

02 Oct 2019 | Upgrade

Fitch Upgrades 4 Tranches of MBS Bancaja Series; Affirms Others

Fitch Ratings-Madrid-02 October 2019:

Fitch Ratings has upgraded four tranches and affirmed 12 tranches of three MBS Bancaja transactions. The Outlooks are Stable. The transactions comprise Spanish residential mortgages serviced by Bankia, S.A. (BBB/Stable/F3). A full list of rating actions is below.

KEY RATING DRIVERS

Credit Enhancement (CE) Trends

The current and projected CE for the notes is sufficient to mitigate the credit and cash flow stresses under their rating scenario, as reflected by the upgrades and affirmations. For all transactions, we expect CE ratios to remain broadly stable given the pro-rata amortisation of the transaction. However, CE ratios for MBS Bancaja 3 and MBS Bancaja 4 could decrease temporarily if the transactions' reserve funds are permitted to amortise to their floors and if pro-rata allocation is activated for the junior most tranches.

For all the transactions, the pro-rata amortisation of the notes will switch to sequential when the outstanding portfolio balance represents less than 10% of their original amount (currently between 11% and 21%) or sooner if certain performance triggers are breached.

High Seasoning and Stable Asset Performance

The rating actions reflect Fitch's expectation of stable credit trends given the significant seasoning of the securitised portfolios of more than 13 years, the prevailing low interest rate environment and the Spanish macroeconomic outlook. Three-month plus arrears (excluding defaults) as a percentage of the current pool balance remains below 1.5% in all cases as of the latest reporting date, and cumulative gross defaults range between 2.7% for MBS Bancaja 2 and 6.7% for MBS Bancaja 4 relative to portfolio initial balances.

Portfolio Risky Attributes

Over 30% of MBS Bancaja 2's and MBS Bancaja 3's portfolio balances, and over 80% of MBS

Bancaja 4 are linked to mortgages for the acquisition of second homes, which are considered riskier than loans granted to finance the purchase of first residences, and are therefore subject to a foreclosure frequency (FF) adjustment of 150% in line with Fitch's European RMBS rating criteria. Moreover, more than 20% of the loans across all transactions were granted to self-employed borrowers, which are also subject to a FF adjustment of 150%. The portfolios are also exposed to geographical concentration in the region of Valencia. In Fitch's analysis, higher rating multiples are applied to the base FF assumption to the portion of the portfolio that exceeds two and a half times the population within this region.

Rating Cap Due to Counterparty Risk

MBS Bancaja 2's class E notes' rating is capped at the SPV account bank's Long-Term Issuer Default Rating (Citibank Europe Plc; A), as the only source of structural CE for this class is the reserve fund that is kept at the bank account. The rating cap reflects the excessive counterparty dependency on the SPV account bank holding the cash reserves, as the sudden loss of these funds would imply a downgrade of 10 or more notches of the notes in accordance with Fitch's Structure Finance and Covered Bonds Counterparty Rating Criteria.

MBS Bancaja 3 and MBS Bancaja 4 class D notes are also exposed to this excessive counterparty risk but their ratings are lower than the 'Asf' cap due to other credit considerations.

Payment Interruption Risk Mitigated

Fitch views the transactions as sufficiently protected against payment interruption risk in a scenario of servicer disruption, as liquidity sources provide a sufficient buffer to mitigate liquidity stresses, covering at least three months of senior fees and interest payment obligations on the senior securitisation notes, until an alternative servicing arrangement is implemented.

RATING SENSITIVITIES

A worsening of the Spanish macroeconomic environment, especially employment conditions, or an abrupt shift of interest rates could jeopardise the underlying borrowers' affordability. This could have negative rating implications, especially for junior tranches that are less protected by structural CE.

As MBS Bancaja 2 Class E notes' rating is capped at the SPV account bank's IDR, a change to this rating could trigger a corresponding change to the class E notes' rating.

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

Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pools and the transactions. There were no findings that affected the rating analysis. 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 pools ahead of the transactions' initial closing. The subsequent performance of the transactions 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, 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.

SOURCES OF INFORMATION

The information below was used in the analysis:

-Loan-by-loan data sourced from European DataWarehouse, and issuer and servicer reports provided by Europea de Titulización S.G.F.T., S.A. as at:

-May 2019 for MBS Bancaja 2

-June 2019 for MBS Bancaja 3

-July 2019 for MBS Bancaja 4

Because the latest loan-by-loan portfolio data sourced from the European Data Warehouse did not include information about property occupancy status, Fitch assumed 33.5%, 34.6% and 80.3% of the portfolio for MBS Bancaja 2, MBS Bancaja 3 and MBS Bancaja 4, respectively, to be linked to second homes consistent with the exposure reported as of transaction closing date.

MODELS

[ResiGlobal.](#)

[EMEA Cash Flow Model.](#)

MBS Bancaja 2, FTA

----Class A ES0361795000; Long Term Rating; Affirmed; AAAsf; RO:Sta

----Class B ES0361795018; Long Term Rating; Affirmed; AAAsf; RO:Sta

----Class C ES0361795026; Long Term Rating; Affirmed; AAAsf; RO:Sta

----Class D ES0361795034; Long Term Rating; Affirmed; AA+sf; RO:Sta

----Class E ES0361795042; Long Term Rating; Upgrade; Asf; RO:Sta

----Class F ES0361795059; Long Term Rating; Upgrade; CCCsf

MBS Bancaja 3, FTA

----Series A2 ES0361796016; Long Term Rating; Affirmed; AAAsf; RO:Sta

----Series B ES0361796024; Long Term Rating; Affirmed; AA+sf; RO:Sta

----Series C ES0361796032; Long Term Rating; Affirmed; AA-sf; RO:Sta

----Series D ES0361796040; Long Term Rating; Affirmed; A-sf; RO:Sta

----Series E ES0361796057; Long Term Rating; Upgrade; CCCsf

MBS Bancaja 4, FTA

----Class A2 ES0361797014; Long Term Rating; Affirmed; AAAsf; RO:Sta

----Class B ES0361797030; Long Term Rating; Affirmed; A+sf; RO:Sta

----Class C ES0361797048; Long Term Rating; Affirmed; A-sf; RO:Sta

----Class D ES0361797055; Long Term Rating; Affirmed; BBBsf; RO:Sta

----Class E ES0361797063; Long Term Rating; Upgrade; CCCsf

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Applicable Criteria

[European RMBS Rating Criteria \(pub. 16 Aug 2019\)](#)

[Global Structured Finance Rating Criteria \(pub. 02 May 2019\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria \(pub. 18 Apr 2019\)](#)

[Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum \(pub. 18 Apr 2019\)](#)

[Structured Finance and Covered Bonds Country Risk Rating Criteria \(pub. 23 Oct 2018\)](#)

[Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria \(pub. 27 Jun 2019\)](#)

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