



Fitch Upgrades 9 Tranches of MBS Bancaja; Affirms 8

Fitch Ratings-London-31 January 2018: Fitch Ratings has upgraded nine tranches of four MBS Bancaja transactions and affirmed eight tranches. Fourteen tranches have been removed from Rating Watch Evolving (RWE) and the Rating Watch on one tranche has been revised to Positive from Evolving. A full list of rating actions is at the end of this rating action commentary.

The transactions are Spanish prime RMBS comprising loans serviced by Bankia S.A. (BBB-/Stable/F3).

KEY RATING DRIVERS

Stable or Improving Credit Enhancement (CE)

Fitch expects structural CE to remain stable over the short to medium term for MBS Bancaja 2, 3 and 4 as they will most likely continue paying pro rata, provided the reserve funds targets are achieved. For MBS Bancaja 8, we expect CE to rise, especially for the senior notes, as it is amortising sequentially. Fitch views the CE trends as sufficient to withstand the rating stresses, leading to the rating actions.

Sovereign Upgrade

The RWP on MBS Bancaja 2 class A notes reflects the fact that they could be upgraded to 'AAAsf', the maximum achievable rating in Spain following the one-notch upgrade of Spain's Long-Term Issuer Default Rating to 'A-'. We will resolve the RWP following the calibration of our Spanish residential mortgage credit assumptions up to the 'AAAsf' rating scenario.

Stable Credit Performance

The transactions continue to show sound asset performance. Three-month plus arrears (excluding defaults) as a percentage of the current pool balance stood in range between 0.6% for MBS Bancaja 2 and 1.2% for the other three transactions as of the last reporting period. Fitch expects performance to remain stable especially given the significant seasoning of the securitised portfolios of between nine and 14 years.

Commingling Exposure

Fitch believes MBS Bancaja 2, 3 and 4 are exposed to a commingling loss of around 50% of monthly collections in the event of a default of the collection account bank. This is based on information regarding borrower payment distribution, which indicates payments are concentrated on a few particular dates of every month. The agency has captured this additional stress in its analysis. MBS Bancaja 8 sufficiently mitigates the commingling risk as a dynamic commingling cash reserve equivalent to 1.5 times monthly estimated collections is maintained within an eligible bank account.

Counterparty Cap

MBS Bancaja 8's class A notes' rating is capped at 'A+sf' under Fitch's Structured Finance and Covered Bonds Counterparty Rating Criteria, due to the account bank replacement trigger being set at 'BBB+' and 'F2', which is insufficient to support a 'AAsf' or higher rating.

RATING SENSITIVITIES

Deterioration in asset performance may result from economic factors. A corresponding increase in new defaults and associated pressure on excess spread levels and the reserve funds, beyond those captured in Fitch's analysis, could result in negative rating action. Furthermore, an abrupt shift of the interest rates might jeopardise the underlying borrowers' affordability.

MBS Bancaja 2's class A notes could be upgraded to 'AAAsf' if the transaction's CE is sufficient to withstand the credit loss stressed in a 'AAA' rating scenario, the maximum achievable rating for Spanish structured finance transactions.

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. Because loan by loan portfolio data sourced from the European Data Warehouse did not contain information about second homes, Fitch assumed the proportion of second homes in the portfolios was the same as at the closing date (ie. 33.5%, 34.6%, 80.3% and 8.0% for MBS Bancaja 2, 3, 4 and 8 respectively), and applied the 1.5x foreclosure frequency adjustment to these loans in accordance with the applicable criteria. The findings were reflected in the agency's analysis by assuming an income of EUR1 for missing primary income information (ie. 5.6%, 2.2%, 1.7% and 0.8% for MBS Bancaja 2, 3, 4 and 8 respectively), and Fitch assumed that those loans with a maturity date change in the last four years were restructured loans between 12 and 24 months prior to the analysis date (ie. 0.9%, 1.1%, 0.9% and 0.3% for MBS Bancaja 2, 3,

4 and 8 respectively) and applied an upward adjustment to the foreclosure frequency of these. 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 and together with the assumptions referred to above, 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.

Loan level data sourced from the European Data Warehouse with the following cut-off dates:

- 30 November 2017 for MBS Bancaja 2, FTA
- 30 September 2017 for MBS Bancaja 3, FTA and MBS Bancaja 8, FTA
- 31 October 2017 for MBS Bancaja 4, FTA

Issuer and servicer reports provided by Europea de Titulizacion, SGFT, SA since close of the deals and until:

- 30 November 2017 for MBS Bancaja 2, FTA
- 31 December 2017 for MBS Bancaja 3, FTA and MBS Bancaja 8, FTA
- 31 October 2017 for MBS Bancaja 4, FTA

MODELS

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

EMEA Cash Flow Model. (<https://www.fitchratings.com/site/structuredfinance/emeacfm>)

The rating actions are as follows:

MBS Bancaja 2, FTA

- Class A (ES0361795000) 'AA+sf'; Rating Watch revised to Positive from Evolving
- Class B (ES0361795018) affirmed at 'AA+sf'; off RWE; Outlook Stable
- Class C (ES0361795026) upgraded to 'AAsf' from 'AA-sf'; off RWE; Outlook Stable
- Class D (ES0361795034) affirmed at 'A+sf'; off RWE; Outlook Stable
- Class E (ES0361795042) upgraded to 'BBB+sf' from 'BBBsf'; off RWE; Outlook Stable
- Class F (ES0361795059) affirmed at 'CCsf'; Recovery Estimate revised to 0% from 90%

MBS Bancaja 3, FTA

- Class A2 (ES0361796016) affirmed at 'AA-sf'; off RWE; Outlook Stable
- Class B (ES0361796024) affirmed at 'A+sf'; off RWE; Outlook Stable
- Class C (ES0361796032) upgraded to 'Asf' from 'BBB+sf'; off RWE; Outlook Stable
- Class D (ES0361796040) upgraded to 'BBB-sf' from 'BBsf'; off RWE; Outlook Stable
- Class E (ES0361796057) affirmed at 'CCsf'; Recovery Estimate revised to 40% from 90%

MBS Bancaja 4, FTA

- Class A2 (ES0361797014) upgraded to 'AA-sf' from 'A+sf'; off RWE; Outlook Stable
- Class A3 (ES0361797022) upgraded to 'AA-sf' from 'A+sf'; off RWE; Outlook Stable
- Class B (ES0361797030) upgraded to 'BBB+sf' from 'BBB-sf'; off RWE; Outlook Stable
- Class C (ES0361797048) upgraded to 'BBB-sf' from 'BBsf'; off RWE; Outlook Stable
- Class D (ES0361797055) upgraded to 'BBsf' from 'Bsf'; off RWE; Outlook Stable
- Class E (ES0361797063) affirmed at 'CCsf'; Recovery Estimate revised to 40% from 50%

MBS Bancaja 8, FTA

- Class A (ES0361747001) affirmed at 'A+sf'; off RWE; Outlook Stable

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Applicable Criteria

European RMBS Rating Criteria (pub. 27 Oct 2017) (<https://www.fitchratings.com/site/re/905365>)
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 Country Risk Rating Criteria (pub. 18 Sep 2017) (<https://www.fitchratings.com/site/re/903496>)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (pub. 17 Feb 2017) (<https://www.fitchratings.com/site/re/893890>)

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