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Various Rating Actions Taken In Spanish RMBS Transaction Bancaja 10 Following Review

Primary Credit Analyst:
Soledad Martinez-Tercero, Madrid (34) 91-389-6954; soledad.martinez-tercero@spglobal.com

Secondary Contact:
Isabel Plaza, Madrid (34) 91-788-7203; isabel.plaza@spglobal.com

OVERVIEW

- We have reviewed Bancaja 10 by conducting our credit and cash flow analysis under our European residential loans criteria and our current counterparty criteria.
- Following our review, we have taken various rating actions in this transaction.
- Bancaja 10 is a Spanish RMBS transaction that closed January 2007 and securitizes residential mortgage loans. Caja de Ahorros de Valencia Castellón y Alicante (Bancaja; now Bankia) originated the pools, which are mainly located in the Valencia region.

MADRID (S&P Global Ratings) Jan. 17, 2018--S&P Global Ratings today took various credit rating actions in Bancaja 10, Fondo de Titulizacion de Activos.

Specifically, we have:
- Raised to 'AA+ (sf)' from 'AA- (sf)' our rating on the class A2 notes;
- Affirmed our 'AA- (sf)' rating on the class A3 notes, and our 'D (sf)' ratings on the class C, D, and E notes; and
- Lowered to 'CC (sf)' from 'CCC (sf)' our rating on the class B notes (see list below).

Today's rating actions follow our credit and cash flow analysis of the most recent transaction information that we have received and the November 2017 investor report. Our analysis reflects the application of our European residential loans criteria and our current counterparty criteria (see "Methodology And Assumptions: Assessing Pools Of European Residential Loans," published on Aug. 4, 2017, and "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013).

Although the reserve fund continues to be fully depleted, available credit enhancement for the class A2 to D notes has increased since our previous review, due to the amortization of the class A2 notes and the decrease of defaulted loans (see "Various Rating Actions Taken In Spanish RMBS Transactions Bancaja 5-7, And 10 After Sovereign And Counterparty Actions," published on Dec. 1, 2015).

Class	Available credit enhancement, excluding defaulted credits (%)
A2	13.73
A3	13.73
B	7.23
C	2.02
D	(0.58)

Severe delinquencies of more than 90 days, excluding defaults, have decreased to 1.41% from 2.59% at our previous review. Outstanding net defaults, considered as loans in arrears for more than 18 months, have also decreased to 6.18% from 6.60% over the same period.

After applying our European residential loans criteria to this transaction, our credit analysis results show a decrease in the weighted-average foreclosure frequency (WAFF) and a decrease in the weighted-average loss severity (WALS) for all rating levels.

The current WAFF level reflects the benefit from the increased seasoning and improving performance. The decreased WALS factors the decrease in the current loan-to-value ratio, due to the pool's amortization, coupled with the application of our revised market value decline assumptions. The overall effect is a decrease in the required credit coverage for all rating levels.

Rating level	WAFF (%)	WALS (%)	CC (%)
AAA	17.49	29.55	5.17
AA	13.22	25.50	3.37
A	10.92	18.29	2.00
BBB	7.99	14.60	1.17
BB	5.31	12.14	0.65
B	4.52	9.99	0.45

CC--Credit coverage.

The collection account is held with Bankia S.A. (BBB-/Positive/A-3) in the name of the servicer, which is also Bankia. We have therefore stressed commingling loss in our cash flow analysis in line with our current counterparty criteria.

We do not rate the transaction account provider, Citibank Europe PLC (Madrid Branch). Therefore, in accordance with our bank branch criteria, in our analysis we have used the rating on the parent company, Citibank Europe PLC (A+/Stable/A-1) and the sovereign rating on the Kingdom of Spain to infer the rating on the transaction account provider (see "Methodology Applied To Bank Branch-Supported Transactions," published on Oct. 14, 2013).

JPMorgan Chase Bank (A+/Stable/A-1) is the swap counterparty. We do not consider the replacement language in the swap agreement to be in line with our current counterparty criteria. However, given that it features a replacement framework, in scenarios where we give benefit to the swap, our ratings in this transaction are capped at our long-term issuer credit rating on the swap counterparty plus one notch, in line with our current counterparty criteria.

