.6% of loans granted for the purpose of home improvement, and 2.9% are loans granted for commercial and consumer purposes.

Property Type

Second Homes

By outstanding loan balance, second home loans make up 15.6% of the current pool. Fitch believes that such loans are more likely to default, which is why an additional default probability hit of 25% was applied in the asset analysis. The agency is of the view that the portion of second homes in this pool is above the average seen in other Spanish RMBS transactions rated by Fitch.

Jumbo Properties

Within the portfolio, 24.3% of properties had values above or below the market average for their respective regions. For such loans, Fitch applied "jumbo haircuts" to the recovery rates in accordance with its criteria.

Geographical Concentration

The pool is predominantly concentrated in Madrid (21.7%), Andalucia (17.8%), Catalunya (16.3%) and Valencia (13.6%). In Fitch's view the portfolio distribution is well diversified across the four regions, as well as the rest of Spain, which is why no geographical concentration hit was applied.

Credit Facility Loans

The portfolio comprises 16.7% of loans with credit facilities, which have the following characteristics.

- The borrower is entitled to make further drawings. The drawings can be up to the amount that has been repaid to date.
- For every 12 monthly payments made, the borrower can extend the maturity of the loan by an additional six months. The loan can be extended for up to 120 months.
- At any point in the lifetime of the loan, the borrower can choose to exercise a principal and interest payment holiday of up to 12 months, but for no longer than three consecutive months.

Fitch deems such loans to be more adverse, which is why the following adjustments have been made in the analysis of the pool.

- The default probability of such loans has been increased by 20% to reflect the flexibility of the loans.
- In Fitch's RMBS Spanish Default Model, the default probability of such loans is derived by including the maximum drawable amount in the calculation of the OLTV. When sizing the recoveries on such loans, the model accounts for the pari passu ranking of current and future drawable amounts.
- In the asset analysis, Fitch also applied the standard default probability hit of 20% for loans that have payment holiday features included.
- The maturity of the loans was extended to 17 December 2048 to accommodate the possible maturity extension of credit facilities.

Loans with OLTVs Greater Than 100%

The loan-by-loan level information received from Bankinter showed loans with OLTVs greater than 100%. As such loans are not a common product of Bankinter, Fitch assumed an additional 20% default probability for such loans.

Second Lien Mortgages

11.1% of the pool is second-lien. The recovery on such loans is subordinate to the recovery on the prior lien. In its analysis, Fitch accounts for the lower likelihood of recovery on second lien loans. The OLTV of the second lien loans takes into account the first lien portion, thereby resulting in a higher base foreclosure frequency.

Loans in Arrears

As of November 2010, 95.6% of the portfolio was performing, with 2.6% falling into the 1-30 days arrears bucket, 0.8% in the 30-60 bucket and 0.5% in the 60-90 one. The issuer reported 0.5% of the portfolio in arrears by more than 90 days. For such loans, Fitch applied its foreclosure frequency assumptions for loans in arrears, as outlined in its criteria.

Default Model Output

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

Figure 6

Fitch Default Model Output

Rating level (%)	WAFF[a]	WARR[b]
AAA	21.0	60.7
AA	17.8	66.2
A	15.7	71.2
BBB	11.7	75.9
BB	7.6	80.0
B	6.3	83.6

[a] Weighted-average foreclosure frequency
[b] Weighted-average recovery rate
Source: Fitch

Financial Structure and Cash Flow Modelling

The financial structure of the transaction includes three tranches of notes, class A, B and C, as well as a reserve fund. Interest on the notes is linked to three-month Euribor, plus a respective margin. Payments on the notes are made on a quarterly basis in accordance with a combined priority of payments schedule, using proceeds collected from borrowers.

Reserve Fund Amortisation Triggers

- After April 2012
- Reserve fund at target amount
- 12.8% of outstanding note balance
- Loans in arrears by more than 90 days are less than 1% of the current portfolio
- Weighted average margin of the pool is at least 30bp

Pro Rata Note Amortisation

- Reserve fund at target amount
- Class B notes are more than 2.509% of the total note balance
- Class C notes are more than 3.806% of the total note balance
- Loans in arrears by more than 90 days are less than 1% of the current portfolio, for class C
- Loans in arrears by more than 90 days are less than 1.25% of the current portfolio, for class B
- Outstanding balance of the pool is more than 10% of the original amount

Class B Interest Deferral

- Interest will be deferred on the class B notes once gross cumulative defaults exceed 10% of the initial pool balance, while class A notes remain outstanding

Credit Enhancement

Credit enhancement (CE) to the notes is provided through subordination and the reserve fund. As of December 2010, the CE of classes A, B and C stood at 7.3%, 5.8% and 3.7% respectively. Upon the assignment of the ratings the reserve fund was increased to 7.5% of the note outstanding balance, resulting in a credit support of the class A notes to 11.1%.

