Various Rating Actions Taken In Spanish RMBS Transactions Bancaja 5, 6, 7, 10, And 11 Following Criteria Updates

Surveillance Credit Analyst:
Ignacio T Estruga, Madrid (34) 91-389-6964; ignacio.estruga@standardandpoors.com

Research Contributor:
Ganesh Rajwadkar, CRISIL Global Analytical Center, an S&P affiliate, Mumbai

OVERVIEW

- We have reviewed Bancaja 5, 6, 7, 10, and 11 by conducting our credit and cash flow analysis under our updated Spanish RMBS criteria and our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating.
- Our updated RAS criteria constrain our ratings on several classes of notes in each transaction.
- Following our review, we have taken various rating actions in the transactions.
- Bancaja 5, 6, 7, 10, and 11 are Spanish RMBS transactions, which closed between April 2003 and July 2007 and securitize mortgage loans. Bankia originated the pools, which are mainly located in the Valencia region.

MADRID (Standard & Poor's) Jan. 9, 2015--Standard & Poor's Ratings Services today took various credit rating actions in:
- Bancaja 5 Fondo de Titulizacion de Activos;
- Bancaja 6 Fondo de Titulizacion de Activos;
- Bancaja 7 Fondo de Titulizacion de Activos;
- Bancaja 10, Fondo de Titulizacion de Activos; and
- Bancaja 11, Fondo de Titulizacion de Activos.

Specifically, we have:
- Raised our rating on the class A3 notes in Bancaja 11;

1378688 | 300974685

- Affirmed our ratings on the class A2 notes in Bancaja 6 and 7, the class B notes in Bancaja 7, and the class C to E notes in Bancaja 10 and 11; and
- Lowered our ratings on the class A notes in Bancaja 5, the class A2 notes in Bancaja 10 and 11, the class A3 notes in Bancaja 10, the class B notes in Bancaja 5, 6, 10, and 11, the class C notes in Bancaja 5, 6, and 7, and the class D notes in Bancaja 7 (see list below).

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

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

Today's rating actions follow our credit and cash flow analysis of the most recent transaction information that we have received from the August to November 2014 payment dates. Our analysis reflects the application of our RMBS criteria and our RAS criteria.

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

Our RAS criteria designate the country risk sensitivity for RMBS as 'moderate'. Under our RAS criteria, these transactions' notes can therefore be rated four notches above the sovereign rating, if they have sufficient credit enhancement to pass a minimum of a "severe" stress. However, as all six of the conditions in paragraph 48 of the RAS criteria are met in Bancaja 6 and 7, we can assign ratings to the senior-most classes of notes in these two transactions up to a maximum of six notches (two additional notches of uplift) above the sovereign rating, subject to credit enhancement being sufficient to pass an "extreme" stress (see "Understanding Standard & Poor's Rating Definitions," published on June 3, 2009 for our definitions of severe and extreme levels of economic stress).

As our long-term rating on the Kingdom of Spain is 'BBB', our RAS criteria cap at 'AA (sf)' the maximum potential rating for the class A2 notes in Bancaja 6 and 7. The maximum potential rating for all other classes of notes is 'A+ (sf)'.

Credit enhancement, considering the current collateral balance plus the available reserve fund, has increased for all classes on notes in Bancaja 5, 6, and 7, and decreased for all classes of notes in Bancaja 10 and 11, since our previous review.

Class	Available credit enhancement, excluding defaulted loans (%)				
	--Transaction--				
	5	6	7	10	11
A	10.98				
A2		20.42	12.09	9.73	7.54
A3				9.73	7.54
B	6.07	9.52	6.77	4.75	1.87
C	3.06	5.26	3.51	0.77	0.00
D			1.32	0.00	0.00
E				0.00	0.00

Although the available excess spread covers defaulted loans and maintains the reserve funds at the required levels for the most-seasoned transactions, it is not sufficient to do so in the less-seasoned ones. The table below shows the percentages of the required amount the reserve funds currently represent.

Transaction	Percentage of required amount (%)
5	100.00
6	100.00
7	88.22
10	0.00
11	0.00

Severe delinquencies of more than 90 days for Bancaja 5, 6, and 7 have always been relatively stable and below our Spanish RMBS index (see "Spanish RMBS Index Report Q2/Q3 2014: Delinquencies Continue To Rise As The Housing Market Slowly Recovers," published on Jan. 2, 2015) , with Bancaja 7 performing relatively weaker than the other two. The most-seasoned transactions outperformed the less-seasoned ones, with Bancaja 10 and 11 having considerably higher delinquencies, occasionally higher than the Spanish RMBS average. Defaults are defined as mortgage loans in arrears for more than 18 months in these transactions. Cumulative defaults for Bancaja 5, 6, and 7 are also lower than in other Spanish RMBS transactions that we rate. Cumulative defaults are relatively higher for Bancaja 10 and 11, where long-term arrears have rapidly rolled into defaults. Prepayment levels have always been in line with the market average.

