

C. N. M. V.  
Dirección General de Mercados e Inversores  
C/ Edison 4  
Madrid

### **COMUNICACIÓN DE HECHO RELEVANTE**

#### **MADRID RESIDENCIAL I, FONDO DE TITULIZACIÓN DE ACTIVOS Actuaciones sobre las calificaciones de los bonos por parte de Standard & Poor's.**

Titulización de Activos, Sociedad Gestora de Fondos de Titulización, S.A. comunica el siguiente Hecho Relevante:

I. Respecto al fondo de referencia, adjuntamos nota de prensa publicada por Standard & Poor's, con fecha 23 de enero de 2015, donde se lleva a cabo la siguiente actuación:

- Bono A, afirmado como **A (sf)**.

En Madrid, a 26 de enero de 2015

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# RatingsDirect®

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## Ratings Affirmed In Spanish RMBS Transactions MADRID RESIDENCIAL I And II Following Criteria Updates

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### OVERVIEW

- We have reviewed MADRID RESIDENCIAL I and II by conducting our credit and cash flow analysis under our updated Spanish RMBS criteria and our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating.
- Following our review, we have affirmed our 'A (sf)' rating on the class A notes in both transactions.
- MADRID RESIDENCIAL I and II are Spanish RMBS transactions, which closed in December 2008 and June 2010, respectively. They securitize first-ranking mortgage loans. Caja Madrid (now Bankia) originated the pools, which comprise high loan-to-value loans granted to borrowers, mainly located in Madrid.

MADRID (Standard & Poor's) Jan. 23, 2015--Standard & Poor's Ratings Services today affirmed its 'A (sf)' credit ratings on MADRID RESIDENCIAL I, Fondo de Titulizacion de Activos and MADRID RESIDENCIAL II, Fondo de Titulizacion de Activos' class A notes.

Upon publishing our updated criteria for Spanish residential mortgage-backed securities (RMBS criteria) and our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating (RAS criteria), we placed those ratings that could potentially be affected "under criteria observation" (see "Italian And Spanish RMBS And

Covered Bond Program Ratings Placed Under Criteria Observation," and "Italy And Spain RMBS Methodology And Assumptions," both published on Sept. 18, 2014, and "Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance," published on Sept. 19, 2014).

Following our review of these transactions, our ratings that could potentially be affected by the criteria are no longer under criteria observation.

Today's affirmations follow our credit and cash flow analysis of the most recent transaction information that we have received as of October 2014. Our analysis reflects the application of our RMBS criteria and our RAS criteria.

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, this transaction's 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 48 of the RAS criteria are met, we can assign ratings in both 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 in both transactions for the class A notes.

As of the November 2014 payment date, the outstanding balance of defaults (net of recoveries) represents 3.83% and 3.07% of the initial pool balances for MADRID RESIDENCIAL I and MADRID RESIDENCIAL II, respectively. Interest on the unrated loan B in both transactions can be deferred if cumulative defaults (net of recoveries) represent more than 12% of the initial balance of the assets for MADRID RESIDENCIAL I and 9.95% for MADRID RESIDENCIAL II. We do not expect the loan B interest deferral trigger in either transaction to be breached in the near term, which would benefit the class A notes by diverting loan B related cash flows toward the servicing of the class A notes.

On the latest payment date in October 2014, the cash reserve was below its required level for both transactions. The actual reserve fund represents 80.1% and 81.3% of the required amounts in MADRID RESIDENCIAL I and MADRID RESIDENCIAL II, respectively, (10% of the notes' initial balance). Both reserve funds have a floor level and may amortize three years after closing subject to meeting specific conditions.

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Since our previous review, credit enhancement has increased to 51.6% from 46.8% and to 42.3% from 38.9% for MADRID RESIDENCIAL I and MADRID RESIDENCIAL II, respectively (see "Ratings Affirmed In Spanish RMBS Transactions MADRID RESIDENCIAL I And II Following Counterparty Review," published on Dec. 21, 2012).

Delinquencies of more than 30 days have remained stable in both transactions, after peaking in August 2012. Severe delinquencies of more than 90 days, at slightly above 1.0% in both transactions, are on average lower than those for our Spanish RMBS index (see "Spanish RMBS Index Report Q2/Q3 2014: Delinquencies Continue To Rise As The Housing Market Slowly Recovers," published on Jan. 2, 2015). Defaults are defined as mortgage loans in arrears for more than 12 months. Cumulative defaults (before recoveries) for MADRID RESIDENCIAL I and II are 4.5% and 3.5%, respectively. Prepayment levels remain low and both transactions are unlikely to pay down significantly in the near term, in our opinion.

After applying our RMBS criteria to both transactions, our credit analysis results show an increase in the weighted-average foreclosure frequency (WAFF) and in the weighted-average loss severity (WALS) for each rating level.

