Prime RMBS
Spain
New Issue

Rural Hipotecario XI, FTA

Analysts

Covadonga Aybar
+ 34 91 702 5775
covadonga.aybar@fitchratings.com

Carlos Masip
+34 91 702 5773
carlos.masip@fitchratings.com

Performance Analytics
Sanja Paic
+44 20 3530 1282
sanja.paic@fitchratings.com

Related Research

Applicable Criteria

- *EMEA Residential Mortgage Loss Criteria* (February 2010)
- *EMEA Residential Mortgage Loss Criteria Addendum - Spain (February 2010)]*
- *EMEA RMBS Cash Flow Analysis Criteria* (May 2009)
- *Counterparty Criteria for Structured Finance Transactions* (October 2009)
- *Criteria for Structured Finance Loss Severity Ratings* (February 2009)

Contents

Final Ratings

Class	Amount (EURm)	Final Maturity	Rating	LSR	CE (%)	Outlook
A	1,835.58	March 2053	A+sf	LS1	8.21	Stable
B	25.30	March 2053	A−sf	LS4	6.90	Stable
C	61.60	March 2053	BB−sf	LS3	3.69	Stable
Total issuance	**1,922.48**					

Closing occurred on 27 February 2009. The ratings assigned above are based on the portfolio information provided by the originators as at September 2010

Transaction Summary

This EUR1,922.48m transaction, which originally closed in February 2009, is a cash flow securitisation of a static pool of first-ranking mortgage loans originated and serviced in Spain by 30 Spanish rural savings banks (mostly unrated). Fitch Ratings has assigned final ratings to the notes issued by Rural Hipotecario XI, FTA (the issuer, fund or SPV) as indicated above. The ratings address the payment of interest on the notes according to the terms and conditions of the documentation subject to a deferral trigger on the class B and C notes as well as the repayment of principal by the notes' legal final maturity date.

Key Rating Drivers

- **Multi-seller transaction:** The portfolio backing the transaction has been originated by 30 rural saving banks in Spain. Of the aggregate collateral, 31.12% is linked to originators rated by Fitch, and 65.24% is linked to originators that were visited during the rating process to analyse their underwriting and servicing procedures. Additionally, considering that the transaction has a nominated back-up servicer, Banco Cooperativo Español (BCE, 'A'/Stable/'F1'), which can take servicing responsibilities in case of servicer disruption, Fitch is of the opinion that the servicing capabilities of this collateral pool are in line with average servicing standards in Spain.
- **Low-risk pool:** The collateral backing the portfolio has low risk attributes. The weighted-average (WA) original LTV (OLTV) is low at 68.77% and the WA current LTV (CLTV) is 60.16%. There is a good geographical diversification and the seasoning of the loans is 48 months. Consequently, Fitch believes the credit composition of this collateral falls into the prime RMBS segment.
- **Moderate arrears have built up since closing:** Since closing, there has been a moderate build-up of arrears (2.07% by more than 90 days as of January 2011), while the current pool factor is 85% of the original balance. Additionally, 0.42% of the collateral has been written off (defined as loans in arrears by more than 18 months), causing the reserve fund to be drawn (ie it stands at 96% of the required amount). While Fitch expects a moderate upward trend in defaults over the next 12 to 18 months due to the delinquency pipeline, the agency believes available excess spread will continue to provide support to the transaction.
- **Capital structure reinforced since closing:** The amortisation of loans since closing has allowed the notes' credit enhancement (CE) to increase from initial levels despite the reserve fund drawdown. Amortisation is expected to remain sequential, allowing CE of the senior notes to increase.

Rating Sensitivity[1]

This section of the report provides a greater insight into the model-implied sensitivities the transaction faces when one assumption (weighted-average foreclosure frequency (WAFF) and/or weighted-average recovery rates (WARR)) is stressed, while holding others equal. The modelling process first uses the estimation and stress of default and recovery assumptions to reflect asset performance in a stressed environment. Secondly, the structural protection is analysed in a customised proprietary cash flow model. The results below should only be considered as one potential outcome, given that the transaction is exposed to multiple risk factors that are all dynamic variables.

Rating Sensitivity to Default Rates — Senior Class Resilient

The Rating Sensitivity to WAFF table shows the rating migration of the final ratings if the probability of default of the portfolio is increased by a relative amount. If the portfolio default rate is increased by 15% and 25%, the model indicates that the class A notes could suffer a rating migration of one and two notches, respectively.

