



Rating Action: Moody's upgrades ratings in two Spanish RMBS transactions

07 Jul 2023

Frankfurt am Main, July 07, 2023 -- Moody's Investors Service ("Moody's") has today upgraded the ratings of six Notes in MBS BANCAJA 3, FTA and MBS BANCAJA 4, FTA. The rating action reflects better than expected collateral performance and the increased levels of credit enhancement for the affected Notes.

Moody's affirmed the ratings of the Notes that had sufficient credit enhancement to maintain their current ratings.

Issuer: MBS BANCAJA 3, FTA

...EUR668M Class A2 Notes, Affirmed Aa1 (sf); previously on Jul 16, 2018 Affirmed Aa1 (sf)

...EUR13.2M Class B Notes, Upgraded to Aa1 (sf); previously on Jul 16, 2018 Confirmed at A2 (sf)

...EUR11.6M Class C Notes, Upgraded to A1 (sf); previously on Jul 16, 2018 Confirmed at Baa3 (sf)

...EUR7.2M Class D Notes, Upgraded to Baa3 (sf); previously on Jul 16, 2018 Confirmed at B2 (sf)

Issuer: MBS BANCAJA 4, FTA

...EUR1182.1M Class A2 Notes, Affirmed Aa1 (sf); previously on Nov 13, 2020 Upgraded to Aa1 (sf)

...EUR30.5M Class B Notes, Upgraded to A3 (sf); previously on Nov 13, 2020 Upgraded to Baa3 (sf)

...EUR18.9M Class C Notes, Upgraded to B1 (sf); previously on Nov 13, 2020 Affirmed B2 (sf)

...EUR18.5M Class D Notes, Upgraded to B2 (sf); previously on Sep 5, 2014 Affirmed Ca (sf)

The maximum achievable rating is Aa1 (sf) for structured finance transactions in Spain, driven by the corresponding local currency country ceiling of the country.

RATINGS RATIONALE

The rating action is prompted by decreased key collateral assumptions, namely the portfolio Expected Loss (EL) assumptions, for both transactions and the MILAN CE assumption for MBS BANCAJA 3, FTA due to better than expected collateral performance. The rating action is also prompted by an increase in credit enhancement for the affected tranches.

Revision of Key Collateral Assumptions

As part of the rating action, Moody's reassessed its lifetime loss expectation for the portfolio reflecting the collateral performance to date.

The performance of the transactions has continued to improve since the last rating action.

For MBS BANCAJA 3, FTA, total delinquencies have decreased in the past year, with 90 days plus arrears currently standing at 1.46% of current pool balance. Cumulative defaults currently stand at 4.37% of original pool balance up

from 4.35% a year earlier.

For MBS BANCAJA 3, FTA, the expected loss assumption is 3.33% as a percentage of current pool balance, which corresponds to a decrease of the expected loss assumption as a percentage of original pool balance to 2.21% from 2.32% due to the improving performance.

For MBS BANCAJA 4, FTA, total delinquencies have increased in the past year, with 90 days plus arrears currently standing at 1.32% of current pool balance. Cumulative defaults currently stand at 6.91% of original pool balance up from 6.86% a year earlier.

For MBS BANCAJA 4, FTA, the expected loss assumption is 3.88% as a percentage of current pool balance, which corresponds to a decrease of the expected loss assumption as a percentage of original pool balance to 3.76% from 3.86% due to the improving performance

Moody's has also assessed loan-by-loan information as part of its detailed transaction review to determine the credit support consistent with target rating levels and the volatility of future losses. As a result, Moody's has reduced the MILAN CE assumption to 12.00% from 12.80% for MBS BANCAJA 3, FTA. For MBS BANCAJA 4, FTA, Moody's has maintained the current MILAN CE of 13.00%.

Increase in Available Credit Enhancement

Sequential amortization and a non-amortizing reserve fund led to the increase in the credit enhancement available in both transactions. For MBS BANCAJA 3, FTA, sequential amortization will continue due to the balance of non-doubtful loans being below 10% of the outstanding loan balance at the closing date of the transaction. For MBS BANCAJA 4, FTA, the sequential amortization is sustained by delinquency triggers of the junior Notes. If delinquency were to decrease below the trigger levels for these Notes, these could amortize pro-rata with Class A Notes to their target capital structure. Similar to MBS BANCAJA 3, FTA, once the current outstanding pool balance decreased to below 10% of the outstanding pool balance at the closing date, sequential amortization will continue.

While the reserve funds in both transactions are currently at their respective targets, there is a reserve fund amortization trigger in place, which could lead to an amortization of the reserve funds to their respective floors.

As at the last reporting date, for MBS BANCAJA 3, FTA, for instance, the credit enhancement for the most senior tranche affected by today's rating action increased to 29.84% from 17.56% since the last rating action.

For MBS BANCAJA 4, FTA, for instance, the credit enhancement for the most senior tranche affected by today's rating action increased to 33.06% from 22.01% since the last rating action.

The principal methodology used in these ratings was "Moody's Approach to Rating RMBS Using the MILAN Framework" published in July 2022 and available at <https://ratings.moodys.com/rmc-documents/390481>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Please note that a Request for Comment was published in which Moody's requested market feedback on potential revisions to one or more of the methodologies used in determining these Credit Ratings. If the revised methodologies are implemented as proposed, the Credit Ratings referenced in this press release might be positively affected.

Request for Comments can be found on the rating methodologies page on <https://ratings.www.moodys.com>.

The analysis undertaken by Moody's at the initial assignment of ratings for RMBS securities may focus on aspects that become less relevant or typically remain unchanged during the surveillance stage. Please see Moody's Approach to Rating RMBS Using the MILAN Framework for further information on Moody's analysis at the initial rating assignment and the on-going surveillance in RMBS.

Factors that would lead to an upgrade or downgrade of the ratings:

Factors or circumstances that could lead to an upgrade of the ratings include: (1) performance of the underlying collateral that is better than Moody's expected, (2) an increase in available credit enhancement, (3) improvements in the credit quality of the transaction counterparties, and (4) a decrease in sovereign risk.

Factors or circumstances that could lead to a downgrade of the ratings include: (1) an increase in sovereign risk, (2) performance of the underlying collateral that is worse than Moody's expected, (3) deterioration in the Notes' available credit enhancement, and (4) deterioration in the credit quality of the transaction counterparties.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/documents/PBC_1288235.

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