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New Issue: Bankinter 20 Fondo de Titulizacion de Activos

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New Issue: Bankinter 20 Fondo de Titulizacion de Activos

Ratings Detail

Profile

New Rating

A AAA

Closing date: July 6, 2010

Class	Rating*	Amount (bil. €)	Available credit support (%)	Interest	Legal final maturity
A	AAA (sf)	1.65	8	Three-month EURIBOR plus 30 bps	Dec. 17, 2053

*Standard & Poor's ratings address timely interest and ultimate principal. EURIBOR—European interbank offered rate. Bps—Basis points.

Transaction Participants	
Originator	Bankinter S.A.
Arranger	Bankinter S.A. and Europea de Titulización S.G.F.T., S.A.
Seller	Bankinter S.A.
Mortgage administrator/servicer	Bankinter S.A.
Security trustee	Europea de Titulización S.G.F.T., S.A.
Basis swap counterparty	Bankinter S.A.
Transaction account provider	Bankinter S.A.

Supporting Ratings

Institution/role	Ratings
Bankinter S.A. as basis swap counterparty and transaction account provider	A/Stable/A-1

Transaction Key Features	
Closing date	July 13, 2010
Collateral	First-ranking mortgage loans and credits backed by residential properties (98.21%) and commercial properties (1.79%)
Principal outstanding (bil. €)	1,65
Country of origination	Spain
Concentration	27.15% of the pool is concentrated in Madrid, 15.66% in Catalonia, and 14.09% in Andalucia
Weighted-average LTV ratio (%)	54.21
Average loan size balance (€)	114,397.22
Loan size range (€)	1,339.99 to 2,600,082.10
Weighted-average seasoning (months)	43.92
Weighted-average mortgage interest rate (%)	2.07
Weighted-average margin at closing (%)	0.71
Redemption profile	13.38% of the pool is eligible for a year-and-a-half grace period on average. During this period, the borrowers will only pay interest.
Cash reserve (%)	8
Mortgage priority	97.69% first-ranking, 2.31% is second or subsequent ranking

Transaction Key Features (cont.)	
Maximum LTV ratio (%)	120
Number of jumbo loans (>€400,000)	331

LTV—Loan to value.

Transaction Summary

Standard & Poor's Ratings Services has assigned a credit rating to Bankinter 20, Fondo de Titulización de Activos' €1.65 billion mortgage-backed floating-rate notes.

Bankinter S.A. is the originator. At closing, Bankinter sold the issuer a €1.65 billion closed pool of mortgage loans and mortgage credits backed mainly by first-ranking mortgages.

To fund this purchase, Bankinter 20 issued one class of floating-rate, quarterly paying notes.

Bankinter 20 is a fund set up to purchase the collateral from Bankinter, issue the notes, and carry out related activities. The issuer holds a distinct and closed pool of assets available for distribution to the noteholders. The assets are insulated from the insolvency of the originator and the trustee.

The rating on the notes reflects the subordination of the cash reserve account, the basis rate swap, and comfort provided by various other contracts.

Bankinter, which ranks among the top 10 Spanish banks, mainly focuses on three areas: Retail, wholesale corporate, and private banking. Bankinter was founded in 1965 as a joint venture between the former Banco de Santander and Bank of America. Since then, both banks have divested their participations and Bankinter's shares are publicly traded on the Madrid stock market.

Notable Features

This is the 20th securitization of Bankinter's mortgage credits and the fourth where "Hipoteca SIN" credits are being securitized. Hipoteca SIN credits are flexible loans that allow borrowers, with Bankinter's approval, to take payment holidays, make additional draws, and increase the term of their mortgage credit.

As in the previous Bankinter residential mortgage-backed securities (RMBS) transaction we rated, Bankinter 18, FTA, a small percentage of the loans from the pool are backed by commercial rather than residential properties.

In this transaction, Bankinter acts as originator, servicer, transaction accounts provider, and swap counterparty.

As in other Spanish transactions, interest and principal are combined into a single priority of payments, with some triggers in the payment of interest to protect senior noteholders.

Strengths, Concerns, And Mitigating Factors

Strengths

- The collateral is high-quality. It comprises mainly first-ranking mortgage loans, with a weighted-average loan-to-value (LTV) ratio of 54.21% and an average seasoning of 43.92 months.

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- There is adequate credit enhancement for the target rating. The cash reserve, which was fully funded at closing using a subordinated loan, and the excess spread, are both available to cover any interest or principal shortfalls.
- Bankinter has servicing and securitization experience; this is its 20th RMBS transaction.
- There is a swap agreement between the issuer and Bankinter to mitigate interest rate basis risk in the transaction.
- Loans more than 18 months in arrears are written off. This allows for an early excess spread trapping mechanism.

Concerns and mitigating factors

- Of the pool, 12.38% comprises Hipoteca SIN flexible credits, which allow borrowers to take payment holidays, make further drawdowns, and increase the term of their mortgage credit. Our analysis of the portfolio has taken into account the characteristics of the Hipoteca SIN products, which are in all cases subject to Bankinter's approval.
- The excess spread of the pool may decrease from its current margin of 71 bps because mortgage credit can be renegotiated at the borrowers' request. We have taken this into account in our analysis.
- Of the loans in the pool, 1.79% are secured by a commercial property, and other types of property, rather than a residential one. We took this into account in our analysis

The pool has geographical concentration: 56.9% of the pool is concentrated in Madrid, Catalonia, and Andalucía. We have taken into account the presence of any regional concentrations in our portfolio analysis.

Transaction Structure

At closing, the originator issued both mortgage certificates ("certificados de transmission hipotecaria" or CTHs) and mortgage participations ("participaciones hipotecarias" or PHs) that Europea de Titulización S.G.F.T., S.A., the trustee, purchased on the issuer's behalf (see chart 1).

