



Fitch Upgrades 3 Tranches of Valencia Hipotecario RMBS, Affirms Others

Fitch Ratings-London-18 July 2017: Fitch Ratings has upgraded three tranches of three Valencia Hipotecario RMBS transactions and affirmed eight tranches as follows:

Valencia Hipotecario 1, Fondo de Titulizacion de Activos:

Class A (ISIN ES0382744003): affirmed at 'AA+sf'; Outlook Stable

Class B (ISIN ES0382744011): upgraded to 'AA+sf' from 'AA-sf'; Outlook Stable

Class C (ISIN ES0382744029): affirmed at 'Asf'; Outlook Stable

Valencia Hipotecario 2, Fondo de Titulizacion de Hipotecaria:

Class A (ISIN ES0382745000): affirmed at 'AA+sf'; Outlook Stable

Class B (ISIN ES0382745018): upgraded to 'A+sf' from 'A-sf'; Outlook Stable

Class C (ISIN ES0382745026): upgraded to 'BBBsf' from 'BB+sf'; Outlook Stable

Class D (ISIN ES0382745034): affirmed at 'CCCsf'; revised Recovery Estimate 90% from 50%

Valencia Hipotecario 3, Fondo de Titulizacion de Activos:

Class A2 (ISIN ES0382746016): affirmed at 'AA-sf'; Outlook Stable

Class B (ISIN ES0382746024): affirmed at 'BBBsf'; Outlook Stable

Class C (ISIN ES0382746032): affirmed at 'BB+sf'; Outlook Stable

Class D (ISIN ES0382746040): affirmed at 'CCCsf'; revised Recovery Estimate 90% from 70%

The transactions comprise residential mortgage loans serviced by CaixaBank, S.A. (BBB/Positive/F2) in Spain.

KEY RATING DRIVERS

Credit Enhancement (CE) Trends

All three transactions include amortisation mechanisms that allow the notes to be paid down pro-rata rather than sequentially as long as performance and tranche thickness (tranche size relative to total outstanding) triggers are fulfilled. Fitch views the available and projected CE across the series sufficient to withstand the associated rating stresses, which is reflected in the affirmations and upgrades.

Valencia Hipotecario 1's CE trends are expected to increase as the transaction will soon revert to sequential amortisation, as its portfolio balance is near the 10% limit as defined by transaction documents and pro-rata amortisation will no longer be permitted. CE for the senior notes of Valencia Hipotecario 2 and 3 is expected to remain broadly stable, as both transactions are most likely to revert to or maintain pro-rata amortisation of the notes as long as performance triggers are satisfied.

Stable Asset Performance

The securitised mortgage portfolios have built some substantial seasoning between 12 and 15 years. As such, the weighted average current loan-to-value (LTV) ratios have dropped to between 26% and 40%, compared with the weighted average original LTV of around 70%, and support Fitch's view that credit performance will remain stable in the near term.

The transactions have three-month plus arrears (excluding defaults) ranging between 0.3% (Valencia Hipotecario 1) and 1.1% (Valencia Hipotecario 2) of the portfolio outstanding balance, and cumulative gross defaults (defined as loans in arrears for more than 18 months) ranging between 0.5% and 3.6% of the initial portfolio balance for Valencia Hipotecario 1 and 3, respectively.

Geographic Concentration Risk

Fitch has applied a 15% increase to the base foreclosure frequency assumption for loans located in regions that represent each more than 35% of the portfolio balance, such as Valencia, which makes up 60% to 70% of the portfolios.

Restructured Loan Exposure

Fitch has received additional data that shows loan maturity extensions have taken place in the range between 8.3% (Valencia Hipotecario 1) and 1.6% (Valencia Hipotecario 2) of the outstanding collateral balance. In the absence of sufficient payment history data for such loans, Fitch has added their balance to the three months plus arrears bucket, which is linked to a higher default probability assumption.

