

## FITCH AFFIRMS RURAL HIPOTECARIO SERIES

Link to Fitch Ratings' Report: Fitch Affirms Rural Hipotecario Series

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=644829](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=644829)

Fitch Ratings-London-08 July 2011: Fitch Ratings has affirmed 26 tranches of the Rural Hipotecario (Rural) Spanish RMBS series. The agency has also placed the senior tranche of Rural IX on Rating Watch Negative (RWN) due to concerns over the transaction's exposure to commingling and payment interruption risk that could incur should the underlying servicers jump-to-default (see "Counterparty Criteria for Structured Finance Transactions" dated 14 March 2011 at [www.fitchratings.com](http://www.fitchratings.com)). A full list of rating actions can be found at [www.fitchratings.com](http://www.fitchratings.com) or by clicking the link above.

The Rural series comprises residential mortgage loans originated and serviced by various saving banks across Spain. All the originators belong to the Asociacion Espanola de Caja Rurales banking service through Banco Cooperativo ('A'/Stable/'F1'). Banco Cooperativo is an active counterparty in the series as it acts as a swap counterparty (Rural XI also has a swap with Caja Rural De Navarra, 'A-'/'Stable/'F2') and account bank in the Rural deals.

The Rural series is unique as the transactions are originated and serviced by multiple Spanish financial institutions, some of which are not Fitch-rated entities, while others are ineligible under the agency's criteria. As the Global I and Rural Hipotecario VI to IX transaction structures do not include commingling reserves and/or liquidity facilities, Fitch's analysis has taken into account the reserve funds' outstanding and projected balance to assess liquidity cushions in the event of servicer disruption.

The agency has compared the expected period defaults against the levels of excess spread generated by the transactions, and assessed the likelihood of the reserve funds being utilised towards provisioning for defaults. Based on the level of defaults seen to date, and the pipeline of potential defaults for the earlier transactions in the series (Global I, Rural Hipotecario VI, VII and VIII), Fitch believes that the possibility of the reserve funds being partly or fully utilised towards provisioning for defaults, remains remote. Should this change, the agency will review the transactions and may take rating actions as deemed necessary.

Rural Hipotecario IX's reserve fund is being utilised towards provisioning for defaults, and Fitch expects this to be the case on the upcoming payment dates. As the transaction does not include any other structural features that could mitigate the payment disruption exposure, the agency has placed the notes on RWN. The RWN will allow the trustee time to put appropriate mitigants against payment interruption risk in place. Failure to do so could result in a multi-category downgrade of the senior notes. Rural X-XII's structures include liquidity facilities that have been put in place to mitigate against any payment interruptions.

The earlier transactions (Global I, VI, VII and VIII) continue to outperform the rest of the series. Fitch believes the main reason for the strong performance of these deals is that the mortgages in these pools were primarily originated before 2005. These transactions continue to generate sufficient amounts of gross excess spread (between 0.5% and 0.6% (annualised) to help provision for defaults (defined as loans in arrears by more than 18 months). As of the last interest payment date (IPD) in May/June, Global I and Rural Hipotecarios VI to VIII's reserve funds were at 100% of their target amounts. In the most deleveraged deals (Rural VI and VII), the strong performance has led to the pro-rata amortisation of the notes whilst Rural Global I and VIII are expected to qualify on the upcoming IPDs. These amortisation schedules results in static credit enhancement levels and is the primary reason for the affirmations.

In contrast, the latter deals (Rural IX, X, XI and XII) with assets that were primarily originated

post-2005, continue to perform poorly. Rural IX, X and XI have experienced reserve fund draws, which were caused by provisioning for defaulted loans. Fitch has concerns over the pipeline of potential defaults on the upcoming payment dates in these deals, which are expected to lead to further reserve fund draws in the future. The weaker performance of these deals has meant that higher credit enhancement levels are required to achieve the higher ratings compared to the earlier vintages. Fitch deems the current credit enhancement levels in these transactions as appropriate for their current rating and as a result has affirmed all tranches.

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Sources of information- in addition to those mentioned in the applicable criteria, the sources of information used to assess these ratings were Investor Reports

Applicable criteria, 'EMEA Residential Mortgage Loss Criteria' dated 7 June 2011, and 'EMEA Residential Mortgage Loss Criteria Addendum - Spain' dated 23 February 2010; 'Counterparty Criteria for Structured Finance Transactions' and 'Counterparty Criteria for structured finance transactions: Derivative Addendum', dated 14 March 2011

Applicable Criteria and Related Research:

EMEA Residential Mortgage Loss Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=631130](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=631130)

EMEA Residential Mortgage Loss Criteria Addendum - Spain

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=500764](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=500764)

Counterparty Criteria for Structured Finance Transactions

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=605425](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=605425)

Counterparty Criteria for Structured Finance Transactions: Derivative Addendum

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=605427](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=605427)

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