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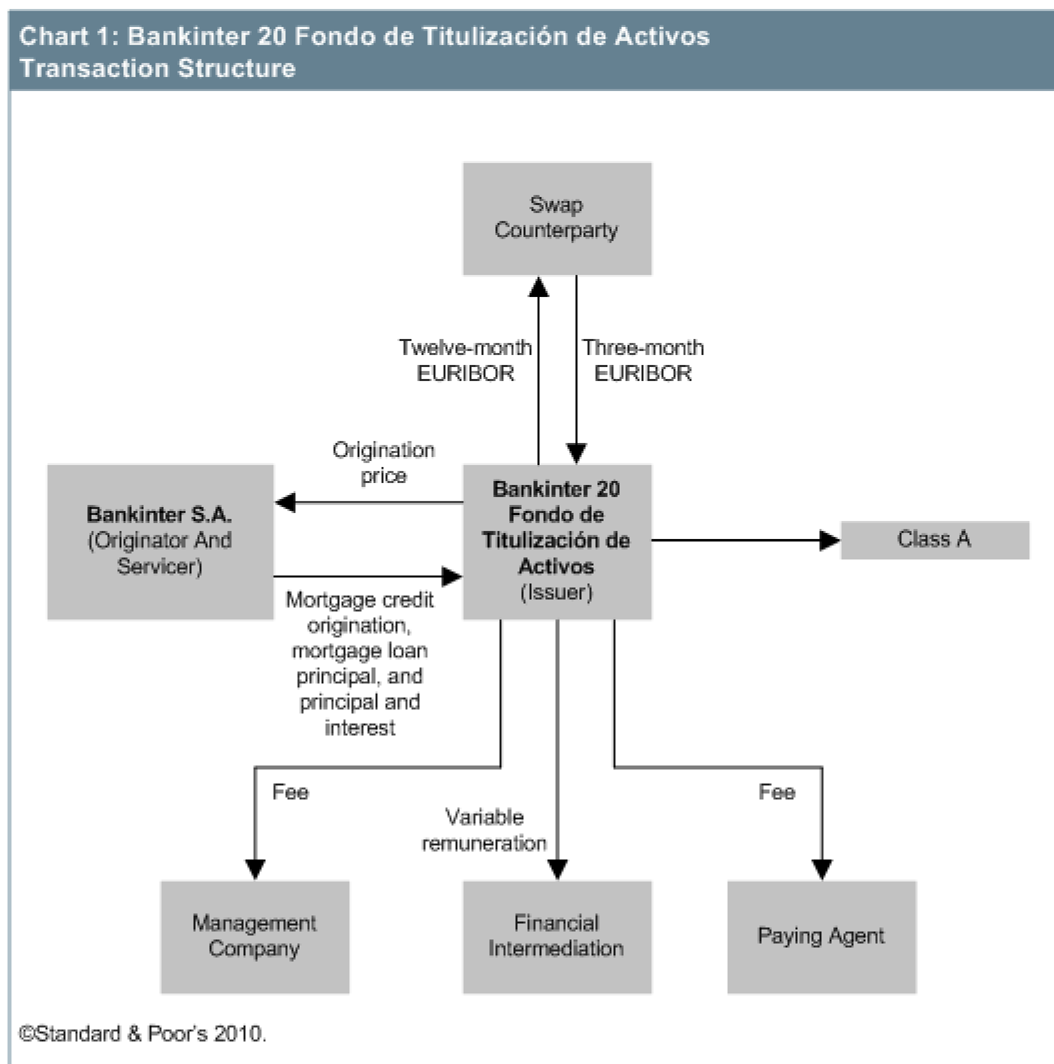

Each CTH represents, in equal amount and interest rate, the securitized mortgage loans and mortgage credits. The CTHs entitle Bankinter 20 to any rights and proceeds due under principal and interest on the mortgage loans and the credit line first draws.

The outstanding amount of the mortgage credits and mortgage loans purchased for the final pool totaled €1.65 billion. To fund the purchase of collateral, Bankinter 20 issued one class of rated notes. The reserve fund was fully funded on the closing date through a subordinated loan.

Bankinter services the collateral. It collects the amounts due under the mortgages and transfers the collected installments into the treasury account every week.

The issuer entered into an asset swap agreement with Bankinter to hedge any basis risk resulting from the differences between the index on the mortgages in the pool and the index on the notes. The fund pays 12-month EURIBOR from the collateral. The swap counterparty pays three-month EURIBOR.

On each quarterly interest payment date, Bankinter 20 pays, in arrears, the interest due to the noteholders. It makes

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payments from the proceeds of the interest swap, interest earned on the transaction accounts, the reserve fund, and, if necessary, principal received under the mortgage credit and any other proceeds received in connection with the mortgage credit.

All interest and principal received can be mixed to pay principal and interest due under the notes. In a stressful economic environment, a trigger may be breached that causes the more senior notes to amortize before interest on the subordinated classes of notes is paid (see "Priority of payments").

Bankinter S.A., Originator And Servicer

The rating on Spain-based Bankinter (A/Stable/A-1) is supported by the bank's business flexibility, innovative culture, sophisticated management, outstanding efficiency, excellent asset quality track record, and sound and well-developed credit risk management. These positives are counterbalanced by meaningful reliance on wholesale funding, only adequate solvency, lower business diversification and weaker overall market position than the largest nationwide competitors.

Bankinter's operations are focused on specific market segments where it has a competitive edge thanks to its strong management team, light and flexible operating structure, and superior IT systems. Capitalizing on these strengths, Bankinter's talented management has demonstrated its ability to adapt to changing economic and market conditions. The bank is now gradually increasing the weight of small and midsize enterprise (SME) banking and private banking in its profile, thereby enhancing its business diversification.