RATING SENSITIVITIES

The ratings of the senior notes of Valencia Hipotecario 1 and 2 are sensitive to changes in Spain's Country Ceiling of 'AA+sf' and also to changes to the highest achievable 'AA+sf' rating for Spanish structured finance notes.

The rating of Valencia Hipotecario 1 class C is sensitive to changes in the respective SPV account bank's rating (Barclays Bank, A/Stable/F1), as the transaction cash reserves are kept at this bank account representing the only source of CE for this tranche.

A worsening of the Spanish macroeconomic environment, especially employment conditions or an abrupt shift of interest rates could jeopardise the underlying borrowers' affordability. This could have negative rating implications, especially for junior tranches that are less protected by structural CE.

USE OF THIRD-PARTY DUE DILIGENCE PURSUANT TO RULE 17G-10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

DATA ADEQUACY

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pools and the transactions. There were no findings that affected the rating analysis. Fitch has not reviewed the results of any third party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Fitch did not undertake a review of the information provided about the underlying asset

pools ahead of the transactions' initial closing. The subsequent performance of the transactions over the years is consistent with the agency's expectations given the operating environment and Fitch is therefore satisfied that the asset pool information relied upon for its initial rating analysis was adequately reliable.

Overall, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

SOURCES OF INFORMATION

The information below was used in the analysis.

Issuer and servicer reports provided by Europea de Titulizacion SGFT since closing of the deals and until 31 May 2017 for Valencia Hipotecario 1, 30 April 2017 for Valencia Hipotecario 2 and 31 March 2017 for Valencia Hipotecario 3.

Loan level data dated 18 May 2017 for Valencia Hipotecario 1, 18 April 2017 for Valencia Hipotecario 2, and 16 March 2017 for Valencia Hipotecario 3, were sourced from the European Data Warehouse.

Discussions and updates from the trustee dated June 2017.

MODELS

ResiEMEA. (<https://www.fitchratings.com/site/structuredfinance/rmbs/resiemea>)

EMEA RMBS Surveillance Model.

(<https://www.fitchratings.com/site/structuredfinance/rmbs/emearsm>)

EMEA Cash Flow Model.

(<https://www.fitchratings.com/site/structuredfinance/emeacfm>)

Contacts:

Lead Surveillance Analyst

Andrea Alexandra Kopp

Analyst

+44 20 3530 1633

Fitch Ratings Limited

30 North Colonnade
London E14 5GN

Committee Chairperson
Juan David Garcia
Senior Director
+34 91 702 5774

Media Relations: Athos Larkou, London, Tel: +44 203 530 1549, Email:
athos.larkou@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria

Criteria Addendum: Spain Residential Mortgage Assumptions (pub. 02 Dec 2016)
(<https://www.fitchratings.com/site/re/891432>)

Criteria for Country Risk in Global Structured Finance and Covered Bonds (pub. 26
Sep 2016) (<https://www.fitchratings.com/site/re/881269>)

EMEA RMBS Rating Criteria (pub. 29 Nov 2016)
(<https://www.fitchratings.com/site/re/891276>)

Fitch's Interest Rate Stress Assumptions for Structured Finance and Covered Bonds -
Excel File (pub. 17 Feb 2017) (<https://www.fitchratings.com/site/re/894478>)

Global Structured Finance Rating Criteria (pub. 03 May 2017)
(<https://www.fitchratings.com/site/re/897411>)

Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 23 May
2017) (<https://www.fitchratings.com/site/re/898537>)

Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative
Addendum (pub. 23 May 2017) (<https://www.fitchratings.com/site/re/898538>)

Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 17
Feb 2017) (<https://www.fitchratings.com/site/re/893890>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form

(<https://www.fitchratings.com/site/dodd-frank-disclosure/1026640>)

Solicitation Status (<https://www.fitchratings.com/site/pr/1026640#solicitation>)

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings)

(<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM

(<https://www.fitchratings.com>). PUBLISHED RATINGS, CRITERIA, AND

METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND

PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory)

(<https://www.fitchratings.com/site/regulatory>). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2017 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources

are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch