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## Various Rating Actions Taken In Spanish RMBS Transactions Bancaja 5-7, And 10 After Sovereign And Counterparty Actions

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### OVERVIEW

- In August and October, we placed on CreditWatch our ratings on various classes of notes in Bancaja 5, 6, 7, and 10, following rating actions on the sovereign and counterparties in these transactions.
- The counterparties have since taken remedy actions in line with our current counterparty criteria.
- We have reviewed Bancaja 5, 6, 7, and 10 by conducting our analysis under our Spanish RMBS criteria, our current counterparty criteria, and our criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating.
- Following our review, we have taken various rating actions in the transactions, including resolving the CreditWatch placements.
- Bancaja 5, 6, 7, and 10 are Spanish RMBS transactions, which closed between April 2003 and January 2007 and securitize 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 (Standard & Poor's) Dec. 1, 2015--Standard & Poor's Ratings Services today took various credit rating actions in:

- Bancaja 5 Fondo de Titulización de Activos;
- Bancaja 6 Fondo de Titulización de Activos;
- Bancaja 7 Fondo de Titulización de Activos; and
- Bancaja 10, Fondo de Titulización de Activos.

Specifically, we have:

- Raised and removed from CreditWatch negative our ratings on the class A notes in Bancaja 5, the class A2 and B notes in Bancaja 6, the class A2 notes in Bancaja 7, and the class A2 and A3 notes in Bancaja 10;
- Raised and removed from CreditWatch positive our ratings on the class B notes in Bancaja 5 and the class C notes in Bancaja 6;
- Affirmed and removed from CreditWatch negative our rating on the class B notes in Bancaja 7;
- Affirmed our rating on the class C notes in Bancaja 5; and
- Lowered our rating on the class B notes in Bancaja 10 (see list below).

On June 9, 2015, we lowered our ratings on Barclays Bank PLC (Madrid Branch), the transaction account provider and paying agent in Bancaja 5, 6, 7, and 10 (see "Barclays Bank Ratings Lowered To 'A-/A-2' On Government Support Review And ALAC Criteria Implementation; Outlook Stable").

On Aug. 18, 2015, we placed on CreditWatch negative our ratings on Bancaja 5's class A notes, Bancaja 6's class A2 and B notes, Bancaja 7's class A2 and B notes, and Bancaja 10's class A2 and A3 notes, because the counterparty plays a material role in supporting our ratings in the transactions (see "Ratings On 77 European RMBS And ABS Tranches Placed On CreditWatch Negative After Expiry Of Counterparty Remedy Period"). Our current counterparty criteria classify Barclays Bank, as transaction account provider, as providing "bank account (limited)" support to the transaction (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). Under the documentation, Barclays Bank had to take remedy action in line with our current counterparty criteria on the loss of a 'A-1' short-term issuer credit rating (ICR).

Citibank International Ltd. (Madrid Branch) has replaced Barclays Bank role as the transaction account provider. At the same time, BNP Paribas Securities Services (Madrid Branch) (A+/Negative/A-1) has replaced Barclays Bank as the paying agent.

Citibank International (Madrid) does not have a Standard & Poor's rating. Therefore, in accordance with our bank branch criteria, we rely on the rating on the parent company, Citibank International Ltd. (A/Watch Pos/A-1) and the sovereign rating on the Kingdom of Spain (see "Assessing Bank Branch Creditworthiness" and "Methodology Applied To Bank Branch-Supported Transactions," both published on Oct. 14, 2013).

On Oct. 2, 2015, we raised our foreign currency long-term sovereign rating on the Kingdom of Spain to 'BBB+' from 'BBB' (see "Kingdom of Spain Upgraded To 'BBB+' On Reforms; Outlook Stable"). In accordance with our criteria for rating single-jurisdiction securitizations above the sovereign foreign currency (RAS criteria), we consequently placed on CreditWatch positive our ratings on some tranches in Bancaja 5 and 6, (see "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on May 29, 2015, and "Ratings On 88 Spanish RMBS And ABS Tranches Placed On CreditWatch Positive Following Sovereign And Bank Rating Actions," published on Oct. 30, 2015).