Bankinter has a relatively low risk profile, with high-quality residential mortgages accounting for 63% of its total portfolio, and limited market and operational risk. Asset quality indicators have remained significantly better than the market average throughout the economic cycle, as a result of the bank's good credit risk management and systems.

The bank's strong credit expansion, particularly into SMEs, during the past few years—although now decelerating—adds some risk to the balance sheet. Bankinter's sound credit risk management and tight monitoring, good track record in the middle-market segment, and strong reserve cushions, mitigate concerns about this risk. We consequently expect the effect on asset quality of a higher interest rate environment and expected slowing economic growth to be contained.

Operating profitability has benefited from Bankinter's excellent and improving efficiency. This has helped absorb pressure on gross operating returns that have led bottom-line returns to average levels by domestic and international standards. Pressure on operating profitability is nevertheless abating amid a more comfortable interest rate environment and with Bankinter's less aggressive pricing.

Strong loan growth outpacing that of deposits has led Bankinter to rely on wholesale funding, including a substantial proportion of short-term financing in the funding mix. While wholesale funding needs remain manageable, they mean Bankinter has a comparatively higher exposure to trends in short-term (particularly domestic) debt markets.

Core risk-adjusted solvency is just adequate. Our analysis of Bankinter's solvency takes into account the bank's transfer of most of the credit risk associated with securitizations of mortgage loans, which has in turn freed up associated capital. We expect solvency to remain relatively stable, underpinned by slowing growth and the bank's

strong capital generation capacity (including excess provisions).

Collateral Description

As of June 22, 2010, the pool comprised 15,552 amortizing mortgage loans and credits secured by mainly first-ranking mortgages over residential owner-occupied second-home properties in Spain, and commercial properties (see table 1).

Table 1

Pool Composition

	(%)
Mortgage credit lines	12.38
Standard mortgage loans	87.62

Of the pool, 12.38% are flexible Hipoteca SIN mortgage credits, which are effectively a flexible credit line; the rest of the pool comprises standard mortgage loans. The main features of the SIN product allow borrowers, with Bankinter's approval in all cases, to make further drawdowns on the mortgage credit, to take payment holidays, and to increase the term of their mortgage credit.

Hipoteca SIN flexible loans: Additional draws

SIN borrowers may further draw on their lines up to the original amount they borrowed at the origination date. The maximum LTV ratio is 80%. The initial and subsequent credit line drawdowns are guaranteed by the underlying property.

The securitized portion of the mortgage credit is the first drawdown made under the credit line. Further drawdowns are treated separately, but rank pari passu with the initial withdrawal.

The maximum amount to be drawn per mortgage credit is the lower of:

- The positive difference between (i) the original drawn amount and (ii) the current amount; and
- The positive difference between (i) the original drawn amount multiplied by twice the percentage that the remaining life represents over the original term and (ii) the current amount.

Hipoteca SIN flexible loans: Payment holidays

The SIN mortgage borrowers can have payment holidays, but only after the first three years of the loan's life. There is a maximum of three monthly installment holidays (consecutive or not) per year. For every 10 years, there is a maximum of three monthly installment holidays (consecutive or not) distributed across four years.

Pending and accrued interest is paid at once when the payment holiday is finished and principal is re-included in the outstanding balance of the mortgage credit. No mortgage credit in arrears has the option of payment holidays.

Hipoteca SIN flexible loans: Increasing the original term of the mortgage credit

The current maximum term of the mortgage credit is established at 35 years. It is possible to increase the term of the mortgage credit at a rate of six months per year that has been paid, excluding the first two years. The installment then has to be recalculated. The borrower may extend the term for a maximum of 40 years. No mortgage borrower in arrears has the option to increase the maturity.

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Other characteristics of the mortgage credits

Other features of the mortgage pool include:

- Of the pool, 56.9% is concentrated in Madrid, Catalonia, and Andalucía (see chart 2).
- Bankinter originated the loans between 1995 and 2010. The weighted-average seasoning is 43.92 months, with 71.8% of the pool being originated more than 12 months ago (see chart 3).
- The weighted-average LTV ratio is 54.2%, the minimum 1.48%, and the maximum 99.14% (see chart 4).
- In the pool, 1.79% of the loans are not secured by residential properties but by commercial and other types of properties.
- The pool comprises floating-rate mortgage credits that are indexed to one-year EURIBOR. Mortgages in the pool have a weighted-average margin of 71 bps over one-year EURIBOR. The weighted-average interest rate is 2.07%. If a borrower meets certain conditions, Bankinter can reduce the margin down to a floor of a weighted-average margin of the pool of 30 bps.

