





20 APR 2023

Fitch Upgrades 3 Tranches of 4 Spanish Hipocat, FTA RMBS





Fitch Ratings - Madrid - 20 Apr 2023: Fitch Ratings has upgraded one tranche of Hipocat 8, FTA, Hipocat 9, FTA and Hipocat 11, FTA and affirmed the others. Fitch has also affirmed Hipocat 10, FTA. A full list of rating actions is below.

Rating Actions








ENTITY/DEBT	RATING		RECOVERY	PRIOR
Hipocat 11, FTA				
• Class A2 ES0345672010	LT	A+sf 	Upgrade	Asf 
• Class B ES0345672036	LT	CCsf	Affirmed	CCsf
• Class C ES0345672044	LT	CCsf	Affirmed	CCsf
• Class D ES0345672051	LT	Csf	Affirmed	Csf
Hipocat 9, FTA				
• Class A2a ES0345721015	LT	A+sf 	Affirmed	A+sf 

ENTITY/DEBT	RATING		RECOVERY	PRIOR
<ul style="list-style-type: none"> Class A2b ES0345721023 	LT	A+sf	Affirmed	A+sf
<ul style="list-style-type: none"> Class B ES0345721031 	LT	A+sf	Affirmed	A+sf
<ul style="list-style-type: none"> Class C ES0345721049 	LT	A+sf	Affirmed	A+sf
<ul style="list-style-type: none"> Class D ES0345721056 	LT	BBB+sf	Upgrade	BB+sf
<ul style="list-style-type: none"> Class E ES0345721064 	LT	Csf	Affirmed	Csf
Hipocat 8, FTA				
<ul style="list-style-type: none"> Class A2 ES0345784013 	LT	A+sf	Affirmed	A+sf
<ul style="list-style-type: none"> Class B ES0345784021 	LT	A+sf	Affirmed	A+sf
<ul style="list-style-type: none"> Class C ES0345784039 	LT	A+sf	Affirmed	A+sf
<ul style="list-style-type: none"> Class D ES0345784047 	LT	Asf	Upgrade	A-sf

Hipocat 10,

ENTITY/DEBT	RATING		RECOVERY	PRIOR
FTA				
• Class A2 ES0345671012	LT	A+sf 	Affirmed	A+sf 
• Class B ES0345671046	LT	BB+sf 	Affirmed	BB+sf 
• Class C ES0345671053	LT	CCsf	Affirmed	CCsf
• Class D ES0345671061	LT	Csf	Affirmed	Csf

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Transaction Summary

The transactions comprise mortgages serviced by Banco Bilbao Vizcaya Argentaria, S.A. (BBB+/Stable/F2).

KEY RATING DRIVERS

Iberian Recovery-Rate Assumptions Updated: In the update of its European RMBS Rating Criteria amended on 29 March 2023, Fitch updated its recovery-rate assumptions for Spain to reflect smaller house price declines and foreclosure sales adjustment, which has had a positive impact on recovery rates and consequently Fitch's expected loss in Spanish RMBS transactions. The upgrades of Hipocat 8 and 9's class D notes and Hipocat 11's class A2 notes reflect the updated criteria.

Payment Interruption Risk: Fitch views the four transactions as being exposed to payment interruption risk in the event of a servicer disruption. In scenarios of economic stress, we expect the available reserve funds (which remain fully depleted for Hipocat 10 and Hipocat 11 and do not have a sufficiently robust performance track record for Hipocat 8 and 9) to be insufficient to cover senior fees, net swap payments and senior notes' interest during the period needed to implement alternative servicing arrangements.

The notes' maximum achievable ratings are commensurate with the 'Asf' category, in line with Fitch's Structured Finance and Covered Bonds Counterparty Rating Criteria.

Structural Features, Counterparty Risk Constraints: The maximum achievable rating for Hipocat 10 and 11's class B to D notes remains 'BB+sf', reflecting the non-reversible interest deferability on the notes, driven by the large volume of gross cumulative defaults that exceeded the contractually defined thresholds. Interest payments on these notes will only resume after full amortisation of the senior notes. This is consistent with the principles of Fitch's Global Structured Finance Rating Criteria.

Hipocat 8's class D notes are capped at the transaction account bank (TAB) provider's deposit rating (Societe Generale, S.A.; A-/Stable/F1; deposit rating A/F1) as the cash reserve fund represents the notes' only source of credit enhancement (CE). The rating cap reflects the excessive counterparty dependence on the TAB holding the cash reserves, in accordance with Fitch's Structure Finance and Covered Bonds Counterparty Rating Criteria.