Today's rating actions follow our analysis of the most recent transaction information that we have received from the August to October 2015 payment dates. Our analysis reflects the application of our Spanish residential mortgage-backed securities (RMBS) criteria, our current counterparty criteria, and our RAS criteria (see "Italy And Spain RMBS Methodology And Assumptions," published on Sept. 18, 2014).

Under our RAS criteria, we applied a hypothetical sovereign default stress test to determine whether a tranche has sufficient credit and structural support to withstand a sovereign default and so repay timely interest and principal by legal final maturity.

Our RAS criteria designate the country risk sensitivity for RMBS as "moderate". Under our RAS criteria, these transactions' notes can therefore be rated four notches above the sovereign rating, if they have sufficient credit enhancement to pass a minimum of a "severe" stress. However, as all six of the conditions in paragraph 44 of the RAS criteria are met in Bancaja 6 and 7, we can assign ratings to the senior-most classes of notes in these two transactions up to a maximum of six notches (two additional notches of uplift) above the sovereign rating, subject to credit enhancement being sufficient to pass an "extreme" stress (see "Understanding Standard & Poor's Rating Definitions," published on June 3, 2009 for our definitions of severe and extreme levels of economic stress).

As our long-term rating on the Kingdom of Spain is 'BBB+', our RAS criteria cap at 'AA+ (sf)' the maximum potential rating for the class A2 notes in Bancaja 6 and 7. The maximum potential rating for all other classes of notes is 'AA- (sf)'.

Credit enhancement, considering the current collateral balance plus the available reserve fund, has increased for all classes of notes, since our January 2015 review.

Class	Available credit enhancement, excluding defaulted loans (%)			
	--Transaction--			
	5	6	7	10
A	13.02			
A2		22.36	12.28	10.79
A3				10.79
B	7.20	10.86	8.08	5.37
C	3.63	6.36	4.33	1.04
D			1.80	(1.12)
E				0.00

Although the available excess spread covers defaulted loans and maintains the reserve funds at the required levels for the most-seasoned transactions, it is not sufficient to do so in Bancaja 10. The table below shows the percentages of the required amount the reserve funds currently represent.

*Various Rating Actions Taken In Spanish RMBS Transactions Bancaja 5-7, And 10 After Sovereign And Counterparty Actions*

Transaction	Percentage of required amount (%)
5	100.00
6	100.00
7	100.00
10	0.00

Severe delinquencies of more than 90 days for Bancaja 5, 6, and 7 have always been relatively stable and below our Spanish RMBS index, with Bancaja 7 performing relatively weaker than the other two (see "Spanish RMBS Index Report Q2 2015: Index Composition Boosts Collateral Performance Slightly," published on Sept. 11, 2015). The most-seasoned transactions outperformed the less-seasoned one, with Bancaja 10 having considerably higher delinquencies, occasionally higher than the Spanish RMBS average. However, since Q2 2013, Bancaja 10's delinquency levels have been well below the index. Defaults are defined as mortgage loans in arrears for more than 18 months in these transactions. Cumulative defaults for Bancaja 5, 6, and 7 are also lower than in other Spanish RMBS transactions that we rate. Cumulative defaults are relatively higher for Bancaja 10, where long-term arrears have rapidly rolled into defaults. Prepayment levels have always been in line with the market average.

All of these transactions feature an excess spread trapping or interest deferral mechanism, which protects the more senior classes of notes in stressful scenarios. The trigger for Bancaja 5 and 6 is based on the 90+ days delinquencies level, Bancaja 7 on the amortization deficit level, and Bancaja 10 on the cumulative default level. We expect that Bancaja 10's class B trigger will be breached in the next 12 months. An obligation rated in the 'CCC' category ('CCC+', 'CCC', and 'CCC-') is typically vulnerable to nonpayment and is expected to default within 12 months (see "Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," published on Oct. 1, 2012). Therefore, we have lowered to 'CCC (sf)' from 'B- (sf)' our rating on Bancaja 10's class B notes.

Following the application of our RAS criteria and our RMBS criteria, we have determined that our assigned rating on each class of notes in these transactions should be the lower of (i) the rating as capped by our RAS criteria and (ii) the rating that the class of notes can attain under our RMBS criteria. The ratings on the class A notes in Bancaja 5, the class A2 notes in Bancaja 6, 7, and 10, the class A3 notes in Bancaja 10, and the class B notes in Bancaja 6 are constrained by the rating on the sovereign.