Rating Sensitivity to WAFF

	Class A	Class B	Class C
Original rating	A+sf	A−sf	BB−sf
WAFF up 15%	Asf	A−sf	Bsf
WAFF up 25%	A−sf	BBB+sf	Bsf

Source: Fitch

Rating Sensitivity to Recovery Rates — Multiple Notch Migration

The rating migration if the recovery rates of the portfolio are decreased by a relative amount is shown in the Rating Sensitivity to WARR table. If the portfolio recovery rate is decreased by 15% and 25%, the model indicates that the class A notes could suffer a rating migration of two and four notches, respectively.

Rating Sensitivity to WARR

	Class A	Class B	Class C
Original rating	A+sf	A−sf	BB−sf
WARR down 15%	A−sf	BBB+sf	NRsf
WARR down 25%	BBBsf	BBBsf	NRsf

Source: Fitch

Rating Sensitivity to Shifts in Multiple Factors — Multiple Notch Downgrade of Senior Note

The table below summarises the rating sensitivity to a multiple factor stress (both WAFF and WARR) simultaneously. The model-implied results show that the class A notes may be downgraded to ‘BBB+sf’ in the first scenario and to ‘BBB−sf’ in the second scenario.

Rating Sensitivity to WARR

	Class A	Class B	Class C
Original rating	A+sf	A−sf	BB−sf
WARR down 15%	BBB+sf	BBBsf	NRsf
WARR down 25%	BBB−sf	BB+sf	NRsf

Source: Fitch

Key Parties

- **Originators, Sellers and Servicers of the Collateral:** 30 rural credit cooperatives
- **Issuer Treasury Account, Credit Line Provider and Notes Paying Agent:** Banco Cooperativo Espanol (‘A’/Stable/‘F1’)
- **Swap Counterparties:** Banco Cooperativo Espanol (‘A’/Stable/‘F1’) and Caja Rural de Navarra (‘A−’/Stable/‘F2’)
- **Fund:** Rural Hipotecario XI, FTA
- **Management Company:** Europea de Titulización S.G.F.T., S.A. (EdT)
- **Final Legal Maturity:** March 2053

[1] These sensitivities only describe the model-implied impact of a change in one of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance

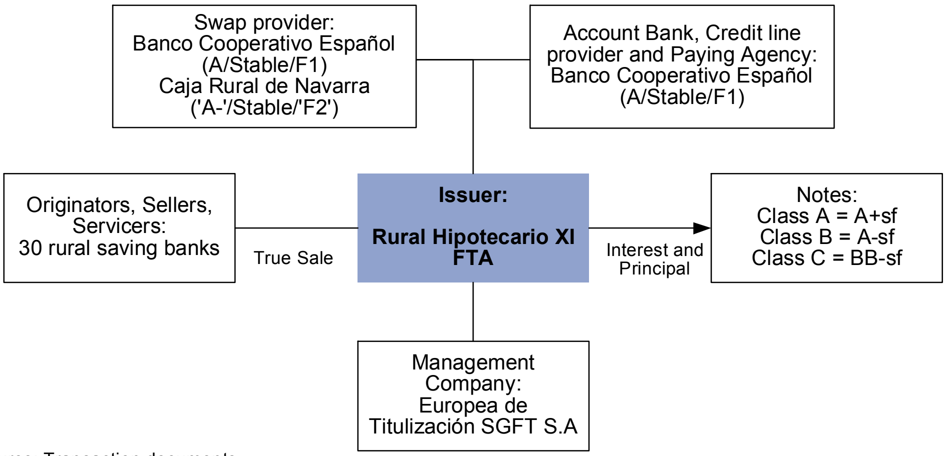
Model, Criteria Application and Data Adequacy

Fitch received 90+ day cumulative and dynamic data for all previous Rural Hipotecario transactions. The agency also received loan-by-loan information for nearly all the fields it requires under its updated RMBS data requirements. In missing or incomplete fields — i.e. the income field was missing for 18.57% of the pool— the agency applied conservative assumptions (see *Asset Analysis*).

Fitch has analysed the obligor default risk using its proprietary Spanish RMBS default model. The agency's proprietary cash flow model has been used to complete the rating analysis and simulate the transaction structure cash flows and capital structure. Fitch's cash flow model has been customised to account for the specific features of the deal.

