

Ratings Lowered On Bancaja 11's Spanish RMBS Notes Following Continued Credit Deterioration

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OVERVIEW

- Since our last review, we have observed continuing deterioration in the portfolio credit quality, as levels of defaults have continued to increase. At the structural features level, the reserve fund has been fully depleted since April 2010, and no replenishments have taken place since then.
- We have thus lowered our ratings on all classes of notes in Bancaja 11 except the class E notes, which we have rated 'D (sf)' since July 2009.
- Bancaja originated and currently services the loans backing this Spanish RMBS transaction, which closed in July 2007.

MADRID (Standard & Poor's) March 2, 2011--Standard & Poor's Ratings Services today lowered and removed from CreditWatch negative its credit ratings on Bancaja 11 Fondo de Titulizacion de Activos' class A2, A3, B, C, and D notes. We also affirmed our 'D (sf)' rating on the class E notes (see list below).

We have observed continuing deterioration in the credit quality of the underlying portfolio backing Bancaja 11. The number of loans in arrears for 90+ days, but not yet considered as defaulted (defined as 18 months in arrears in this transaction), has stabilized in the past six months; however, the level of defaulted loans has increased, to 2.44% on a cumulative basis, over the original portfolio balance securitized at closing. Although this level of defaults did not breach the interest-deferral trigger for the class D notes--set as 5.62%-- we see this increased as an indication of weakening performance of the outstanding notes in this transaction.

As of the latest investor report of January 2011, defaulted loans represented 2.44% of the original pool balance, compared with 1.38% a year ago.

The transaction features interest-deferral triggers, based on cumulative defaults. Interest on the notes is deferred if loans in default are more than 10.9% of the initial balance of the mortgages for class B, 7.4% for class C, and 5.62% for class D. Given that the current level of cumulative defaults over the original balance is 2.44%, we consider that interest on junior classes of notes will not be postponed in the near future.

The reserve fund has been fully drawn since the April 2010 interest payment date and has not been replenished since that date. We believe this may soon adversely affect the transaction. Also, credit enhancement for the notes has decreased following the downgrade of the class E notes to 'D (sf)' in July 2009, which negatively affects the capital structure.

On July 6, 2010, we placed the class A2 and A3 notes on CreditWatch negative due to portfolio deterioration, and on Jan. 18, 2011, we kept these ratings on CreditWatch negative due to our updated counterparty criteria becoming effective. Classes A2 and A3 are no longer on CreditWatch negative due to counterparty reasons, as our review of the transaction documents--except for the swap documentation--indicates that they are in line with updated criteria. Although the swap documentation does not comply with our updated counterparty criteria, the rating floor mentioned in the criteria of ICR (issuer credit rating) plus one notch for the swap provider (HSBC; AA/Stable/A-1+) does support the current ratings on the notes (see "Counterparty and Supporting Obligations Methodology and Assumptions," Dec. 6, 2010). This in turn means that any adverse rating action relating to the swap provider may in the future result in a lowering of the ratings on the class A2 and A3 notes notwithstanding any structural mitigants in this transaction.

The Bancaja deals are Spanish residential mortgage-backed securities (RMBS) transactions backed by pools of first-ranking mortgages secured over owner-occupied residential properties in Spain. Bancaja (Caja de Ahorros de Valencia, Castellon y Alicante) originated the mortgage loans.

RELATED CRITERIA AND RESEARCH

- Principles Of Credit Ratings, Feb. 16, 2011
- EMEA Structured Finance CreditWatch Actions In Connection With Revised Counterparty Criteria, Jan. 18, 2011
- Counterparty and Supporting Obligations Update, Jan. 13, 2011
- Counterparty and Supporting Obligations Methodology and Assumptions, Dec. 6, 2010
- Ratings On All Notes Placed On CreditWatch Negative In Spanish RMBS Transactions Bancaja 10 And Bancaja 11, July 6, 2010
- Methodology And Assumptions: Update To The Cash Flow Criteria For European RMBS Transactions, Jan. 6, 2009
- Methodology And Assumptions: Update To The Criteria For Rating Spanish Residential Mortgage-Backed Securities, Jan. 6, 2009

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- Cash Flow Criteria for European RMBS Transactions, Nov. 20, 2003
- Criteria For Rating Spanish Residential Mortgage-Backed Securities, March 1, 2002

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RATINGS LIST

Class	Rating
To	From
Bancaja 11, Fondo de Titulizacion de Activos €2.023 Billion Mortgage-Backed Floating-Rate Notes	

RATINGS LOWERED AND REMOVED FROM CREDITWATCH NEGATIVE

A2	AA (sf)	AAA (sf)/Watch Neg
A3	AA (sf)	AAA (sf)/Watch Neg
B	BBB (sf)	A (sf)/Watch Neg
C	BB- (sf)	BBB- (sf)/Watch Neg
D	B (sf)	BB- (sf)/Watch Neg

RATING AFFIRMED

E	D (sf)
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