Fitch Takes Rating Actions on EMEA SF Following Sovereign RWN

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Link to Fitch Ratings' Report: Fitch Takes Rating Actions on EMEA SF Following Sovereign RWN

Fitch Ratings-London-21 December 2011: Fitch Ratings has placed 40 tranches of 23 Irish, Italian and Spanish structured finance (SF) transactions on Rating Watch Negative (RWN) following the rating action taken on the sovereign IDR of (see “Fitch Places Belgium, Spain, Slovenia, Italy, Ireland and Cyprus on Rating Watch Negative” dated 16 December at www.fitchratings.com). In addition, the agency has revised the Outlook on two tranches credit-linked to government bonds issued by France to Negative (see “Fitch Affirms France at ‘AAA’; Outlook Revised to Negative”, dated 16 December at www.fitchratings.com). A full list of rating actions can be found on www.fitchratings.com or by clicking the link above.

The tranches of Irish RMBS transactions that have been placed on RWN are those that are rated at, or just below, the cap on ratings for Irish SF transactions of ‘AAsf’. If Ireland’s sovereign (‘BBB+’/RWN) is downgraded, it is likely that the cap applied to Irish SF ratings will also be lowered and therefore Fitch has placed all Irish RMBS rated ‘AAsf’ and ‘AA-sf’ on RWN.

The ratings of both tranches of FIP Funding S.r.l. rely on the strength of the Italian sovereign (‘A+’/RWN) as the guarantor for the sole tenant of the properties and so Fitch has placed these tranches on RWN. The single tranche of Astrea S.r.l. is also credit-linked to the Republic of Italy and so placed on RWN. Similarly, Italian state entities provide the majority of the rental income supporting the Patrimonio Uno CMBS Srl transaction. The ratings of the class A and B notes are not capped by the Republic of Italy’s rating because, in Fitch’s view, there is adequate collateral that is not fully correlated with the sovereign’s credit strength. Conversely, the classes C, D, E and F are constrained by the sovereign’s credit quality because their redemption relies on the continued performance of the state entities under their leases and therefore Fitch has placed these tranches on RWN.

The RWN on the Spanish transactions are the result of the RWN on the Kingdom of Spain’s ratings (‘AA’/RWN). Although explicit government guarantees do not exist in all of these cases, the transactions’ ratings are more closely related to the sovereign rating than would be the case in a typical securitisation. Similarly, the RWN on the class A of Santander Publico 1 F.T.A is the result of the public sector borrowers in the portfolio being highly correlated with the credit quality of the Spanish sovereign. The five tranches of five other SME CLOs that benefit from a guarantee from the Spanish sovereign have also been placed on RWN.

Fitch expects to complete the review of the sovereign ratings by the end of January 2012 and therefore resolve these RWNs shortly thereafter. If the sovereign review concludes that a downgrade is warranted, it is likely be limited to one or two notches.

Two tranches (class M - Combination Notes of Harvest CLO IV PLC and class A notes of Exfin Capital BV) are credit-linked to the French sovereign rating (‘AAA’/Negative) and therefore have had their Outlook revised to Negative.

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Applicable Criteria and Related Research:
EMEA Residential Mortgage Loss Criteria  
EMEA Criteria Addendum - Ireland - Mortgage Loss and Cash Flow Assumptions  
EMEA CMBS Rating Criteria  
Counterparty Criteria for Structured Finance Transactions: Derivative Addendum  
Global Structured Finance Rating Criteria  
Criteria for Rating European Granular Corporate Balance-Sheet Securitisations (SME CLOs)  
Global Rating Criteria for Single- and Multi-Name Credit-Linked Notes

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