Our credit and cash flow analysis indicates that the class A2 and A3 notes now have sufficient credit enhancement to pass our stresses at higher ratings than those currently assigned, even without giving credit to the swap. However, because of the pro rata trigger between the class A2 and A3 notes, which is based on the ratio between the outstanding balance of performing assets up to 90 days in arrears and the outstanding balance of the class A notes being lower than or equal to 1, we expect the class A3 payments to remain subordinated to the class A2 notes for the rest of the transaction's life. We have therefore raised to 'AA+ (sf)' from 'AA- (sf)' our rating on the class A2 notes. At the same time, we have affirmed our 'AA- (sf)' rating on the class A3 notes based on its effective subordination to the class A2 notes, which results in it not being able to achieve an additional two notch uplift from the rating on the sovereign. We have also delinked our ratings on both classes of notes from the swap counterparty.

The transaction features an interest deferral trigger for the class B to D notes. If triggered, the interest payments are subordinated below principal in the priority of payments. These triggers are based on cumulative gross defaults in the transaction, at 10.90%, 7.40%, and 5.70%, for the class B, C, and D notes, respectively. The current level of cumulative defaults is at 10.78% over the original balance securitized as of November 2017.

Given the cumulative gross defaults' average quarterly increase of 10 basis points experienced lately, we expect the class B interest deferral trigger to be breached in the short term. Therefore, under our criteria, we rate an issue 'CC' when we expect default to be a virtual certainty, regardless of the time to default (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published on Oct. 1, 2012). Given the insufficiency of available resources and the proximity of the interest deferral trigger being breached, we expect that the class B notes will default even under the most optimistic collateral performance scenario because the default will be due to interest rate movement. Therefore, we have lowered to 'CC (sf)' from 'CCC (sf)' our rating on the class B notes.

The class C and D interest deferral triggers were breached in 2014 and 2013, respectively. Therefore, the interest on these classes of notes has since been subordinated to senior principal payment, and these notes have not paid interest during this time. Additionally, the class E notes, issued at closing to fund the reserve fund, began defaulting on the interest payment date in July 2009. We have therefore affirmed our 'D (sf)' ratings on the class C, D, and E notes, in line with our criteria (see "Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings," published on Oct. 24, 2013).

In our opinion, the outlook for the Spanish residential mortgage and real estate market is not benign, and we have therefore increased our expected 'B' foreclosure frequency assumption to 3.33% from 2.00%, when we apply our European residential loans criteria, to reflect this view (see "Outlook Assumptions For the Spanish Residential Mortgage Market," published on Dec. 27, 2017). We base these assumptions on our expectation of modest economic growth, continuing high unemployment, and house price stabilization during 2017 and 2018.

Bancaja 10 is a Spanish residential mortgage-backed securities (RMBS) transaction that closed in January 2007 and securitizes residential mortgage loans. Caja de Ahorros de Valencia Castellón y Alicante (Bancaja; now Bankia) originated the pool, which is mainly located in the Valencia region.

RELATED CRITERIA

- Criteria - Structured Finance - General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria - Structured Finance - General: Ratings Above The Sovereign - Structured Finance: Methodology And Assumptions, Aug. 8, 2016
- Criteria - Structured Finance - General: Methodology: Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Criteria - Structured Finance - General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria - Structured Finance - General: Counterparty Risk Framework Methodology And Assumptions, June 25, 2013

- Criteria - Structured Finance - General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria - Structured Finance - General: Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- Criteria - Structured Finance - General: Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

RELATED RESEARCH

- Outlook Assumptions For the Spanish Residential Mortgage Market, Dec. 27, 2017
- Spanish RMBS Index Report Q3 2017, Nov. 22, 2017
- Kingdom Of Spain 'BBB+/A-2' Ratings Affirmed; Outlook Positive, Sept. 29, 2017
- Low Lending Rates Continue To Fuel Europe's Housing Market Recovery, Aug. 1, 2017
- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
- Credit Conditions: Europe Displays Financial Calm, But What About The Brexit And QE Clouds Ahead?, June 30, 2017
- European Economic Snapshots For 2Q 2017 Published, May 15, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Various Rating Actions Taken In Spanish RMBS Transactions Bancaja 5-7, And 10 After Sovereign And Counterparty Actions, Dec. 1, 2015

RATINGS LIST

Class	Rating	
	To	From
Bancaja 10, Fondo de Titulizacion de Activos		
€2.631 Billion Mortgage-Backed Floating-Rate Notes		
Rating Raised		
A2	AA+ (sf)	AA- (sf)
Rating Lowered		
B	CC (sf)	CCC (sf)
Ratings Affirmed		

A3	AA- (sf)
C	D (sf)
D	D (sf)
E	D (sf)