The senior-most class of notes in Bancaja 6 and 7 (the class A2 notes) pass all of the conditions under our RAS criteria. Consequently, our ratings on these classes of notes can be a maximum of six notches above the sovereign rating. We have therefore raised to 'AA+ (sf)' from 'AA (sf)' and removed from CreditWatch negative our ratings on the class A2 notes in Bancaja 6 and 7.

The class A notes in Bancaja 5, the class B notes in Bancaja 6, and the class

A2 and A3 notes in Bancaja 10 have sufficient credit enhancement to withstand our severe stresses. Consequently, the maximum uplift for these classes of notes is four notches above the sovereign rating. We have therefore raised to 'AA- (sf)' from 'A+ (sf)' and removed from CreditWatch negative our ratings on the class A notes in Bancaja 5, the class B notes in Bancaja 6, and the class A2 and A3 notes in Bancaja 10.

The available credit enhancement for the class B notes in Bancaja 5, the class C notes in Bancaja 6, and the class B notes in Bancaja 7 can withstand our stresses up to three notches above the sovereign rating. We have therefore removed from CreditWatch negative and raised to 'A+ (sf)' from 'BBB+ (sf)' and to 'A+ (sf)' from 'A- (sf)' our ratings on Bancaja 5' class B notes and Bancaja 6's class C notes, respectively. At the same time, we have affirmed and removed from CreditWatch negative our 'A+ (sf)' rating on Bancaja 7's class B notes.

We have affirmed our 'BB+ (sf)' rating on Bancaja 5's class C notes, as the available credit enhancement is commensurate with that rating.

We do not consider the replacement language in the swap agreements of these four Bancaja transactions to be in line with our current counterparty criteria, although it does feature a replacement framework that we give some credit to in our analysis. Under our current counterparty criteria, our ratings are capped to our long-term ICR on the corresponding swap counterparty, plus one notch. Our ratings are therefore capped at 'A+' in Bancaja 5, 6, and 7, the relevant counterparty being Credit Suisse International (A/Stable/A-1), and at 'AA-' in Bancaja 10, the relevant counterparty being JP Morgan Chase Bank N.A. (A+/Stable/A-1).

We have therefore analyzed the transactions without giving benefit to the swap agreements to see if the ratings on the notes could be delinked from the long-term ICR on the relevant swap counterparty. In this scenario, only the class A notes in Bancaja 5, the class A2 and B notes in Bancaja 6, and the class A2 and B notes in Bancaja 7 are able to achieve a higher rating than our long-term ICR on the counterparty plus one notch. We have therefore delinked our ratings on these classes of notes from the long-term ICR on the swap provider.

We also consider credit stability in our analysis (see "Methodology: Credit Stability Criteria," published on May 3, 2010). To reflect moderate stress conditions, we adjusted our weighted-average foreclosure frequency (WAFF) assumptions by assuming additional arrears of 8% for one- and three-year horizons, for 30-90 days arrears and 90+ days arrears. This did not result in our ratings deteriorating below the maximum projected deterioration that we would associate with each relevant rating level, as outlined in our credit stability criteria.

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 RMBS

criteria, to reflect this view (see "Outlook Assumptions For The Spanish Residential Mortgage Market," published on Sept. 18, 2014). We base these assumptions on our expectation of continuing high unemployment in 2016.

Spain's economic recovery is gaining momentum, which is currently only supporting a marginal improvement in the collateral performance of transactions in our Spanish RMBS index. Despite positive macroeconomic indicators and low interest rates, persistent high unemployment and low household income ratios continue to constrain the RMBS sector's nascent recovery, in our view.

We expect severe arrears in these portfolios to remain at their current levels, as there are a number of downside risks. These include weak economic growth, high unemployment, and fiscal tightening. On the positive side, we expect interest rates to remain low for the foreseeable future.

Bancaja 5, 6, 7, and 10 are Spanish RMBS transactions backed by pools of first-ranking mortgages secured over owner-occupied residential properties in Spain, which closed between April 2003 and January 2007. Caja de Ahorros de Valencia Castellón y Alicante (Bancaja; now Bankia) originated the underlying collateral between July 1991 and December 2006.