Chart 2

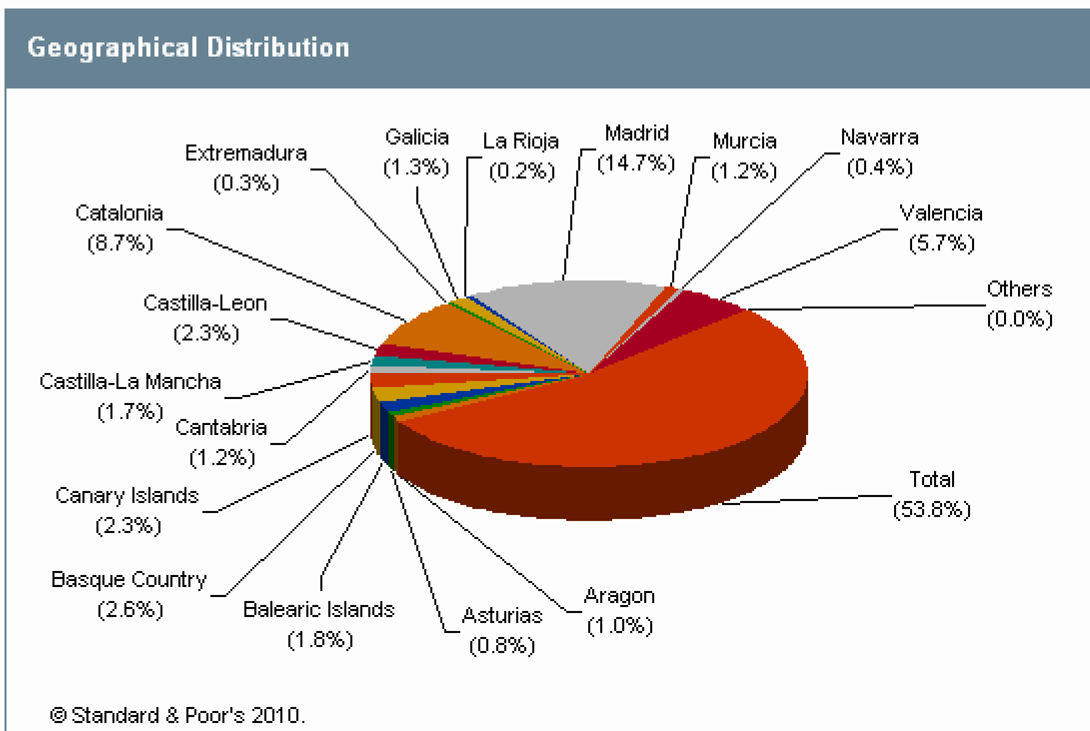


Chart 3

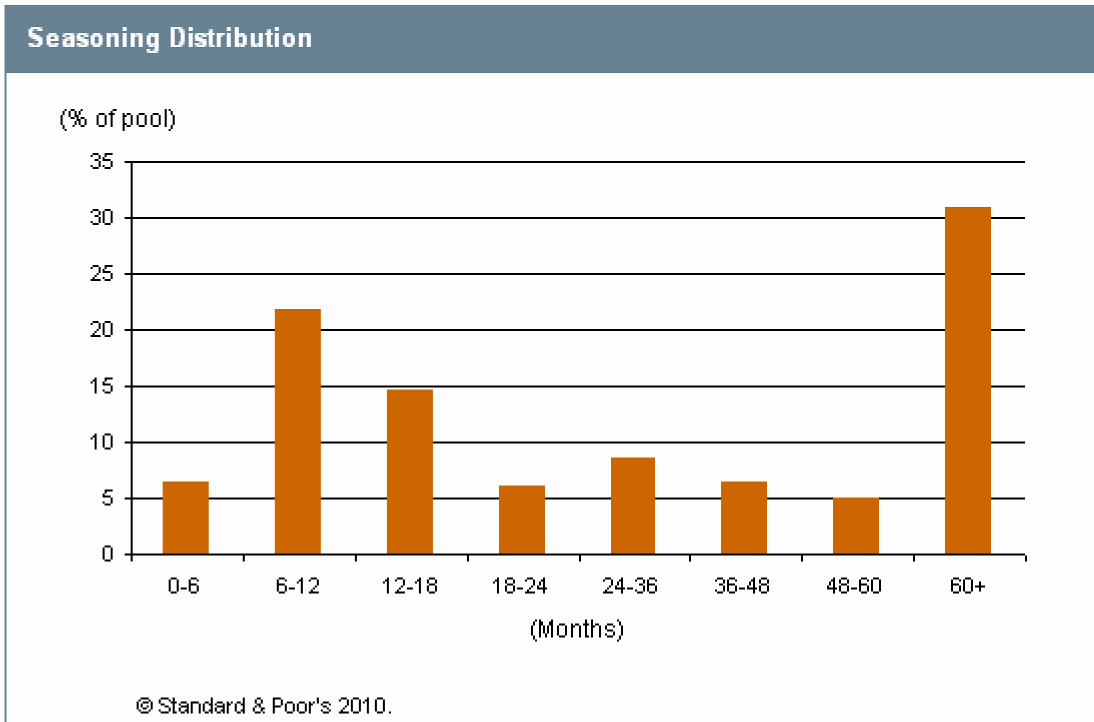
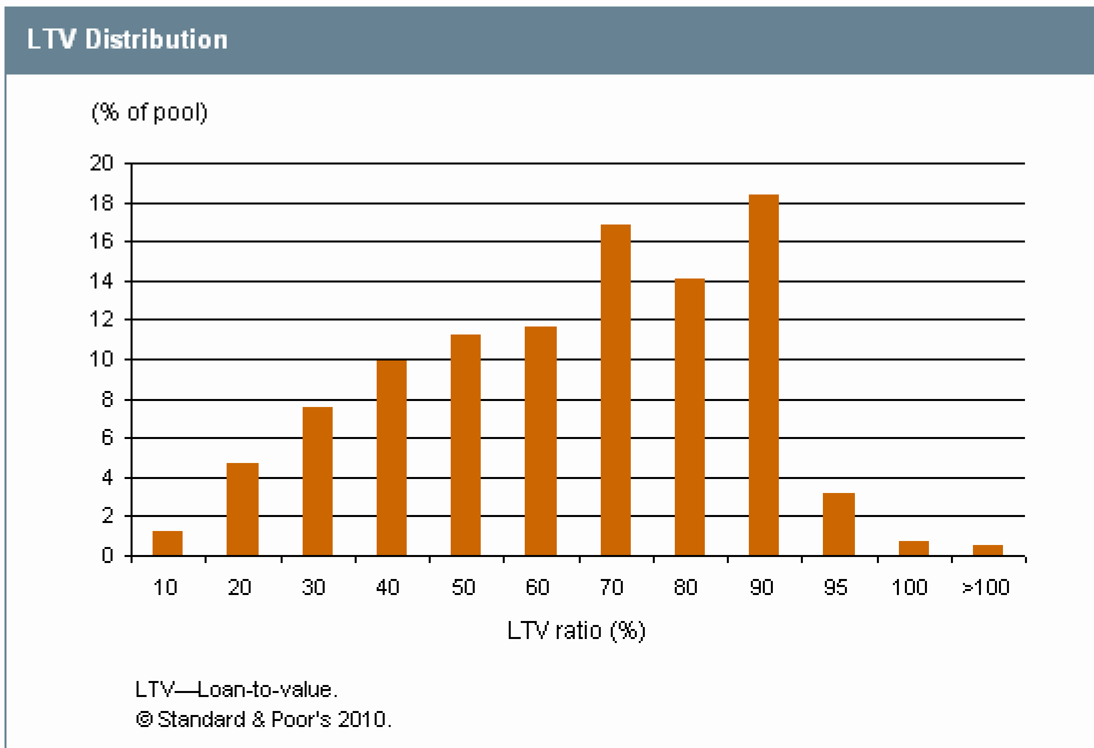


