



# **DRAFT: Hipocat 8 Class C And D Spanish RMBS Ratings Raised Following Review; Class A2 And B Ratings Affirmed**

August 1, 2022

## Overview

- Hipocat 8 is a Spanish RMBS transaction that closed in May 2005 and securitizes first-ranking mortgage loans. Catalunya Banc, now part of BBVA (formerly named Catalunya Caixa), originated the pool, which comprises loans secured over owner-occupied properties, mainly located in Catalonia.
- We raised our ratings on the class C and D notes. At the same time, we affirmed our ratings on the class A2 and B notes.

MADRID (S&P Global Ratings) August xx, 2022--S&P Global Ratings today raised to 'AAA (sf)' from 'AA (sf)' and to 'AA (sf)' from 'A- (sf)' its credit ratings on Hipocat 8, Fondo de Titulizacion de Activos' class C and D notes, respectively. At the same time, we affirmed our 'AAA (sf)' ratings on the class A2 and B notes.

Today's rating actions reflect our full analysis of the most recent information that we have received and the transaction's current structural features.

After applying our global RMBS criteria, our weighted-average foreclosure frequency (WAFF) assumptions decreased because of the transaction's reduction in arrears. In addition, our weighted-average loss severity (WALS) assumptions increased due to an increase in our repossession market value decline assumptions .

Table 1

## Credit Analysis Results

Rating	WAFF (%)	WALS (%)	Credit coverage (%)
AAA	14.65	22.33	3.27
AA	10.39	18.18	1.89
A	8.21	11.77	0.97
BBB	6.46	8.59	0.55
BB	4.58	6.48	0.30

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Table 1

### Credit Analysis Results (cont.)

Rating	WAFF (%)	WALS (%)	Credit coverage (%)
B	3.26	4.64	0.15

WAFF--Weighted-average foreclosure frequency. WALS--Weighted-average loss severity.

Loan-level arrears are low at 2.20%. Overall delinquencies remain well below our Spanish RMBS index (see "Related Research"). Cumulative defaults, defined as loans in arrears 18 months or more, and loans undergoing foreclosure proceedings remain stable at 6.44% of the outstanding pool balance.

Our operational and legal risk analyses remain unchanged since our previous review. Therefore, the ratings assigned are not capped by any of these criteria.

The servicer, Banco Bilbao Vizcaya Argentaria S.A. (BBVA), has a standardized, integrated, and centralized servicing platform. It is a servicer for many Spanish RMBS transactions.

Credit enhancement available in Hipocat 8 has increased since our previous review despite the notes' pro rata amortization of the notes, because the reserve fund is at its floor level. The notes have been amortizing on a pro rata basis since the December 2020 interest payment date, when all the pro rata conditions were met following the replenishment of the reserve fund to its target level.

We also applied our counterparty criteria as part of our analysis of this transaction (see "Related Criteria). BBVA provides the interest rate swap contract, which is in line with our previous counterparty criteria. Under our revised criteria, considering the collateral arrangement's enforceability, the maximum supported rating is 'A+', unless we delink our ratings on the notes from those on the counterparty. Our ratings on the class A2, B, C, and D notes are delinked from the swap counterparty.

Our credit and cash flow results indicate that the credit enhancement available for the class A2 and class B notes is still commensurate with our 'AAA' rating. We therefore affirmed our 'AAA' (sf) ratings on the class A2 and B notes.

We raised to 'AAA (sf)' from 'AA (sf)' and to 'AA (sf)' from 'A- (sf)' our ratings on the class C and D notes, respectively. These notes could withstand stresses at higher ratings than those assigned. However, we limited our upgrades based on their overall credit enhancement, their position in the waterfall, and the deterioration in the macroeconomic environment. In addition, the most junior tranches are expected to have a longer duration than the senior tranches, meaning that they are more vulnerable to tail-end risk.

We lowered our growth forecasts for the eurozone economy. Higher inflationary pressures are the main driver of our downward revision. We now expect consumer price inflation to reach 7.0% this year and 3.4% in 2023 (from 6.4% and 3.0% forecasted previously) on the back of higher energy and food prices resulting from the current geopolitical context. Lower international demand is also expected to dampen growth. Although elevated inflation is overall credit negative for all borrowers, inevitably some borrowers will be more negatively affected than others. To the extent inflationary pressures materialize more quickly or more severely than currently expected, risks may emerge. We consider the borrowers in the transaction to be prime borrowers and as such they will generally have high resilience to inflationary pressures. The borrowers in this transaction pay fixed interest rates. As a result, we do not expect them to face near-term pressure from a rate rise perspective.

## **Related Criteria**

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

## **Related Research**

- European Housing Markets: Soft Landing Ahead, July 13, 2022
- European RMBS Index Report Q1 2022, May 16, 2022
- European RMBS Outlook 2022, Jan. 27, 2022
- Economic Outlook Europe Q4 2021: A Faster-Than-Expected Liftoff, Sept. 23, 2021
- Certain Italian, Portuguese, And Spanish RMBS Ratings Placed Under Criteria Observation Due To Criteria Update, Jan. 8, 2021
- Global Criteria For Assessing Pools Of Residential Loans Updated To Include Seven European Jurisdictions, Jan. 8, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Hipocat 7 Spanish RMBS Transaction Ratings Raised On Three Classes; One Affirmed, June. 26, 2019
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

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