The table below shows severe delinquencies and cumulative defaults.

Transaction	Severe delinquencies (%)	Cumulative defaults (%)
5	0.67	0.38
6	0.91	0.48
7	1.14	1.06
10	2.17	8.82

11	2.64	9.85

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

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

All of these transactions feature an excess spread trapping or interest deferral mechanism, which protects the more senior classes of notes in stressful scenarios. The trigger for Bancaja 5 and 6 is based on the 90+ days delinquencies level, Bancaja 7 on the amortization deficit levels, and Bancaja 10 and 11 on the cumulative default levels. We only expect that Bancaja 10 and 11's class B triggers will be breached during the remaining life of the transactions.

Following the application of our RAS criteria and our RMBS criteria, we have determined that our assigned rating on each class of notes in these transactions should be the lower of (i) the rating as capped by our RAS criteria and (ii) the rating that the class of notes can attain under our RMBS criteria. The ratings on the class A notes in Bancaja 5, the class A2 notes in Bancaja 6, 7, 10, and 11, the class A3 notes in Bancaja 10 and 11, the class B notes in Bancaja 5, 6, and 7, and the class C notes in Bancaja 6 are constrained by the rating on the sovereign.

The senior-most class of notes in Bancaja 6 and 7 (class A2 notes) pass all of the conditions under our RAS criteria. Consequently, our ratings on these classes of notes can be a maximum of six notches above the sovereign rating. We have therefore affirmed our 'AA (sf)' ratings on the class A2 notes in Bancaja 6 and 7.

The class A notes in Bancaja 5, the class B notes in Bancaja 6 and 7, and the class A2 and A3 notes in Bancaja 10 have sufficient credit enhancement to withstand our severe stresses. Consequently, the maximum uplift for these classes of notes is four notches above the sovereign rating. We have therefore lowered to 'A+ (sf)' from 'AA- (sf)' our ratings on the class A notes in Bancaja 5, the class B notes in Bancaja 6, and the class A2 and A3 notes in Bancaja 10. We have also affirmed our 'A+ (sf)' rating on Bancaja 7's class B notes.

The available credit enhancement for the class C notes in Bancaja 6 can withstand our stresses up to two notches above the sovereign rating. We have therefore lowered to 'A- (sf)' from 'A+ (sf)' our rating on Bancaja 6's class C notes.

Our credit and cash flow results indicate that the available credit enhancement for the class B notes in Bancaja 5 and the class A2 and A3 notes in Bancaja 11 can withstand our stresses up to one notch above the sovereign rating. We have therefore lowered to 'BBB+ (sf)' from 'A+ (sf)' our rating on Bancaja 5's class B notes, lowered to 'BBB+ (sf)' from 'A- (sf)' our rating on Bancaja 11's class A2 notes, and raised to 'BBB+ (sf)' from 'BBB (sf)' our rating on Bancaja 11's class A3 notes.

Our credit and cash flow results indicate that the available credit enhancement for the class B notes in Bancaja 10 and 11, the class C notes in Bancaja 5 and 7, and the class D notes in Bancaja 7 is commensurate with lower ratings than those currently assigned. We have therefore lowered our ratings on these classes of notes. Today's downgrades of the class B notes in Bancaja 10 and 11 reflect the proximity of the interest deferral triggers and our rating definitions of these notes.

We have affirmed our 'D (sf)' ratings on the class C, D, and E notes in Bancaja 10 and 11, as they are experiencing ongoing interest shortfalls due to the breach of the interest deferral trigger and the lack of liquidity.

In addition to the decreased WAFF and the increased WALS, the more severe cash flow modeling assumptions under our RMBS criteria (including additional stresses on servicing fees, delinquencies, back-ended default curves, delayed recession timing, and longer recovery timing) contributed to greater overall stresses on the transactions. When applying these assumptions, the transactions' features (including relatively low levels of credit enhancement, limited excess spread, and interest deferral triggers--if applicable) constrain our ratings on the mezzanine and junior classes of notes. This led to us lowering, by multiple notches, our ratings on the affected tranches.