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, May 29, 2015
- Criteria For Global Structured Finance Transactions Subject To A Change In Payment Priorities Or Sale Of Collateral Upon A Nonmonetary EOD, March 2, 2015
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Italy And Spain RMBS Methodology And Assumptions, Sept. 18, 2014
- Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Global Derivative Agreement Criteria, June 24, 2013
- Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria Methodology Applied To Fees, Expenses, And Indemnifications, July 12, 2012
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

- Understanding Standard & Poor's Rating Definitions, June 3, 2009

#### Related Research

- Bulletin: Ratings In European RMBS And ABS Transactions Remain On CreditWatch Negative Pending Completed Remedy Plans, Nov. 16, 2015
- Ratings On 88 Spanish RMBS And ABS Tranches Placed On CreditWatch Positive Following Sovereign And Bank Rating Actions, Oct. 30, 2015
- Kingdom of Spain Upgraded To 'BBB+' On Reforms; Outlook Stable, Oct. 2, 2015
- Eurozone Economic Outlook: Steady For Now, Despite Slower World Trade, Sept. 30, 2015
- Spanish RMBS Index Report Q2 2015: Index Composition Boosts Collateral Performance Slightly, Sept. 11, 2015
- Ratings On 77 European RMBS And ABS Tranches Placed On CreditWatch Negative After Expiry Of Counterparty Remedy Period, Aug. 18, 2015
- 2015 EMEA RMBS Scenario And Sensitivity Analysis, Aug. 6, 2015
- Low Lending Rates And Stronger Economic Growth Are Reviving Europe's Housing Markets, July 30, 2015
- Despite The Turmoil In Greece, Europe's Fragile Growth Continues, July 14 2015
- Eurozone Economic Outlook: Will The Catch-Up Lead To A Let-Down?, July 1, 2015
- S&P Takes Various Rating Actions On Certain U.K. And German Banks Following Government Support And ALAC Review, June 9, 2015
- Barclays Bank Ratings Lowered To 'A-/A-2' On Government Support Review And ALAC Criteria Implementation; Outlook Stable, June 9, 2015
- Various Rating Actions Taken In Spanish RMBS Transactions Bancaja 5, 6, 7, 10, And 11 Following Criteria Updates, Jan. 9, 2015
- Outlook Assumptions For The Spanish Residential Mortgage Market, Sept. 18, 2014
- European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors, July 8, 2014
- Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality, July 2, 2014

#### RATINGS LIST

Class	Rating	
	To	From
Bancaja 5 Fondo de Titulizacion de Activos €1 Billion Mortgage-Backed Floating-Rate Notes		
Rating Raised And Removed From CreditWatch Negative		
A	AA- (sf)	A+ (sf)/Watch Neg
Rating Raised And Removed From CreditWatch Positive		

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B                    A+ (sf)                    BBB+ (sf)/Watch Pos

Rating Affirmed

C                    BB+ (sf)

Bancaja 6 Fondo de Titulizacion de Activos  
€2.08 Billion Mortgage-Backed Floating-Rate Notes

Ratings Raised And Removed From CreditWatch Negative

A2                    AA+ (sf)                    AA (sf)/Watch Neg

B                    AA- (sf)                    A+ (sf)/Watch Neg

Rating Raised And Removed From CreditWatch Positive

C                    A+ (sf)                    A- (sf)/Watch Pos

Bancaja 7 Fondo de Titulizacion de Activos  
€1.9 Billion Mortgage-Backed Floating-Rate Notes

Rating Raised And Removed From CreditWatch Negative

A2                    AA+ (sf)                    AA (sf)/Watch Neg

Rating Affirmed And Removed From CreditWatch Negative

B                    A+ (sf)                    A+ (sf)/Watch Neg

Bancaja 10, Fondo de Titulizacion de Activos  
€2.631 Billion Mortgage-Backed Floating-Rate Notes

Ratings Raised And Removed From CreditWatch Negative

A2                    AA- (sf)                    A+ (sf)/Watch Neg

A3                    AA- (sf)                    A+ (sf)/Watch Neg

Rating Lowered

B                    CCC (sf)                    B- (sf)

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