Transaction and Legal Structure

Structure Diagram



Source: Transaction documents

Legal Framework

The issuer is a limited-liability SPV incorporated under the laws of Spain — Spanish Securitisation Law 19/1992 and Royal Decree 926/1998 — the sole purpose of which is to acquire the mortgage loans from the 30 originating institutions as collateral for the issuance of quarterly-paying notes. However, under Spanish law, mortgage loans are not actually transferred as this would entail a lengthy process of re-registering the mortgages at the property registry. Instead, mortgage originators are permitted to issue mortgage certificates (CTH).

At closing, the CTHs were acquired from the sellers on behalf of the fund by Europea de Titulización, S.G.F.T., S.A. (EdT, the management company), a limited liability company incorporated under the laws of Spain, the activities of which are limited to the management of securitisation funds.

The cash bond administration function for this transaction will be carried out by EdT, which is supervised by the Comisión Nacional del Mercado de Valores (CNMV). EdT is responsible for cash reconciliation and waterfall calculations and their reporting, including the monitoring of applicable triggers, and also for taking any action in the interests of the noteholders, such as the replacement of the servicer, treasury account or swap counterparty.

Representations and Warranties — Standard for Spanish Market

As of the closing date, the sellers have provided specific representations and warranties on the features of the mortgages as well as the general and legal circumstances of the loans and properties in each portfolio, some of which are listed below.

1. The mortgage loans exist and are valid and enforceable in accordance with current legislation.
2. The loans are secured by first-ranking residential mortgages.
3. The mortgage loans are all denominated and payable exclusively in euros.
4. All mortgage loans are payable by direct debit to the issuer's account with interest and capital payments made monthly or quarterly.
5. The mortgaged properties are all completed and located in Spain and have been appraised by an institution registered and approved by the Bank of Spain.
6. At closing, none of the mortgage loans have any payments more than one month overdue.
7. All loans have been originated in accordance with the originators' policies.
8. Each mortgage loan must be registered in the relevant property registry.
9. No borrower holds any receivable against the originator whereby that obligor might be entitled to a set-off.

Substitution — Standard for Spanish Market

Substitution events permitted according to the terms of the documentation and by Spanish securitisation law will be linked only to the discovery of loans that do not comply with the representations and warranties and will either be fully amortised or substituted with a similar mortgage in amount and characteristics. Any substitutions are subject to approval by EdT. The substitution cost will be paid by the originators.

Permitted Variations — Standard for Spanish Market

As stipulated in Article 25 of Royal Decree 685/1982, the seller, in administering the mortgage loans, may not, without the consent of the managing company, voluntarily cancel the mortgages forming the collateral for reasons other than the full amortisation of the loan. Additionally, it will not renounce the mortgage loans, modify or restructure them, cancel them in whole or in part, or permit an extension, or in general take any action that diminishes the legal effectiveness or the economic value of the mortgage loans, except for the modifications listed below.

- Changes in mortgage loan margins allowed in the documentation will be limited to the WA margin of the collateral not falling below 65bp. To reflect this possibility, when modelling the transaction, the WA margin of the collateral has been capped at 0.65% during the life of the transaction.

- The servicer may agree to decrease or increase the remaining life of the mortgage loan in question (by changing the amortisation profile). However, any extension is limited to the final maturity of the certificates. Additionally, for each originator, the outstanding amount of the mortgage loans on which the extension of maturity could be allowed will not exceed 10% of the initial pool principal balance transferred to the fund.

- The contracts allow subrogation of mortgage loans only in cases where the characteristics of the new debtor are similar to those of the original debtor and are originated under the same guidelines and upon approval by the management company.

Historically, limited loan modifications or restructurings have been reported for existing RMBS transactions. However, given the downturn in the housing market and macroeconomic conditions, many lenders have expanded their loan modification and restructuring programmes as part of loss mitigation strategies. Fitch expects that all loan modifications or restructurings will be conducted within the context of transaction documentation provisions.

Disclaimer

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Asset Analysis

As of August 2010, the portfolio had an outstanding balance of EUR1,933.84m and comprised 18,165 mortgage loans. The aggregate portfolio had a WA OLTV of 68.77% and WA CLTV of 60.16%, calculated based on each individual loan amount as a percentage of the guaranteeing asset value, as indicated by the seller. In line with Fitch's criteria, the agency gave credit to 50% of positive house price indexation and to 100% of negative house price indexation, resulting in a WA indexed CLTV of 61.89%. The indexed CLTV is higher than that provided by the sellers, due to the decreasing house price environment in Spain and in spite of 48 months of pool seasoning.