Rating level	WAFF (%)	WALS (%)
MADRID RESIDENCIAL I		
AAA	48.8	60.8
AA	38.0	57.2
A	32.0	50.5
BBB	24.0	46.5
BB	15.3	43.5
B	12.9	40.7
MADRID RESIDENCIAL II		
AAA	48.0	64.0
AA	38.5	60.6
A	33.2	54.1
BBB	25.9	50.3
BB	18.2	47.4
B	16.0	44.6

The increase in the WAFF is mainly due to the higher base WAFF under our RMBS criteria, high original loan-to-value (LTV) ratios, and the higher adjustments applied to non-Spanish citizens and geographical concentration. The increase in the WALS is mainly due to the application of our higher revised market value decline assumptions. The overall effect is an increase in the required credit coverage for each rating level.

Following the application of our RAS criteria and our RMBS criteria, we have determined that our assigned rating on the class A notes in both 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 available credit enhancement for the class A notes in MADRID RESIDENCIAL I

and MADRID RESIDENCIAL II can withstand our stresses up to the 'AAA (sf)' and 'AA+ (sf)' rating levels, six and four notches above the sovereign rating, respectively.

Banco Bilbao Vizcaya Argentaria S.A. (BBVA) (BBB/Stable/A-2) replaced Banco Santander S.A. (BBB+/Stable/A-2) as the bank account provider in December 2014 in both transactions. The documentation was amended in October 2012 to be in line with our current counterparty criteria to maintain Santander as an eligible counterparty (see "Counterparty Risk Framework Methodology And Assumptions," published on June 25, 2013). Under these criteria, we consider the bank account to provide "limited" support. Therefore, the maximum achievable rating under our current counterparty criteria is 'A (sf)' for the class A notes in both transactions.

Taking into account the results of our updated credit and cash flow analysis and the application of our RAS criteria, RMBS criteria, and current counterparty criteria, we have affirmed our 'A (sf)' rating on the class A notes in both transactions.

BBVA is the swap counterparty in both transactions. The documentation was amended in order to be in line with our current counterparty criteria and maintain BBVA as an eligible counterparty. Under the amended agreement, BBVA can remain as the swap provider if it posts collateral if it is downgraded to 'BBB-'. Given that the swap documentation and our criteria support a maximum achievable rating of 'A- (sf)', we did not give benefit to the swap in our cash flow modeling. Therefore, our rating on the notes is delinked from the swap.

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 WAFF assumptions by assuming additional arrears of 8% for one-year and three-year horizons. This did not result in our rating 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 modest economic growth, continuing high unemployment, and house prices levelling off in 2015.

On the back of improving but still depressed macroeconomic conditions, we don't expect the performance of the transactions in our Spanish RMBS index to improve in 2015.

Delinquencies continue to roll over into defaults, indicating that servicers are finding it difficult to cure severe delinquencies. Recoveries on defaulted

assets are low, due to a depressed housing market and longer recovery timings for transactions.

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

MADRID RESIDENCIAL I and II are Spanish RMBS transactions, which closed in December 2008 and June 2010, respectively. Each transaction securitizes pools of first-ranking mortgage loans from Caja Madrid (now Bankia S.A.), which included loans originated through brokers and a significant portion of loans granted to non-Spanish citizens. The mortgage loans are mainly located in Madrid and both transactions comprise high LTV loans.

#### STANDARD & POOR'S 17G-7 DISCLOSURE REPORT

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties, and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard & Poor's 17g-7 Disclosure Reports included in this credit rating report are available at <http://standardandpoorsdisclosure-17g7.com>.

#### RELATED CRITERIA AND RESEARCH

##### Related Criteria

- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance, Sept. 19, 2014
- Italy And Spain RMBS Methodology And Assumptions, Sept. 18, 2014
- Europe Asset Isolation And Special-Purpose Entity Criteria--Structured Finance, Sept. 13, 2013
- Counterparty Risk Framework Methodology And Assumptions, June 25, 2013
- Global Investment Criteria For Temporary Investments In Transaction Accounts, May 31, 2012
- Methodology: Credit Stability Criteria, May 3, 2010
- Understanding Standard & Poor's Rating Definitions, June 3, 2009

##### Related Research

- Spanish RMBS Index Report Q2/Q3 2014: Delinquencies Continue To Rise As The Housing Market Slowly Recovers, Jan. 2, 2015

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- Credit Conditions: The Eurozone Crawls Into 2015 With Weak Momentum, Dec. 4, 2014
- Standard & Poor's Ratings Definitions, Nov. 20, 2014
- Italian And Spanish RMBS And Covered Bond Program Ratings Placed Under Criteria Observation, Sept. 18, 2014
- Outlook Assumptions For The Spanish Residential Mortgage Market, Sept. 18, 2014
- Low Interest Rates Are Underpinning Europe's House Price Recovery, July 28, 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
- Spanish RMBS Index Report Q1 2014: Collateral Performance Continues To Deteriorate Despite Signs Of Economic Recovery, June 6, 2014
- Ratings Affirmed In Spanish RMBS Transactions MADRID RESIDENCIAL I And II Following Counterparty Review, Dec. 21, 2012

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