Chart 4



Credit Structure

Credit support for the notes is provided by a combination of subordination, the reserve fund, and excess spread on the mortgages (see table 2).

Table 2

Credit Support For The Notes

Class	Rating	Size of class (%)	Mil. £ (equivalent)	Credit support total (%)	Credit support reserve fund (%)	Credit support subordination (%)
A	AAA (sf)	100	1.65	8	8	N/A

N/A—Not applicable.

Cash collection arrangements and transaction account

Bankinter receives funds from CTH interest and principal payments and transfers them to the treasury account in the fund's name seven working days after receipt.

Bankinter deposits the rest of the amounts, the reserve fund, the guaranteed investment contract (GIC) margins, the subordinated loan for initial expenses, etc., directly into the treasury account. The treasury account for Bankinter 20 is held at Bankinter. The treasury account has a guaranteed interest rate of three-month EURIBOR.

According to Standard & Poor's "Revised Framework For Applying Counterparty And Supporting Party Criteria" (see "Criteria Referenced"), if the bank account provider is downgraded below 'A-1', it has 60 calendar days until it becomes an ineligible counterparty. To maintain the rating on the notes, the bank account provider has to:

- Find a replacement with a short-term rating of at least 'A-1', or
- Find an adequate guarantor with a short-term rating of at least 'A-1'.

According to the transaction document, any counterparty replacement or guarantee is subject to rating confirmation. The downgraded counterparty bears all the costs of the remedies.

Interest reserve fund

At closing, the interest reserve fund was fully funded through a subordinated loan. The initial reserve amount represents 3.20% of the original principal amount of the rated notes. The interest cash reserve does not amortize for the first three years of the transaction. After the third anniversary of the closing date and on each payment date, the interest cash reserve account amortizes if:

- The outstanding balance of the loans in the pool with any payment in arrears for more than 90 days is higher than 1% of the outstanding balance of the loans in the pool;
- The reserve fund is below its required level; or
- The margin of the outstanding balance of the loans is equal to or lower than 30 bps.

The interest reserve fund will be applied on each interest payment date (IPD) in accordance with the transaction's priority of payments. The required amount on each IPD is equal to the lower of €52.8 million and the higher of 6.40% of the outstanding balance of the bonds and 26.4 million.

Principal reserve fund

At closing, the principal reserve fund was fully funded through a subordinated loan. The initial reserve amount represents 4.8% of the original principal amount of the rated notes. The principal cash reserve does not amortize for the first three years of the transaction. After the third anniversary of the closing date and on each payment date, the principal cash reserve account amortizes if:

- The outstanding balance of the loans in the pool with any payment in arrears for more than 90 days is higher than 1% of the outstanding balance of the loans in the pool;
- The reserve fund is below its required level; or
- The margin of the outstanding balance of the loans is equal to or lower than 30 bps.

Bankinter will apply the principal reserve fund on each IPD in accordance with the priority of payments. The required amount on each IPD is equal to the lower of €79.2 million and the higher of 9.60% of the outstanding balance of the bond issue and €39.6 million.

Commingling reserve

To protect against commingling risk, if Bankinter is downgraded below a short-term rating of 'A-2', then:

- Within 30 calendar days, the servicer should find an eligible guarantor with a minimum short-term rating of 'A-1'. The guarantor should provide the issuer with a first-demand, unconditional, and irrevocable guarantee equal to the commingling reserve amount to be applied to pay any amounts the servicer fails to pay the issuer for the loans. The guarantor would deposit the amount, if required to be paid, in an issuer bank account in accordance with the bank account and cash management agreements. We would expect to review the guarantee at the time the downgrade occurs; or
- Within 10 calendar days, the servicer should deposit in the issuer's bank account an amount equal to the commingling reserve amount to be applied to pay any amounts the servicer fails to pay the issuer for the loans.

On the date this commingling reserve is required, the initial amount should be a sufficient proportion of the principal amount outstanding to avoid affecting the rating on the notes.

Priority of payments

On each quarterly IPD, the issuer pays in arrears the interest due to the noteholders. To make the payments, the issuer's available funds include the proceeds of the interest swap, the reserve fund, and, if necessary, principal received under the loans and any other proceeds received in connection with the loans. All interest and principal received can be mixed to pay principal and interest due under the notes in the following order:

- Senior fees (including the administration fee if Bankinter is substituted;
- Termination cost of the swap due to the fund;
- Interest on the class A notes;
- Interest reserve fund replenishment;
- Principal on the class A notes;
- Principal reserve fund replenishment;
- Termination cost of the swap due to the counterparty;
- Interest on the subordinated loan;
- Amortization of the subordinated loan;
- Interest on the start-up loan;

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- Amortization of the start-up loan;
- Administration fee if Bankinter is the administrator; and
- The residual margin.

Hedging Risk

Interest swap agreement

The basis swap agreement mitigates any basis mismatch between the 12-month EURIBOR reference rate of loans in the pool and the three-month EURIBOR reference rate on the notes. The basis swap provider is Bankinter.