Lender Adjustment — No Adjustment

Fitch's base default probabilities assume that origination, underwriting and servicing practices and procedures are in line with those of a standard Spanish lender with market expertise, financial stability and relevant management experience. As part of its analysis, the agency performed an operational review of the main originators to assess their origination, underwriting and servicing capabilities. Banco Cooperativo Español (BCE, 'A'/Stable/'F1'), which fulfils most of the roles in this transaction, was also visited to evaluate its expertise in these roles.

The 30 rural saving banks will continue acting as collateral servicers. Since the mortgage loans were originated by different sellers, the origination policies vary in certain respects. However, rural saving banks have harmonised their procedures as a group, and benefit from the integration and development tools provided by BCE, which also acts as back-up servicer. BCE coordinates the financial policy, acts as agent and develops a variety of financial services, as well as managing clearing and payment systems and providing international banking services.

Fitch gained comfort from the processes and procedures discussed during the on-site visits, and that the underwriting, origination, servicing and collection procedures have been applied consistently.

The agency also considers certain elements not factored into the loan-by-loan analysis, either because they are not available or because they are only applicable on an aggregate basis, such as: (i) historical performance of the mortgage loans originated by the lenders; (ii) length of historical performance observation period; (iii) performance of previously securitised deals; and (iv) undisclosed information.

Comparing the originators' historical performance in previous transactions (which covers more than 41 quarters) with the WAFF levels from the loan-by-loan analysis, shows that the risk attributes of the portfolio were already adequately captured in the probability of default analysis.

As a result of the above analysis, Fitch considered no lender adjustment was needed given the overall positive view of the conservative origination policies as well as the historical information provided for the issuers' previous transactions.

Affordability — Stressed Further by Fitch Long-Term Interest Rate Assumptions

Fitch was provided with loan-by-loan debt-to-income (DTI) information and income data for 81.43% of the pool as of August 2010. For those loans for which no monthly income was provided, the maximum DTI category was applied. The agency has conducted its own DTI calculations, which are based on the information provided on the monthly net income of the borrowers, the length of the loan, and Fitch estimations on the long-term interest rate.

DTI Class Distribution According to Fitch Calculations

DTI class/% of the pool	Fitch calculation	Data provided
Class 1	33.17	34.87
Class 2	24.27	24.33
Class 3	14.15	13.83
Class 4	8.03	8.39
Class 5	20.38	0
No information		18.57

Source: Fitch

Borrower Profile — Stable Employment Profile

The sellers provided employment data on a loan-by-loan basis for 99.30% of the loans in the portfolio. 66.22% of the borrowers were employed on fixed term contracts, 22.56% were self-employed and 7.01% were classed as temporary workers. 1.89% were classified as unemployed, although 80.55% of these have declared income data. Pensioners and civil servants contributed 1.18% and 0.89%, respectively. For loans without such information, and for the unemployed, self-employed and temporary workers, the base foreclosure frequency was increased by 25% according to Fitch's criteria.

Nationality — Relative Exposure to Non-Spanish Borrowers

3.93% of the loans in the pool were granted to non-Spanish borrowers. Given the weak social links of the immigrant population and their weaker historical performance, a 100% incremental foreclosure frequency hit was applied to these loans in line with Fitch's RMBS Spanish Addendum criteria. The percentage of non-Spaniards in this transaction is in line with the average for the Spanish market.

More Than Two Borrowers

3.24% of the loans by outstanding balance are granted to more than two borrowers. As the need to include more than two borrowers for the same loan may indicate a weaker payment capacity of each borrower individually, the agency applied a 20% incremental probability of default hit to these loans in line with Fitch's criteria.

Loan Purpose — Mainly Home Acquisition and Home Improvement

Mortgages to individuals to purchase homes accounted for 88.59% of loans with the rest being loans granted for home improvement (11.42%) on properties in Spain. Loans to acquire homes are lower risk than those granted for other purposes, including investment or refurbishment. Consequently and in accordance with Fitch's criteria, the base foreclosure frequency for the latter two loan purposes has been increased by 25%.

