

Rating Action: Moody's upgrades 12 notes in 4 Valencia Hipotecario Spanish RMBS Transactions

Global Credit Research - 16 Sep 2014

London, 16 September 2014 -- Moody's Investors Service has today upgraded the ratings of 12 notes and affirmed the ratings of 2 notes in four Spanish residential mortgage-backed securities (RMBS) transactions: Valencia Hipotecario 1, FTA; Valencia Hipotecario 2, FTH; Valencia Hipotecario 3, FTA; Valencia Hipotecario 5, FTA.

Today's rating action concludes the review of 9 notes placed on review on 17 March 2014, following the upgrade of the Spanish sovereign rating to Baa2 from Baa3 and the resulting increase of the local-currency country ceiling to A1 from A3 (http://www.moodys.com/viewresearchdoc.aspx?docid=PR_292078). The sovereign rating upgrade reflected improvements in institutional strength and reduced susceptibility to event risk associated with lower government liquidity and banking sector risks.

Please refer to the end of the Ratings Rationale section for a list of affected ratings.

RATINGS RATIONALE

Today's upgrade reflects (1) the increase in the Spanish local-currency country ceiling to A1 and (2) sufficiency of credit enhancement in the affected transactions; for the revised rating levels

-- Reduced Sovereign Risk

The Spanish sovereign rating was upgraded to Baa2 in February 2014, which resulted in an increase in the local-currency country ceiling to A1. The Spanish country ceiling, and therefore the maximum rating that Moody's will assign to a domestic Spanish issuer including structured finance transactions backed by Spanish receivables, is A1 (sf).

The sufficiency of credit enhancement and the reduction in sovereign risk has prompted the upgrade of the notes.

-- Key collateral assumptions

The key collateral assumptions have not been updated as part of this review. The performance of the underlying asset portfolios remain in line with Moody's assumptions. Moody's also has a stable outlook (http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF373727) for Spanish ABS and RMBS transactions.

-- Exposure to Counterparties

Moody's rating analysis also took into consideration the exposure to key transaction counterparties including the roles of servicer, account bank, and swap provider.

Moody's assessed the exposure to CaixaBank (for Valencia Hipotecario 1, FTA and Valencia Hipotecario 2, FTH), Banco Bilbao Vizcaya Argentaria, S.A. (for Valencia Hipotecario 3, FTA), and JP Morgan Securities PLC (for Valencia Hipotecario 5, FTA) acting as swap counterparty for the transactions when revising ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in March 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include (1) further reduction in sovereign risk, (2) performance of the underlying collateral that is better than Moody's expected, (3) deleveraging of the capital structure and (4) improvements in the credit quality of the transaction counterparties.

Factors or circumstances that could lead to a downgrade of the ratings include (1) an increase in sovereign risk, (2) performance of the underlying collateral that is worse than Moody's expects, (3) deterioration in the notes' available credit enhancement and (4) deterioration in the credit quality of the transaction counterparties.

List of Affected Ratings

Issuer: VALENCIA HIPOTECARIO 1 FONDO DE TITULIZACION DE ACTIVOS

...EUR 454.3M Class A Notes, Upgraded to A1 (sf); previously on Mar 17, 2014 Baa1 (sf) Placed Under Review for Possible Upgrade

...EUR 11.8M Class B Notes, Upgraded to Baa3 (sf); previously on Mar 17, 2014 Ba2 (sf) Placed Under Review for Possible Upgrade

...EUR 5.9M Class C Notes, Upgraded to Ba2 (sf); previously on Mar 17, 2014 B1 (sf) Placed Under Review for Possible Upgrade

Issuer: VALENCIA HIPOTECARIO 2 FONDO DE TITULIZACION HIPOTECARIA

...EUR 909.5M Class A Notes, Upgraded to A1 (sf); previously on Mar 17, 2014 Baa1 (sf) Placed Under Review for Possible Upgrade

...EUR 21.2M Class B Notes, Upgraded to Ba1 (sf); previously on Mar 17, 2014 Ba3 (sf) Placed Under Review for Possible Upgrade

...EUR 9.4M Class C Notes, Upgraded to B3 (sf); previously on Mar 20, 2013 Downgraded to Caa2 (sf)

...EUR 9.9M Class D Notes, Affirmed C (sf); previously on Mar 11, 2011 Downgraded to C (sf)

Issuer: VALENCIA HIPOTECARIO 3 FONDO DE TITULIZACION DE ACTIVOS

...EUR 780.7M Class A2 Notes, Upgraded to A2 (sf); previously on Mar 17, 2014 Baa2 (sf) Placed Under Review for Possible Upgrade

...EUR 20.8M Class B Notes, Upgraded to Ba3 (sf); previously on Mar 17, 2014 B3 (sf) Placed Under Review for Possible Upgrade

...EUR 9.1M Class C Notes, Upgraded to Caa1 (sf); previously on Mar 20, 2013 Downgraded to Caa2 (sf)

...EUR 10.4M Class D Notes, Affirmed C (sf); previously on Mar 11, 2011 Downgraded to C (sf)

Issuer: VALENCIA HIPOTECARIO 5 FONDO DE TITULIZACION DE ACTIVOS

...EUR 468M Class A Notes, Upgraded to A3 (sf); previously on Mar 17, 2014 Baa2 (sf) Placed Under Review for Possible Upgrade

...EUR 5M Class B Notes, Upgraded to Ba1 (sf); previously on Mar 17, 2014 B1 (sf) Placed Under Review for Possible Upgrade

...EUR 27M Class C Notes, Upgraded to B3 (sf); previously on Mar 20, 2013 Confirmed at Caa2 (sf)

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of these transactions in the past six months.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions

about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

As the section on loss and cash flow analysis describes, Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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Nadia Lamniai
Associate Analyst
Structured Finance Group
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Anthony Parry
VP - Senior Credit Officer
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Chen Xue
Associate Analyst
Structured Finance Group
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom

JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



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