On each IPD, the issuer pays the swap counterparty the reference index on the mortgage loans. This is based on a notional amount of the performing principal balance of loans in the pool, plus the balance of all loans less than 18 months in arrears. In return, the issuer receives three-month EURIBOR by the same notional balance.

The minimum rating required to be the swap counterparty is 'A-1', so if Bankinter is downgraded below 'A-1', we would expect Bankinter to take the remedy actions that follow an eligible direct support downgrade, as described in "General: Methodology: Updated Counterparty Criteria For Derivatives: Eligibility Of 'A-2' Counterparties Removed In 'AAA' Transactions", published on October 22, 2008, " and "Revised Framework For Applying Counterparty And Supporting Party Criteria", published on May 8, 2008.

The transaction documents state that any counterparty replacement or guarantee is subject to rating confirmation. The downgraded counterparty bears all the costs of the remedies.

Credit Analysis

We stressed the transaction cash flows to test both the credit and liquidity support provided by the assets, subordinated tranches, cash reserve, and any external sources (such as a liquidity facility). We implemented these stresses to the cash flows at all relevant rating levels.

For example, we subject a transaction that incorporates 'AAA', 'A', and 'BBB' rated tranches of notes to three separate sets of cash flow stresses. In the 'AAA' stresses, all 'AAA' notes must pay full and timely principal and interest. However, this is not necessarily the case for the 'A' or 'BBB' rated tranches, as they are subordinated in the priority of payments. In the 'A' case, all 'AAA' and 'A' notes must receive full and timely principal and interest, but this is not necessarily so for the 'BBB' rated tranche, as it is subordinated to both 'AAA' and 'A'.

Amount of defaults and recoveries

For each loan in the pool, we estimated the likelihood that the borrower will default on its mortgage payments (the foreclosure frequency), and the amount of loss on the subsequent sale of the property (the loss severity, expressed as a percentage of the outstanding loan).

We assume the total mortgage balance to default. We determine the total amount of this defaulted balance that is not recovered for the entire pool by calculating the weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS).

The WAFF and WALS estimates increase as the required rating level increases, because the higher the rating required on the notes, the higher the level of mortgage default and loss severity they should be capable of withstanding. This

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credit analysis is based on the characteristics of the loans and the associated borrowers. We have applied market specific criteria in our assessment of the WAFF and the WALS for this portfolio, which are shown in table 3.

Table 3

Portfolio WAFF And WALS

Rating level	WAFF (%)	WALS (%)
AAA (sf)	16.84	13.99

Timing of defaults

The WAFF at each rating level specifies the total balance of the mortgage loans assumed to default over the life of the transaction. We assume that these defaults occur over a three-year recession. Further, we assess the effect of the timing of this recession on the ability to repay the liabilities, and choose the recession start period based on this assessment.

Although the recession normally starts in the first month of the transaction, we usually delay the 'AAA' recession by 12 months. We apply the WAFF to the principal balance outstanding at the start of the recession (e.g., in a 'AAA' scenario, we apply the WAFF to the balance at the beginning of month 13). We assume defaults occur periodically in amounts calculated as a percentage of the WAFF. The timing of defaults in Spanish transactions follows one path, referred to here as "equal" defaults. This timing is shown in table 4.

Table 4

Timing Of Defaults

Percentage of WAFF	'AAA' (recession month)	Rest of rating scenarios (recession month)
1/3	13	1
1/3	25	13
1/3	37	25

Timing of recoveries

We assume that the issuer would regain any recoveries 30 months after a payment default in Spanish transactions. The value of recoveries at the 'AAA' level is 100% minus the WALS given above.

Note that the WALS used in a cash flow model is always based on principal loss, including costs. We assumed no recovery of any interest accrued on the mortgage loans during the foreclosure period. After the WAFF is applied to the balance of the mortgages, the asset balance is likely to be lower than that of the liabilities (a notable exception is when a transaction relies on overcollateralization). The interest reduction created by the defaulted mortgages during the foreclosure period will need to be covered by other structural mechanisms in the transaction.

Delinquencies

We model the liquidity stress that results from short-term delinquencies, i.e., those mortgages that cease to pay for a period of time but then recover and become current regarding both interest and principal. To simulate the effect of delinquencies, we assume a proportion of interest receipts equal to one-third of the WAFF to be delayed. We apply this in each month of the recession and assume full recovery of delinquent interest will occur 18 months after it is removed from the transaction. Thus, if in month five of the recession the total collateral interest expected to be received is €1 million and the WAFF is 30%, €100,000 of interest (one-third of the WAFF) will be delayed until month 23.

Interest and prepayment rates

We modeled one interest-rate scenario—rising—using both high and low prepayment assumptions. Interest rates were 5.5% at the time of modeling and were modeled to rise by 2.0% a month to a high of 12.0% for EURIBOR amounts. In the 'AAA' scenario, we did not model the interest rate increase to begin until month 13. We also revise interest rate scenarios if there is sufficient evidence to warrant it.

We stress transactions according to two prepayment assumptions, high (24.0%) and low (0.5%). In a 'AAA' scenario, we model a prepayment rate of 10% before the recession for the first year of the transaction for both the high and low prepayment scenarios. This is to ensure that the WAFF is applied to a consistent asset balance in month 13, when we assume the recession will start in the 'AAA' scenario.

We assume prepayment rates to be static throughout the life of the transaction and apply them monthly to the decreasing mortgage balance. We reserve the right to increase the high prepayment assumption if historical prepayment rates are high or the transaction is particularly sensitive to high prepayments (e.g., the transaction relies heavily on excess spread).

In combination, the default timings, interest rates, and prepayment rates described above give rise to two different scenarios (see table 5). The ratings we have assigned mean that the notes have all paid timely interest and ultimate principal under each of the scenarios at the proposed rating level.