Second Homes — Low Concentration of Secondary Residences

The pool comprises loans to individuals backed by mortgages on first homes (90.56%) and second homes (9.44%) in Spain. Fitch believes that second homes are more susceptible to default. A financially distressed borrower is more likely to suffer a default on a second home than on a primary residence. Accordingly, the agency has increased the foreclosure frequency by 25% for second homes.

Geographical Concentration — Moderate Concentration

The pool shows a moderate geographical concentration in the Valencia, Andalucia and Aragon regions of Spain at 29.77%, 20.36% and 11.42%, respectively. However, these concentrations are not deemed excessive and therefore no additional adjustment to their probability of default was made.

Other

Arrears have Built up since Closing

The pool-cut data provided as of 31 August 2010 showed that 89.63% of loans were current with 5.02% falling into the 1-30 days delinquent bucket, which can be considered as technical arrears. Fitch applied its foreclosure frequency matrix for loans in arrears, described in its report, "*EMEA Residential Mortgage Loss Criteria Addendum - Spain*", dated 23 February 2010.

Since closing, the transaction has had moderate levels of arrears (2.07% by more than 90 days as of January 2011) and has provisioned for written-off loans (0.42% of the initial balance), resulting in a EUR3.2m reserve fund drawdown. Although the reserve fund has been drawn, available excess spread has covered part of the written-off loans and limited the reserve fund usage (which stands at 96% of its required amount). Fitch expects a moderate upward trend in defaults over the next 12 to 18 months due to the delinquency pipeline. In the agency's view, excess spread will continue to support the transaction.

Jumbo Properties

The portfolio has 7.5% of properties whose values are above or below the market average for their respective regions and therefore a jumbo haircut has been applied according to the criteria.

Default Model Output

Fitch Default Model Output

Rating level (%)	WAFF[a]	WARR[b]	MVD[c]
AAAsf	17.42	55.89	57.28
AAsf	15.02	61.00	53.32
Asf	13.29	65.89	49.36
BBBsf	10.40	70.52	45.40

[a] Weighted-average foreclosure frequency
[b] Weighted-average recovery rate
[c] Market value decline
Source: Fitch

The above table illustrates the asset analysis results across different rating scenarios. Fitch has used these WAFF and WARR levels when modelling the transaction cash flows.

Financial Structure and Cash Flow Modelling

As of closing, the fund issued three classes of floating-rate, quarterly-paying and sequentially subordinated securities based on three-month Euribor plus a margin. Interest and principal collections are handled jointly through a combined priority of payments.

Credit Enhancement (CE)

As of September 2010, total CE for the class A notes, equivalent to 8.21% of the outstanding notes' balance, was provided by subordination of classes B (1.32%) and C (3.20%) plus a reserve fund of 3.69%. Similarly, CE for the class B notes is provided by subordination of class C plus the reserve fund. Finally, CE for the class C notes is provided only by the reserve fund. In accordance with the documentation, deferral of interest is permitted for the class B and C notes, when cumulative write-offs exceed 12% and 8% of the initial balance, albeit in Fitch's analysis the class B notes do not defer interest in a 'BBB+sf' scenario.

Reserve Fund (RF)

The RF is permitted to amortise to the lower of (i) 3.25% of the initial balance of the notes and (ii) the higher of the following amounts: 6.50% of the outstanding balance of the notes; or 1.625% of the initial amount of the notes. This is subject to the ratio of 90+ days delinquent loans to outstanding loans being equal to or lower than 1.0%, the RF being at its required level on the previous payment date and the WA margin of the portfolio not being lower than 0.65%. The RF is not allowed to amortise until three years after closing.

Since closing, the RF has been drawn due to the provisioning mechanism for defaulted loans (up to 18 months), and stands at 96% of its required level. Given the arrears pipeline, Fitch expects that the RF will continue to be used during the next 12 to 18 months.

Excess Spread

The excess spread available in the transaction is generated by the treasury account and the positive difference between the margin received from the collateral and the margin paid to the noteholders.

Note Amortisation — Standard Combined Waterfall

On each quarterly payment date, the combined ordinary priority of payments will be in the order of:

1. senior costs and servicing fees in the case of the servicer being replaced by an entity other than BCE;
2. net swap payments;
3. class A interest payments;
4. class B interest payments unless deferred to point 7 due to cumulative write-offs exceeding 12% of the initial pool amount;
5. class C interest payments unless deferred to point 8 due to cumulative write-offs exceeding 8% of the initial pool amount;
6. principal repayment in order of seniority (see *Principal Redemption*);
7. class B interest payments when deferred;
8. class C interest payments when deferred;
9. reserve fund replenishment;
10. payments due under the swap contract in the event of a swap counterparty default;
11. credit line interest payments;
12. credit line principal repayment; and
13. other subordinated amounts.