We do not consider the replacement language in the swap agreements of these five Bancaja transactions to be in line with our current counterparty criteria, although it does feature a replacement framework that we give some credit to in our analysis (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). Under our current counterparty criteria, our ratings are capped to our long-term issuer-credit rating (ICR) on the corresponding swap counterparty, plus one notch. Our ratings are therefore capped at 'A+' in Bancaja 5, 6, and 7, the relevant counterparty being Credit Suisse International (A/Negative/A-1); at 'AA-' in Bancaja 10, the relevant counterparty being JP Morgan Chase Bank N.A. (A+/Stable/A-1); and at 'AA' in Bancaja 11, the relevant counterparty being HSBC Bank PLC (AA-/Negative/A-1+).

We have therefore analyzed the transactions without giving benefit to the swap agreement to see if the ratings on the notes could be delinked from the ICR on the relevant swap counterparty. In this scenario, only the class A notes in Bancaja 5, the class A2, B, and C notes in Bancaja 6, and the class A2 notes in Bancaja 7 are able to achieve a higher rating than our long-term ICR on the counterparty plus one notch. We have therefore delinked our ratings on these classes of notes from the ICR on the swap provider.

We also consider credit stability in our analysis (see "Methodology: Credit Stability Criteria," published on May 3, 2010). To reflect moderate stress conditions, we adjusted our WAFF assumptions by assuming additional arrears of 8% for one-year and three-year horizons, for 30-90 days arrears and 90+ days arrears. This did not result in our ratings deteriorating below the maximum projected deterioration that we would associate with each relevant rating level, as outlined in our credit stability criteria.

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

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

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

Bancaja 5, 6, 7, 10, and 11 are Spanish RMBS transactions backed by pools of first–ranking mortgages secured over owner-occupied residential properties in Spain. Bankia originated the underlying collateral between July 1991 and December 2006.

STANDARD & POOR'S 17G-7 DISCLOSURE REPORT

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties, and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard & Poor's 17g-7 Disclosure Reports included in this credit rating report are available at http://standardandpoorsdisclosure-17g7.com.

RELATED CRITERIA AND RESEARCH

Related Criteria

- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, Sept. 19, 2014
- Italy And Spain RMBS Methodology And Assumptions, Sept. 18, 2014
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

Related Research

- Spanish RMBS Index Report Q2/Q3 2014: Delinquencies Continue To Rise As The Housing Market Slowly Recovers, Jan. 2, 2015
- Standard & Poor's Ratings Definitions, Nov. 20, 2014
- Ratings On Spain Affirmed At 'BBB/A-2'; Outlook Stable, Nov. 14, 2014
- Italian And Spanish RMBS And Covered Bond Program Ratings Placed Under Criteria Observation, Sept. 18, 2014
- Outlook Assumptions For The Spanish Residential Mortgage Market, Sept. 18, 2014
- Credit Conditions: Europe Decelerates (Again) Amid Rising Geopolitical Risks, Sept. 16, 2014
- Low Interest Rates Are Underpinning Europe's House Price Recovery, July 28, 2014
- European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors, July 8, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014

RATINGS LIST

Class	Rating	
	To	From

Bancaja 5 Fondo de Titulizacion de Activos
€1 Billion Mortgage-Backed Floating-Rate Notes

Ratings Lowered

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

Bancaja 6 Fondo de Titulizacion de Activos
€2.08 Billion Mortgage-Backed Floating-Rate Notes

Rating Affirmed

A2	AA (sf)

Ratings Lowered

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

Bancaja 7 Fondo de Titulizacion de Activos
€1.9 Billion Mortgage-Backed Floating-Rate Notes

Ratings Affirmed

A2	AA (sf)
B	A+ (sf)

Ratings Lowered

C	BB+ (sf)	BBB- (sf)
D	B- (sf)	B+ (sf)

Bancaja 10, Fondo de Titulizacion de Activos
€2.631 Billion Mortgage-Backed Floating-Rate Notes

Ratings Lowered

A2	A+ (sf)	AA- (sf)
A3	A+ (sf)	AA- (sf)
B	B- (sf)	B+ (sf)

Ratings Affirmed

C	D (sf)
D	D (sf)
E	D (sf)

Bancaja 11, Fondo de Titulizacion de Activos
€2.023 Billion Mortgage-Backed Floating-Rate Notes

Ratings Lowered

A2	BBB+ (sf)	A- (sf)
B	CCC (sf)	B (sf)

Rating Raised

```
A3          BBB+ (sf)         BBB (sf)

Ratings Affirmed

C           D (sf)
D           D (sf)
E           D (sf)
```

Additional Contact:
Structured Finance Europe; StructuredFinanceEurope@standardandpoors.com