Table 5

RMBS Stress Scenarios

Scenario	Prepayment rate	Interest rate	Default timing
1	Low	Up	Equal
2	High	Up	Equal

Rating Stability

The purpose of this analysis is to address rating stability in the context of RMBS transactions. The rating stability concept is explained in "Criteria Updates: The Ongoing Response To Deteriorating Credit Conditions" in "Related Criteria And Research." For this specific transaction, we ran an additional scenario where we applied a 10% haircut on the valuations of the properties. The WALS increased to the levels shown in table 6.

Table 6

Portfolio WALS

Rating level	WALS (%)
AAA	17.78

Scenario Analysis

This scenario analysis incorporates two aspects:

- A house price decline analysis; and
- A sensitivity analysis.

House price decline analysis

Various factors could cause downgrades of rated RMBS notes, such as increasing foreclosure rates in the securitized pools, house price declines (see table 7), and changes in the pool composition. We have chosen to analyze the effect of house price declines by testing the sensitivity of the transaction to two different levels of movements.

Declining house prices generally lead to increasing LTV ratios and more borrowers entering negative equity. This may increase the default probability of a securitized pool and its associated loss severity. Consequently, depending on its effect, declining house prices could be a contributing factor in the downgrade of rated notes.

In our analysis, assumptions for house price declines are reflected in the calculation of both the WAFF and WALS. The house price decline analysis assumes house price declines that are specific to a jurisdiction—rather than being uniform across all European transactions. The levels do not reflect any views of whether these house price declines will materialize in the future. So, for example, the additional haircuts we assume for a country that has experienced significant house price growth over the past few years may be different from those we assume for a country that has experienced stable house prices.

We perform our analysis on a loan-by-loan basis. Hence, the effect of applying different levels of house price declines differs between transactions, given the different concentrations in LTV ratio bands. Note that even in these house price decline scenarios, structural features in securitizations might mitigate these declines.

Further house price declines of 10% and 15%. Before closing, we calculated the 'AAA' WAFF for the pool as 16.84% and the WALS at the 'AAA' level as 13.99%.

We have already based these calculations on a market value decline assumption of 37% for properties at a 'AAA' rating level.

In the first scenario, in addition to the different stress assumptions, we apply a further 10% decrease in house prices. All else being equal, this would cause the 'AAA' WAFF to increase to 20.31% and the WALS to increase to 18.95%. In this scenario, the 'AA' rating on the notes in the transaction would withstand the effect of the further 10% house price decline with no adverse rating effect.

In the second scenario, we apply a further 15% decrease in house prices. All else being equal, this would cause the 'AAA' WAFF to increase to 24.01% and the WALS to increase to 21.74%. In this scenario, the 'A' rating on the notes in the transaction would withstand the effect of the further 15% house price decline with no adverse rating effect.

We based the analysis above on a simplified assumption, i.e., that the 10% or 15% house price decline materializes immediately on the day after closing. In reality, house price declines materialize over time. Therefore, other factors, such as seasoning or scheduled repayments under the loans, could mitigate the effect of the house price decline.

Table 7

Results Of The House Price Decline Analysis

House price environment	WAFF (%)	WALS (%)	Rating on the notes
'AAA' market value decline of 37%	16.84	13.99	AAA
Additional 10% house price decline	20.31	18.95	AA
Additional 15% house price decline	24.01	21.74	A

Sensitivity analysis

As house price movements are only one factor that may affect a transaction's foreclosure rate and loss severity, in this section we assess whether the rated notes would continue to pay timely interest and repay full principal by the legal final maturity of the rated bonds, under different combinations of WAFF and WALS and prepayment rates. We have constructed the various sensitivities in such a way as to test the transaction's sensitivity to different combinations that may be more or less severe than the 'AAA' stress assumptions. As a number of reasons may lead to an increase in WAFF or WALS, we attempt to show the sensitivity of the 'AAA' rating to movements in these factors.

If the notes fail any of these scenarios, we examine the level of interest and principal shortfalls and calculate the present value of the cash flows (after taking into consideration any shortfalls that may arise). We use the cost of the rated notes as the discount factor and a combination of other different discount factors, i.e., the cost of the rated notes plus 100 bps, the cost of the rated notes plus 200 bps, and the cost of the rated notes plus 300 bps.

We further provide the expected weighted-average life for each note in these scenarios. Note that in this part of the analysis, the stresses we apply are hypothetical and may differ from future default rates, loss probabilities, or prepayment rates in the pool.

The scenarios in our sensitivity analysis. In this sensitivity analysis, we provide different combinations of WAFF and WALS for the different series (see table 8). The results obtained from the different combinations may also be affected by some features included in the structure, like the deferral of interest based on cumulative default triggers, which may produce temporary shortfalls if certain levels of defaults are hit.

Table 8

Different WAFF And WALS Combinations

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
Default	16.84	16.84	25	25	30	30
Loss severity	13.99	13.99	25	25	30	30
Prepayments	10%	20%	10%	20%	10%	20%
Interest rate	Forward	Forward	Forward	Forward	Forward	Forward

We further assume two constant prepayment rate levels: 20% and 10%. Lastly, these tests assume a forward interest rate curve and we present sensitivities assuming four different discount factors, i.e., the cost of the rated notes, the cost of the rated notes plus 100 bps, the cost of the rated notes plus 200 bps, and the cost of the rated notes plus 300 bps (see table 9).

Table 9

Sensitivities Assuming Four Different Discount Factors

Parameter 1: WAFF/WALS (%)	Parameter 2: Prepayment levels (%)	Parameter 3: Interest rate levels	Principal Loss (Mil. £/€)	Interest Loss (Mil. £/€)	Weighted-average life (years)	Present value of cash flows (%) discounted with the cost of the notes*	Present value of cash flows (%) discounted with the cost of the notes plus 100 bps	Present value of cash flows (%) discounted with the cost of the notes plus 200 bps	Present value of cash flows (%) discounted with the cost of the notes plus 300 bps
16.84/17.78	10	Forward interest rate	—	—	6.057	100	95.10	90.62	86.53

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Table 9

Sensitivities Assuming Four Different Discount Factors (cont.)

