



Tagging Info

**Fitch Downgrades 4, Affirms 20 Tranches of Rural Hipotecario Series** Ratings

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Fitch Ratings-London/Madrid-20 July 2010: Fitch Ratings has today downgraded four tranches of Rural Hipotecario IX's notes and affirmed two classes. The agency has additionally affirmed 18 tranches from four other transactions in the Rural Hipotecario Series. Fitch has revised the Outlooks on Rural Hipotecario VIII's class D notes to Negative from Stable whilst Rural Hipotecario IX's class B notes have been assigned a Negative Outlook following their downgrade. A full rating breakdown is provided at the end of this comment.

The affirmation of the ratings on the older transactions, containing loans originated before 2005, (Rural Hipotecario VI, Rural Hipotecario VII and Rural Hipotecario Global I) are driven by the stronger performance of the assets and robust levels of credit enhancement compared to the deals issued after 2006 (Rural Hipotecario VIII and Rural Hipotecario IX).

Nearly 10% of Rural Hipotecario Global I's original loans were granted to borrowers identified as legal entities or small- and medium-sized businesses. Fitch has assessed this portion of the pool against higher market value declines and potentially higher losses that these loans may suffer. At present, the performance is not a source of concern for the agency and this is reflected in the Stable Outlooks.

The downgrades of Rural Hipotecario IX's class B to E notes and the Negative Outlooks on Rural Hipotecario VIII's class D notes and Rural Hipotecario IX's class C and D notes reflect the worsening performance of the underlying assets which have led to a higher volume of arrears in these transactions. This has resulted in an upward trend of newly-defaulted loans and a tightening of excess spread. In the case of Rural Hipotecario IX, these factors have caused the reserve fund to be drawn several times and reduced the credit support on the most junior notes.

As of the June 2010 collection period, loans classified as doubtful have ranged between 0.22% of the initial pool balance (Rural Hipotecario VI) and 1.14% (Rural Hipotecario IX). Doubtful mortgage loans are defined as loans that are delinquent on a given date with a period of arrears equal to or greater than eighteen months in payment of amounts due or which have been foreclosed. All transactions feature a 100% provisioning mechanism through which available excess revenue is used to write off doubtful loans, avoiding the cost of carry of non-performing loans by writing them off instead of waiting for the actual loss to full materialize.

Since the August 2009 interest payment date (IPD), Rural Hipotecario IX's pool has not generated sufficient revenue to cover for the full amount of defaulted loans. The difference has been covered by drawing on its reserve fund by a total of 37% of its target amount of EUR15m (1% of the initial note balance), causing a reduction in credit support on the class B to D notes. Fitch expects that the volume of new defaults over the next 12-18 months will lead to further reserve fund draws. This is reflected in the downgrade of the notes' ratings and the Negative Outlooks. The replenishment of the reserve fund will be highly dependant on the level of recoveries.

The upward trend of three months plus arrears and the increased volume of defaulted loans (2.11% of the current pool balance and 0.49% of the initial loans balance as of the June collection period respectively) support the agency's concerns of the worsening performance of the pool in Rural Hipotecario VIII. Moreover, the declining amount of net excess spread since the October 2009 IPD might lead to potential draws on the reserve fund in order to provision for defaulted loans. This could lead to a decline in credit support that may not be fully replaced from recoveries, and therefore the Outlook has been revised to Negative on the class D notes.

The Loss Severity Ratings have been revised due to the repayment of certain notes and the downward revision of the expected losses in these transactions. (For further information, see "Criteria for Structured Finance Loss Severity Ratings", dated 17 February 2009, and available on [www.fitchratings.com](http://www.fitchratings.com).)