Reserve Fund

At transaction close, Bankinter granted a subordinated loan to the issuer, the proceeds of which were used to establish an amortising reserve fund of EUR52.8m. As of December 2010, the reserve fund remained fully funded. With the recognition of first defaults in the December 2010 interest payment date, the level of excess spread generated by the portfolio has tightened. As further defaults are recognised from the current 0.1% of loans in arrears between 12 and 18 months, Fitch believes that reserve fund draws could occur in the upcoming payment dates. The affordability of the underlying borrowers in the pool is likely to be put under pressure, particularly towards the end of 2011, when interest rates are expected to rise.

Upon Fitch's assignment of the ratings on the class A notes, the issuer increased the reserve fund to EUR108m.

The amortisation of the reserve fund is subject to pre-defined triggers which if met, may over time reduce the reserve fund balance to a floor amount of EUR54m.

Note Amortisation

Note amortisation is sequential; scheduled and unscheduled principal payments received from borrowers and excess funds allocated towards provisioning for defaulted loans (defined as those over 18 months in arrears) are used to amortise the principal of the class A notes, until fully redeemed. Once the class A notes have paid in full, the proceeds will be used to redeem the class B notes. The transaction structure features a pro-rata test.

Priority of Payments Schedule

Every March, June, September and December payment date, interest and principal payments received from the borrowers, as well as other funds generated by the transaction, will be distributed in the following priority.

1. Senior costs and fees, excluding servicer fees (unless servicer is replaced).
2. Swap payments.
3. Class A interest payments.
4. Class B interest payments (unless deferred).
5. Class C interest payments (unless deferred).
6. Note principal redemption.
7. Class B interest payments, when deferred.
8. Class C interest payments, when deferred.
9. Reserve fund replenishment.
10. Swap termination payments, following the default or breach of contract by the swap provider.
11. Subordinated amounts.

Standard Call Option

Europea de Titulizacion, as the management company, is allowed to fully amortise the notes of Bankinter 19 once the outstanding balance of loans reaches 10% of the original pool balance. This is a standard call option, seen in most other RMBS

Class C Interest Deferral

- Interest will be deferred on the class C notes once gross cumulative defaults exceed 8% of the initial pool balance, while class A notes remain outstanding

transactions. For the call option to be potentially exercised, the entire outstanding amount (both principal and accrued interest) of the then existing notes must be redeemed in full.

Scenario Testing

Fitch has tested the structure under the default distributions described in its criteria report, "*EMEA RMBS Cash Flow Analysis Criteria*", published 6 May 2009.

Different default vectors were tested in combination with different prepayments (high/low) and various interest-rate stresses (rising/stable/decreasing). Assumptions used under individual scenarios were in accordance with Fitch's cash flow analysis criteria for RMBS.

To evaluate the impact of structural elements, such as excess spread, the reserve fund and other factors, Fitch modelled the cash flows from the underlying pool using WAFF and WARR assumptions derived from the loan-by-loan level analysis.

The cash flow model assumes defaults are spread over the first seven years following origination, immediately after transaction close. The analysis simulates the cost of carry of defaulted loans as the difference between the performing balance of the loans and the notional balance of the notes. Excess spread and the reserve fund should be sufficient to cover the cost of carry until recoveries are received. In a 'AAsf' scenario, Fitch assumes that recoveries will be received 48 months after the loan has defaulted.

Fitch ran various stress tests on the key variables affecting cash flows generated by the mortgage portfolio. These variables include interest rates, default and recovery rates, the timing of recessions, WA margin compression, and delinquencies. The agency also modelled different prepayment scenarios, which will impact the level of excess spread available to the transaction.