16.84/17.78	20	Forward interest rate	—	—	3.613	100	96.79	93.76	90.91
25/25	10	Forward interest rate	—	—	5.723	100	95.31	91.01	87.06
25/25	20	Forward interest rate	0.0000003		3.506	100	96.85	93.89	91.08
30/30	10	Forward interest rate	0.0263455	0.0003273	5.893	99.76	95.20	91.02	87.18
30/30	20	Forward interest rate	0.0088938	0.0001105	3.607	88.92	96.80	93.86	91.08

In reality, where interest or principal shortfalls occur under the most senior notes, the holders of these notes and/or the trustee may call an event of default. This could lead to multiple events, such as the senior fees of the transaction stepping up, the swap terminating (where the issuer would need to make termination payments), and the post-enforcement priority of payments being applied. All of these events may affect the transaction cash flows.

For the purposes of our analysis above, we made a simplified assumption that the trustee would not call an event of default and that the swap would not terminate. As we continue to refine our scenario analysis, we will provide further analysis to assess the sensitivity of other risk factors that may affect our ratings on RMBS transactions.

Sectoral Credit Highlights

There are early indications that the fall in the Spanish housing market is nearing an end. The pace of price declines has slowed. According to official figures, house prices were down 6.1% year on year in the final quarter of last year (7.8% the previous quarter). Tinsa, one of the largest property valuation firms in Spain, which publishes monthly price series, estimates that prices were down 5.3% in the 12 months to March 2010, from 6.6% in December 2009.

But those signs of stabilization remain fragile. According to Tinsa, house prices dropped 16% from peak to trough, much less than in the U.K. or Ireland. The large overhang of dwelling supply would have suggested a steeper fall in prices: According to the Spanish Ministry of Housing, housing starts averaged 250,000 per year in the 1990s and then shot up to 500,000 in 2003-2005 to peak at 760,000 in 2006 more than the housing starts of Germany, Italy, France, and the U.K. combined for that year.

With the collapse of demand, there were about 600,000 unsold homes by the end of 2008, according to the Spanish Association of Promoters and Developers. Other estimates point to an even bleaker picture: BBVA, a Spanish bank, calculated that the excess supply was about one million dwellings at the beginning of 2009. With the annual change in new households down to about 300,000 currently, it will take several years to absorb the glut.

The adjustment of the housing market should continue for at least another year, in our opinion. We expect the Spanish economy to still be in recession this year (with real GDP declining 0.6%) before picking up gradually next year (with 0.8% growth). We believe the pace of decline in house prices will continue to slow but that it will take at least another year before the market stabilizes.

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Surveillance

Table 10 shows the main characteristics of Bankinter 18, the previous Bankinter transaction we rated, compared with Bankinter 20.

Table 10

Transaction Key Features		
	Bankinter 20	**Bankinter 18**
Pool features		
Principal outstanding (€)	1,650,000.00	1,655,631,059.12
Weighted-average seasoning (months)	43.92	15.72
Weighted-average LTV ratio (%)	54.21	57.81
Percentage with LTV ratios below 50%	34.68	30.83
Percentage with LTV ratios above 80%	22.81	3.08
Number of loans	15,386	11,003
Largest (€)	2,600,082.10	1,000,000
Average (€)	114,397.22	150,470.67
Weighted-average margin on the floating portfolio* (bps)	71	37
Percentage of commercial loans	1.79	2.43
Percentage of residential loans	98.21	97.57
Percentage of jumbo loans	11.08	8.62
Percentage of floating-rate loan	100	100
Percentage of fixed-rate loans	0	0
Weighted-average foreclosure period (months)	30	30
Geographic distribution (%)		
Andalucia	14.09	14.45
Aragon	1.83	1.50
Asturias	1.58	1.22
Balearic Islands	3.39	4.32
Basque Country	5.14	5.91
Canary Islands	4.10	4.37
Cantabria	2.30	1.88
Castilla-La Mancha	3.06	4.25
Castilla-Leon	4.11	3.58
Catalonia	15.66	19.15
Extremadura	0.61	1.14
Galicia	2.43	2.45
La Rioja	0.48	0.43
Madrid	27.15	17.90
Murcia	2.40	2.84
Navarra	0.65	0.65
Valencia	10.98	14.09
Others	0.01	-
Structural features (%)		
AAA	100	93.65

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Table 10

Transaction Key Features (cont.)		
AA	-	-
A	-	4.35
A-	-	-
BBB	-	2.00
BB	-	-
BB-	-	-
Cash reserve (%)	8	3.00
Commingling sized as liquidity loss	No	No
Commingling reserve if the administrator is downgraded	Yes	Yes

Related Research

- 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
- Methodology: Updated Counterparty Criteria For Derivatives: Eligibility Of 'A-2' Counterparties Removed In 'AAA' Transactions, Oct. 22, 2008
- Principles-Based Rating Methodology For Global Structured Finance Securities, May 29, 2007
- European Legal Criteria for Structured Finance Transactions, Aug. 28, 2008
- Cash Flow Criteria for European RMBS Transactions, Nov. 20, 2003
- Scenario Analysis: Ratings On Junior Notes In Spanish RMBS Could Face Downgrades If Defaults Rise Rapidly, April 1, 2008
- The Fundamentals Of Structured Finance Ratings, Aug. 23, 2007
- Structured Finance Glossary Of Securitization Terms 2007, June 11, 2007
- Spanish RMBS Index Report (published quarterly)

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