Principal Redemption — Sequential Amortisation; Pro Rata Under Certain Conditions

Principal redemption on the notes is allocated sequentially, beginning with the class A notes and only moving through to the subordinated classes once the senior notes have been redeemed in full. Once the class A notes have been fully redeemed, class B will start to amortise until fully redeemed, followed by class C amortisation and redemption.

Classes B and C can amortise pro rata with the A notes if (i) the required RF is fully funded on the respective payment date; (ii) the size of the respective class has doubled since closing relative to the outstanding amounts of classes A, B and C; (iii) the total outstanding note balance is equal to or higher than 10% of the initial notes balance; and (iv) the current balance of loans more than 90 days in arrears is less than 1.50% and 1.00% of the outstanding balance of the collateral for class B and C, respectively (excluding written off loans).

The legal final maturity date for the notes is March 2053, which is approximately three years after the final scheduled maturity date for all loans in the collateral pool. This delay has been deemed adequate to ensure that collections from the mortgages will be sufficient to redeem the obligations of the fund for any defaulted loans.

Standard Call Option

All notes are subject to a clean-up call option in favour of the management company when less than 10% of the initial collateral balance remains outstanding.

Scenario Testing

Fitch has tested the structure under the default distributions described in its criteria report, "*EMEA RMBS Cash Flow Analysis Criteria*", published on 6 May 2009.

Different default vectors were tested, combined with different prepayments (high/low) and different interest-rate environments (rising/stable/decreasing). Assumptions used under individual scenarios were in accordance with Fitch's cash flow analysis criteria for RMBS.

To evaluate the contribution of structural elements, such as excess spread, the RF and other factors, Fitch modelled the cash flows from the mortgages based on the WARR and WAFF provided by the loan-by-loan collateral analysis.

The cash flow model assumes that defaults are spread over the first seven years following origination, starting straight after closing. The analysis simulates the cost of carrying defaulted loans as the difference between the performing balance of the mortgages and the notional note balance. Excess spread and the RF must be sufficient to cover the cost of carry until recoveries are received after 42months under an 'Asf' stress scenario.

Fitch ran various stress tests on the key variables affecting the cash flows generated by each mortgage portfolio, including prepayment speed, interest rates, default and recovery rates, the timing of recession, WA margin compression and delinquencies. The agency also modelled prepayments, which can affect certain components of a transaction (primarily, they lower the absolute amount of excess spread, which provides an important contribution to the total CE in the structure).

However, since the principal repayment is directed towards the rated notes, they benefit from higher CE as a result of the increase in subordination. Prepayments may also cause adverse selection, as the strongest obligors are likely to be most inclined to prepay, which would leave the pool dominated by weaker obligors as the collateral ages. The high level of prepayments peaks at 21.00% under an 'A+sf' scenario. The low level of prepayments is modelled at 3.00% per year.

The analysis showed that the CE provided for the class A notes would be sufficient to withstand the default hurdles and losses that are commensurate with an 'A+sf' rating in the different stress scenarios tested.

Counterparty Risk

The transaction is highly exposed to counterparty risk from BCE, which acts as issuer account bank, credit line provider, notes paying agent and back-up servicer. BCE is also the swap provider of one of the two swaps in this transaction. This dependency is partially mitigated by the remedial actions described in Fitch's counterparty criteria ("*Counterparty Criteria for Structured Finance Transactions*", dated 22 October 2009) incorporated into the transaction at the time of Fitch's rating assignment.

Sellers/Servicers

The sellers will perform the role of servicers of the loans, as is the case for all Spanish RMBS transactions. To protect investors, if any of the sellers is unable to continue servicing the collateral, the management company must appoint a replacement servicing company in accordance with Spanish securitisation law. The situations envisaged for servicer replacement are bankruptcy, intervention by the Bank of Spain or liquidation of the entity.

Given the multi-seller nature of this transaction, the analysis also took into account the positive effect of having BCE nominated as back-up servicer. BCE is the rural savings bank group's servicer institution, the central treasurer and banking system provider of the group. Fitch believes that BCE having the role of back-up servicer mitigates the risk of servicer disruption.

