



Fitch Upgrades MBS Bancaja 1's Class D Notes; Affirms MBS Bancaja 3 & 4

Fitch Ratings-London-01 February 2017: Fitch Ratings has upgraded MBS Bancaja 1's class D notes and has affirmed the remaining notes. Fitch has also affirmed MBS Bancaja 3 and 4, as follows:

MBS Bancaja 1, FTA

Class A (ES0361794003) affirmed at 'AA+sf', Outlook Stable
 Class B (ES0361794011) affirmed at 'AA+sf'; Outlook Stable
 Class C (ES0361794029) affirmed at 'AA-sf'; Outlook Stable
 Class D (ES0361794037) upgraded to 'Asf' from 'A-sf'; Outlook Stable

MBS Bancaja 3, FTA

Class A2 (ES0361796016) affirmed at 'AA-sf'; Outlook Stable
 Class B (ES0361796024) affirmed at 'A+sf'; Outlook Stable
 Class C (ES0361796032) affirmed at 'BBB+sf'; Outlook Stable
 Class D (ES0361796040) affirmed at 'BBsf'; Outlook Stable
 Class E (ES0361796057) affirmed at 'CCsf'; Recovery Estimate revised to 90% from 45%

MBS Bancaja 4, FTA

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

The three transactions are part of the MBS Bancaja series, which is a series of Spanish prime MBS comprising loans serviced by Bankia S.A. (BBB-/Stable/F3).

KEY RATING DRIVERS

Stable Credit Enhancement

The upgrade of MBS Bancaja 1's class D notes reflects the increased credit enhancement and stable performance of the underlying portfolio. Sequential amortisation has resulted in the notes' credit protection increasing to 14.5%, as of the November 2016 investor report from 11.7% as of November 2015. An upgrade of the class C notes and a further upgrade of the class D notes is constrained by the large reserve fund (floored at EUR6.9m), which in Fitch's analysis results in excessive counterparty exposure to its provider (Citibank, A/F1).

The transactions have unusual pro-rata amortisation features, allowing junior and mezzanine notes to amortise prior to senior notes subject to performance triggers related to delinquent levels and tranche thickness. As of the December 2016 payment date, all triggers on MBS Bancaja 3's class B notes were met, therefore the principal available funds were entirely applied to them. With the reserve fund being drawn again after the payment date, we expect a return to sequential amortisation. For MBS Bancaja 4, 25% of the funds go towards the class A2 notes and 75% towards the amortisation of the class A3 notes, creating some time subordination between pari-passu ranking notes. For MBS Bancaja 1, sequential allocation cannot be reversed, as the outstanding balance of the notes is below 10% of the initial balance.

Stable Credit Performance

The transactions' performance has remained stable over the past year with delinquencies over three months on MBS Bancaja 3 and 4 decreasing to 1.3% from 2.2% and to 1.2% from 2.1% of the outstanding balance, respectively. For MBS Bancaja 1 they remained stable at 1% and in line with the average observed for Spanish transactions.

Gross cumulative defaults (defined as loans in arrears for more than 18 months) remained stable for all transactions, ranging from 6.2% (MBS Bancaja 4) and 0.9% (MBS Bancaja 1). This compares with an overall Spanish average of 5.5%.

VARIATION FROM CRITERIA

Fitch has reduced the magnitude of the foreclosure frequency adjustment to broker-originated loans and foreign borrowers to 40% and 100%, respectively (from 200% in both cases). Broker-originated loans and loans granted to foreign borrowers are typically exposed to greater performance volatility than traditional loans, but the large seasoning of the loans in scope and their payment history over the past two years suggest some resilience in periods of economic crisis.

Fitch has increased the foreclosure frequency by 150% to loans secured by commercial properties, considering the weaker performance of these assets compared with residential backed mortgages.

In addition we have increased the foreclosure frequency for loans subject to maturity extensions by 250% as such loans could signal a weaker borrower profile. The transactions allow for maturity extensions to a maximum of 10% of the initial portfolio balance.

These calibrations are explained by the comparable performance observed on broker-originated loans versus loans originated via traditional channels, foreign borrowers versus Spanish borrowers and residential backed mortgages versus commercial backed mortgages, which has been possible via the loan-by-loan data provided by the European Data Warehouse.

Adjustment for Income Data

Fitch has assumed a DTI of class 5 for those loans without income information provided. This affected between 1.6% (MBS Bancaja 4) and 38.2% (MBS Bancaja 1) of the outstanding balance.

RATING SENSITIVITIES

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

The ratings are also sensitive to changes in Spain's Country Ceiling of 'AA+' and consequently changes to the highest achievable 'AA+sf' rating of Spanish structured finance notes.

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. The findings were reflected in this analysis by assuming a DTI of class 5 for loans without income information. 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 as listed below was used to run the surveillance model and the relevant data source was Europea de Titulizacion:

30 November 2016 for MBS Bancaja 1, FTA

31 December 2016 for MBS Bancaja 3, FTA

31 October 2016 for MBS Bancaja 4, FTA

Issuer and servicer reports provided by Europea de Titulizacion since close of the deals and until

30 November 2016 for MBS Bancaja 1, FTA

31 December 2016 for MBS Bancaja 3, FTA

31 October 2016 for MBS Bancaja 4, FTA

MODELS

ResiEMEA. (<https://www.fitchratings.com/jsp/creditdesk/ToolsAndModels.faces?context=2&detail=135>)

EMEA RMBS Surveillance Model. (https://www.fitchratings.com/web_content/pages/rmbs/emea-rmbs-surveillance-model.htm)

EMEA

Cash Flow Model. (https://www.fitchratings.com/web_content/pages/sf/emea-cash-flow-model.htm)

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Additional information is available at www.fitchratings.com.

Applicable Criteria

Counterparty Criteria for Structured Finance and Covered Bonds (pub. 01 Sep 2016) (<https://www.fitchratings.com/site/re/886006>)
Counterparty Criteria for Structured Finance and Covered Bonds: Derivative Addendum (pub. 18 Jul 2016) (<https://www.fitchratings.com/site/re/884964>)
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>)
Criteria for Interest Rate Stresses in Structured Finance Transactions and Covered Bonds (pub. 26 Oct 2016) (<https://www.fitchratings.com/site/re/888492>)
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 May 2016) (<https://www.fitchratings.com/site/re/880522>)
Global Structured Finance Rating Criteria (pub. 27 Jun 2016) (<https://www.fitchratings.com/site/re/883130>)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1018427&cft=0)
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