As the principal repayments are directed towards the rated notes, the sequential redemption of the notes is expected to lead to an increase in CE levels, as a result of subordination. Prepayments may also cause adverse selection of the portfolio, as the strongest borrowers are likely to prepay, thereby leaving the pool exposed to the performance of weaker obligors. In Fitch's cash flow analysis, the prepayments are stressed at a maximum of 23% in a 'AAsf' scenario. Fitch's low prepayment scenario assumes an annualised constant prepayment rate of 5%.

Counterparty Risk

Bankinter 19 is exposed to counterparty concentration risk, as Bankinter performs the duties of a collateral servicer, collection account bank, treasury account bank, swap counterparty and financial paying agent. Bankinter, at present, remains an eligible counterparty under Fitch's structured finance counterparty criteria. The transaction documentation includes remedial actions in accordance with Fitch's criteria, which would be applied in case Bankinter were to be downgraded below 'A'/'F1'.

Seller/Servicer

Bankinter will continue to perform the role of serivcer of the loans, as is the case in most other Spanish RMBS transactions rated by Fitch. The Spanish securitisation law allows the management company to appoint a new servicing company, should it be of the view that Bankinter is no longer able to perform its duties. The servicer may be replaced in case of bankruptcy, intervention by the Bank of Spain or liquidation of the entity.

Commingling Risk

Payments received from borrowers and any other amounts to which the fund, as holder of the mortgage certificates, is entitled will be placed in the treasury account seven days after having been received in the collection account. As

Bankinter acts as a collection account bank in this transaction, in Fitch's view the issuer remains exposed to a potential commingling risk in case of a servicer disruption (for the period needed to notify the borrowers and establish an alternative servicer). Under Fitch's criteria, should the rating of Bankinter fall below 'A'/'F1', transfers to the treasury account would be expected to be made more frequently.

The transaction documentation has been amended to take into account Fitch's downgrade and rating withdrawal language linked to Bankinter.

Set-Off Risk

In Spain, set-off is valid between mortgage loan amounts in arrears and sight deposits, or cash amounts held in current accounts belonging to the borrowers and held with the lender.

Fitch derives comfort from Spanish law where, upon insolvency of the seller (or the borrower), and/or upon notification of the borrower of the assignment of the receivable, set-off is not valid. Hence, the only risk remaining is that of set-off being invoked and claimed prior to insolvency, but where the seller became insolvent before compensating the issuer. Note that amounts that can be set-off do not relate to the entire mortgage loan amount, but to payments in arrears, which are liquid and fungible. The risk therefore remains limited and presents a very mild liquidity stress.

Hedge Provider

At transaction close, the issuer entered into a basis swap agreement with Bankinter. The swap is designed to hedge the mismatch in interest received on the loans (linked to 12-month Euribor) and the interest paid on the notes (linked to three-month Euribor).

Under the swap agreement, the issuer pays 12-month Euribor received from the loans (excluding doubtful loans). In return, the issuer receives three-month Euribor paid on the notes; this is applied on a notional balance that is equal to the daily average of non-doubtful loans.

Under Fitch's structured finance counterparty criteria, Bankinter is currently an eligible counterparty. The transaction documentation has been updated to include Fitch's downgrade and rating-withdrawal language, which is linked to the swap counterparty.

Account Bank

The fund holds a treasury account with Bankinter, through which payments to the noteholders and transaction counterparties are made. The amounts deposited in the account are accrued daily, earning interest of three-month Euribor paid on the notes.

Performance Analytics

The ratings reflect the current risks to the transaction, while performance outside of expectations or the occurrence of certain events may trigger positive or negative rating actions. To ensure that the structure is adequately protected, Fitch will also monitor the credit ratings of the counterparties involved in the transaction.

The agency will monitor the transaction regularly and as warranted by events. Its structured finance surveillance team will ensure that the assigned ratings remain an appropriate reflection of the agency's view on the issued notes' credit risk. Details of the transaction's performance are available to subscribers at www.fitchratings.com.

Issuer Reporting

In 2010, Fitch updated its Issuer Report Grades (IRG) criteria. Based on Fitch's IRG scorecard, the investor reports of Bankinter 19 have received a three-star score, indicating that the quality of its investor reports is satisfactory. The IRG is based on public information made available on the deal and is not linked to the rating of the notes. If Fitch finds that additional data, which is not available in public reports, is needed to maintain the ratings on this deal, it will request such information from the issuer. Further information on this service is available at www.fitchratings.com.