Mild Weakening in Asset Performance: The rating actions reflect Fitch's expectation of a mild deterioration of asset performance, consistent with weaker macroeconomic conditions linked to inflationary pressures that negatively affect real household wages and disposable income, especially for more vulnerable borrowers like self-employed individuals. The four transactions have low shares of loans in arrears over 90 days (less than 0.7% as of the latest reporting dates) and are protected by substantial portfolio seasoning of more than 17 years.

Nevertheless, rising interest rates may contribute to the downside performance risk as the majority of the loans within the four deals are floating-rate mortgages, which are exposed to payment shocks.

CE Trends: The rating actions reflect current and projected CE ratios on the notes, which we view as strong and able to mitigate the cash flow stresses commensurate with the corresponding ratings. Fitch expects CE for Hipocat 8, 10 and 11 to continue increasing, due to prevailing sequential amortisation of the notes. CE ratios for Hipocat 9 will start to increase shortly as the transaction is expected to switch back to fully sequential amortisation once the pool factor falls below 10% (currently 11%).

The negative CE ratios on Hipocat 10 and 11's class C notes, and the uncollateralised nature of Hipocat 10 and 11 class D notes, are reflected in the low sub-investment-grade ratings on the notes.

All the transactions have an Environmental, Social and Governance (ESG) Relevance Score of 5 for Transaction & Collateral Structure due to unmitigated payment interruption risk, which has a negative impact on the credit profile, and is highly relevant to the ratings, resulting in a change to the rating of at least a one-notch downgrade.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

For Hipocat 8's class D notes, a downgrade of the TAB provider's deposit rating as the notes' rating is capped at the bank's ratings due to excessive counterparty risk exposure.

Long-term asset performance deterioration such as increased delinquencies or larger defaults, which could be driven by changes to macroeconomic conditions, interest rate increases or borrower behaviour.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

For the senior notes of all deals that remain capped at 'A+sf' due to unmitigated payment interruption risk, improved liquidity protection against a servicer disruption event could support upgrades.

For all junior notes, stable to improved asset performance driven by lower than expected delinquencies and defaults would lead to increasing CE levels and potential upgrades.

Best/Worst Case Rating Scenario

International scale credit ratings of Structured Finance transactions have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of seven notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of seven notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAAsf' to 'Dsf'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

USE OF THIRD PARTY DUE DILIGENCE PURSUANT TO SEC RULE 17G -10

Form ABS Due Diligence-15E was not provided to, or reviewed by, Fitch in relation to this rating action.

DATA ADEQUACY

Hipocat 10, FTA, Hipocat 11, FTA, Hipocat 8, FTA, Hipocat 9, FTA

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool[s] and the transaction[s]. Fitch has not reviewed the results of any third party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Fitch did not undertake a review of the information provided about the underlying asset pool[s] ahead of the transaction's [Hipocat 10, FTA, Hipocat 11, FTA, Hipocat 8, FTA, Hipocat 9, FTA] initial closing. The subsequent performance of the transaction[s] over the years is consistent with the agency's expectations given the operating environment and Fitch is therefore satisfied that the asset pool information relied upon for its initial rating analysis was adequately reliable.

Overall, and together with any assumptions referred to above, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Hipocat 8's class D notes are capped at the TAB's deposit rating because the notes are exposed to excessive counterparty risk.

ESG Considerations

All the transactions have an ESG Relevance Score of 5 for Transaction & Collateral Structure due to unmitigated payment interruption risk, which has a negative impact on the credit profile, and is highly relevant to the ratings, resulting in a change to the rating of at least one notch downgrade.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to

their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Applicable Criteria

[European RMBS Rating Criteria - Amended \(pub.17 Feb 2023\) \(including rating assumption sensitivity\)](#)

[Global Structured Finance Rating Criteria \(pub.01 Mar 2023\) \(including rating assumption sensitivity\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub.14 Mar 2023\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub.01 Aug 2022\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub.10 Feb 2023\)](#)

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub.28 Dec 2022\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Multi-Asset Cash Flow Model, v2.13.1 (1)

ResiGlobal Model: Europe, v1.8.6 (1)

Additional Disclosures

Solicitation Status

Endorsement Status

Hipocat 10, FTA EU Issued, UK Endorsed

Hipocat 11, FTA EU Issued, UK Endorsed

Hipocat 8, FTA EU Issued, UK Endorsed

Hipocat 9, FTA EU Issued, UK Endorsed

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