The rating actions are as follows:

Rural Hipotecario VI, Fondo de Titulizacion de Activos;  
Class A (ISIN ES0374306001): affirmed at 'AAA'; Outlook Stable; Loss Severity (LS) Rating of 'LS-1'

Class B (ISIN ES0374306019): affirmed at 'AA'; Outlook Stable; 'LS-1'  
Class C (ISIN ES0374306027): affirmed at 'BBB+'; Outlook Stable; LS Rating revised to 'LS-1' from 'LS-2'

Rural Hipotecario VII, Fondo de Titulizacion de Activos;  
Class A1 (ISIN ES0366366005): affirmed at 'AAA'; Outlook Stable; 'LS-1'  
Class A2 (ISIN ES0366366013): affirmed at 'AAA'; Outlook Stable; 'LS-1'  
Class B (ISIN ES0366366021): affirmed 'AA'; Outlook Stable; 'LS-1'  
Class C (ISIN ES0366366039): affirmed at 'BBB-'; Outlook Stable; 'LS-1'

Rural Hipotecario VIII, Fondo de Titulizacion de Activos;  
Class A2a (ISIN ES0366367011): affirmed at 'AAA'; Outlook Stable; 'LS-1'  
Class A2b (ISIN ES0366367029): affirmed at 'AAA'; Outlook Stable; 'LS-1'  
Class B (ISIN ES0366367037): affirmed at 'A+'; Outlook Stable; 'LS-2'  
Class C (ISIN ES0366367045): affirmed at 'BBB'; Outlook Stable; LS Rating revised to 'LS-3' from 'LS-2'  
Class D (ISIN ES0366367052): affirmed at 'BB+'; Outlook revised to Negative from Stable; LS Rating revised to 'LS-3' from 'LS-2'  
Class E (ISIN ES0366367060): affirmed at 'CC'; Recovery Rating revised to 'RR5' from 'RR3'

Rural Hipotecario IX, Fondo de Titulizacion de Activos;  
Class A2 (ISIN ES0374274019): affirmed at 'AAA'; Outlook Stable; 'LS-1'  
Class A3 (ISIN ES0374274027): affirmed at 'AAA'; Outlook Stable; 'LS-1'  
Class B (ISIN ES0374274035): downgraded to 'A' from 'A+'; Outlook Negative; 'LS-3'  
Class C (ISIN ES0374274043): downgraded to 'BB' from 'BBB+'; Outlook Negative; 'LS-3'  
Class D (ISIN ES0374274050): downgraded to 'B' from 'BB+'; Outlook Negative; 'LS-4'  
Class E (ISIN ES0374274068): downgraded to 'CC' from 'CCC'; assigned a Recovery Rating of 'RR5'

Rural Hipotecario Global I, Fondo de Titulizacion de Activos;  
Class A (ISIN ES0374273003): affirmed at 'AAA'; Outlook Stable; 'LS-1'  
Class B (ISIN ES0374273011): affirmed at 'A'; Outlook Stable; LS Rating revised to 'LS-2' from 'LS-1'  
Class C (ISIN ES0374273029): affirmed at 'BBB+'; Outlook Stable; LS Rating revised to 'LS-4' from 'LS-3'  
Class D (ISIN ES0374273037): affirmed at 'BB'; Outlook Stable; 'LS-3'  
Class E (ISIN ES0374273045): affirmed at 'CC'; Recovery Rating revised to 'RR5' from 'RR3'

Applicable criteria, 'EMEA Residential Mortgage Loss Criteria Addendum - Spain', dated 23 February 2010, and 'Global Structured Finance Rating Criteria', dated 30 September 2009, are available at [www.fitchratings.com](http://www.fitchratings.com). Further commentary and performance data on the transaction are also available at [www.fitchratings.com](http://www.fitchratings.com).

Further information on Fitch's EMEA structured finance offering can be found in "EMEA Structured Finance Snapshot", which is available at [www.fitchratings.com](http://www.fitchratings.com). The Snapshot consolidates and highlights the key research and commentary produced by the agency's EMEA structured finance group and includes previously unpublished Fitch data and multimedia content that will be updated each quarter.

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Fitch's Recovery Ratings (RR), introduced in 2005, are a relative indicator of creditor recovery on a given obligation in the event of a default. An overview of Fitch's RR methodology can be found at [www.fitchratings.com/recovery](http://www.fitchratings.com/recovery).

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

**Related Research:**

EMEA Residential Mortgage Loss Criteria Addendum - Spain  
Global Structured Finance Rating Criteria  
EMEA Structured Finance Snapshot - April 2010 (Multimedia)

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