Commingling Risk

To reduce commingling risk, the sellers will transfer collateral collections daily to the treasury account held at BCE in the name of the fund.

However, it is possible that funds could be commingled despite the fact that collections are transferred daily to an eligible counterparty. The commingling risk is derived from the notification period that will elapse following the eventual disruption of the servicers role and the transfer of collections to a new servicer.

To mitigate this risk, a commingling deposit was put in place at transaction closing. The dynamic commingling deposit covers 1.77 months of principal and interest payments and is placed in the treasury account. The period covered by the deposit was viewed as sufficient to cover the notification period upon substitution (should it no longer be able to service the portfolio) given the back-up servicer contract in place and the fact that the back-up servicer belongs to the same group.

Set-off Risk

The issuer could be affected by the set-off rights of the borrower with deposits in accounts held with the lenders. However, this risk is mitigated as the sellers commit themselves in the documentation to remedying such circumstance if it arises at any point during the life of the transaction. The documents indicate that any amounts set-off by the borrowers will be compensated by the seller; hence, no loss is expected to be borne by the issuer.

However, if any seller becomes insolvent, they cannot be relied upon to continue to compensate the fund for set-off amounts. Fitch derives comfort from Spanish law, where, upon the insolvency of the seller (or the borrower), or upon notification to the borrower of the assignment of the receivable, set-off is not valid. Hence, the only risk remaining is that of set-off being invoked and claimed prior to insolvency, but where the seller became insolvent before compensating the fund. Note that amounts that can be set off do not relate to the entire mortgage loan amount, but rather to the payments that are in arrears, that are fungible and liquid. The risk therefore remains limited and presents a very mild liquidity stress.

Hedge Provider

The fund has two swap providers, Caja Rural de Navarra for the portion of its pool (15.2%) and BCE for the remaining portion of the pool (84.8%), which hedge the risks arising from the mismatch between the reference indices for the collateral and the three-month Euribor payable on the notes.

Under the swap agreement, the fund will pay the swap counterparties an amount computed as the reference index rates of the pool times a notional defined as performing and delinquent loans up to 90 days in arrears. In return, it will receive three-month Euribor on the same notional.

The agency is satisfied that the language incorporated into the documentation regarding remedial action and downgrade language related to the swap providers is in line with its criteria, "*Counterparty Criteria for Structured Finance Transactions: Derivative Addendum*", dated 22 October 2009 and available at www.fitchratings.com.

Treasury Account

The treasury account held in the name of the fund at BCE receives all incoming cash flows from the mortgage pool the next business day after being received from the borrowers. Amounts held at the account bank receive a guaranteed interest rate equal to three-month Euribor minus 6bp.

As regards the treasury account, if BCE is no longer an eligible counterparty according to Fitch's criteria, the management company will be required to take one of the following steps within 30 days: (i) obtain from an entity rated at least 'A'/'F1' a first demand guarantee as security for the amounts deposited in the treasury account; or (ii) transfer the treasury account to an entity rated at least 'A'/'F1'.

Please refer to the report, " *Counterparty Criteria for Structured Finance Transactions*", dated 22 October 2009, for more information on Fitch-compliant remedial actions for the treasury account. The report is available at www.fitchratings.com.

Performance Analytics

The ratings reflect the current risks to the transaction, while performance outside of expectations or the occurrence of certain events may trigger positive or negative rating actions. For more details, please refer to "*EMEA RMBS Surveillance Criteria*", published on 9 April 2009. To ensure that the structure is adequately protected, Fitch will also monitor the credit ratings of the various counterparties.

The agency will monitor the transaction regularly and as warranted by events. Its structured finance performance analytics team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk. Details of the transaction's performance are available to subscribers at www.fitchresearch.com.

Section preparation, content and opinion provided is the responsibility of the performance analyst covering the issuer in question.

Issuer Reporting

In 2010, Fitch updated its Issuer Report Grades (IRG) criteria (see "*European RMBS Issuer Report Grades Criteria*", dated 16 February 2010). Based on Fitch's IRG scorecard, the investor reports of the Rural Hipotecario series have received a three star score, indicating that the reporting is satisfactory. The IRG is not linked to the rating of the notes, although if data required to maintain the rating is not available in public reports, Fitch will request this from the issuer.

Further information on this service is available at www.fitchratings.com.

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