FitchRatings

Fitch Affirms BZ Hipotecario 1 Spanish RMBS
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Fitch Ratings-London/Madrid-24 January 2011: Fitch Ratings has affirmed both tranches of BZ Hipotecario 1, Fondo de Titulizacion Hipotecaria. The transaction is a Spanish RMBS deal containing loans originated by Banco Zaragozano, which is now a subsidiary of Barclays Bank S.A. The rating actions are as follows:

BZ Hipotecario 1, Fondo de Titulizacion Hipotecaria:
Class A (ISIN ES0315271009): affirmed at 'AAAsf'; Outlook Stable; Loss Severity (LS) rating of `LS-1`
Class B (ISIN ES0315271017): affirmed at 'AA+sf'; Outlook Stable; LS Rating revised to 'LS-1' from 'LS-2'

The most recent investor reports released in December 2010 showed an increase in credit enhancement (CE) levels for the class A notes to 62.7% from 5.3% at issuance. The increase in credit support is a result of the sequential repayment of the notes. CE for the class B notes, currently at 5.3% (2% at issuance), is provided by the reserve fund, which has now amortised to its floor amount of EUR1.1m.

Loans in arrears by more than three months have remained low over the transaction's life and as of the December 2010 collection period, were calculated as 0.6% of the current outstanding pool balance. Defaults, defined as loans in arrears by more then 12 months, amount to 0.07% of the initial collateral balance. Since the transaction's close, the pool has deleveraged to 5.6% of its original amount. The high seasoning of the underlying assets has resulted in a weighted-average current loan-to-value ratio of 25% for the whole pool. In Fitch's view, any losses resulting from the sale of repossessed properties, is likely to lead to limited, if any, losses to the transaction, which is reflected in the affirmation of the ratings.

All the loans in the pool are variable rate, most of which are linked to 12-month MIBOR and reset once every year. The underlying borrowers in the pool are currently benefiting from the low interest rates. However, the transaction remains exposed to basis risk, as the interest paid on the notes is linked to three-month EURIBOR. Given the mismatch in the reset dates of the loans and notes, an increase in interest rates would put pressure on excess spread levels generated by the transaction.

As the pool continues to deleverage, the level of excess spread generated is expected to decline from current levels (at Q410 it stood at 13bps of the pool). In Fitch's view, limited reserve fund draws are likely to occur in the future, but these draws are not expected to impact the level of credit support available to the class B notes.

Contact:

Lead Surveillance Analyst
Weiyen Hung
Analyst
+44 20 3530 1445
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Secondary Analyst
Mirella Tinti
Analyst
+44 20 3530 1241

Committee Chairperson
Andy Brewer
Senior Director
+44 20 3530 1005

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com; Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable criteria, 'EMEA Residential Mortgage Loss Criteria', and 'EMEA Residential Mortgage Loss Criteria Addendum - Spain', both dated 23 February 2010, are available at www.fitchratings.com

Applicable Criteria and Related Research:
EMEA Residential Mortgage Loss Criteria
EMEA Residential Mortgage Loss Criteria Addendum - Spain
EMEA Structured Finance Snapshot - January 2011