Fondo de Titulización, RMBS Prado IV

New Issue

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Prado IV Fondo de Titulización

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Capital Structure

Class	Ratings	Outlook	Amount (EURm)	CE[a] (%)	Interest Rate (%) (post step-up)	Legal maturity	TT[b] (%)	TTLM[c] (x)
A	AA+sf	Stable	305.0	24.29	3m Euribor + 0.46 (0.92)	Mar 56	78.2	7.1
B	NR	n.a.	85.0	2.50	3m Euribor + 0.75 (1.50)	Mar 56	21.8	2.0
Total			390.0					

[a] Credit Enhancement (CE) consists of structural subordination plus a reserve fund
[b] Tranche thickness percentage (TT%) – ratio of class size to collateral balance
[c] Tranche Thickness Loss Multiple – TT% divided by Fitch's base case loss expectation. See also *Structured Finance Tranche Thickness Metrics*
Source: Fitch

Transaction Summary

This is a cash flow securitisation of a static EUR390.0 million portfolio of Spanish residential mortgages, underwritten by Union de Créditos Inmobiliarios (UCI; the originator and servicer), a specialist lender fully owned by BNP Paribas (A+/Stable/F1) and Banco Santander, S.A. (A−/Stable/F2). This is the fourth RMBS conducted out of UCI's new Prado RMBS programme that started in 2015; UCI conducted 18 securitisations between 1994 and 2009.

Key Rating Drivers

Broker Origination: Of the portfolio, 89.2% has been originated via brokers, which introduce applicants to UCI, where a full underwriting process is conducted, inclusive of documentation checks. In its credit analysis, Fitch has increased the default rate expectation for broker-originated loans by 10%, as substantiated with performance data presented by UCI. After 2008, UCI carried out a complete overhaul of its underwriting practices, resulting in lower origination volumes and more stable credit performance.

Turbo Amortisation: The transaction features a mechanism by which payments to junior items may be diverted to amortise the class A notes if certain cumulative default triggers are met, or the relevant step-up date is reached. The transaction operates a fully sequential amortisation of the securitisation notes. Both features offer protection to senior investors against a possible credit deterioration of the portfolio.

Interest Rate Hedge: A swap hedges the cash flow risk of the transaction that is linked to the 48.3% of the portfolio that pays a fixed interest rate, while the securitisation notes receive floating coupons. The swap agreement provides a level of excess spread of around 197bp per annum of the outstanding balance of performing fixed-rate loans.

Criteria Variations: Fitch's analysis of this transaction accommodates three variations from the agency's Spanish RMBS criteria: a lower frequency of foreclosure (FF) hit for broker-originated loans; a lower prepayment assumption; and a lower quick sale adjustment (QSA) for repossessed properties that are linked to defaulted loans.

Servicer Discontinuity Risk: Fitch expects payment continuity to the rated notes to be maintained under a servicer disruption event. This is based on the transaction's structural features, which include a cash reserve that operates like a senior liquidity facility and the role of Banco Santander, S.A. as back-up servicer facilitator.

Sovereign Cap: The class A rating is capped at the maximum achievable structured finance rating in Spain of 'AA+sf', six notches above the sovereign's Issuer Default Rating (IDR).

Transaction Comparison Table

Issuer	Prado IV	SRF 2017-1[a]	Prado III	UCI 17	UCI 16
Closing date	April 2017	April 2017	October 2016	May 2007	October 2006
Asset class and transaction type	Residential mortgages located Spain. Static cash flow RMBS				
Seller	UCI	SRF intermediate	UCI	UCI	UCI
Issuance volume (EURm)	390.0	403.1	420.0	1,415.4	1,819.8
Class A (Rating, CE[b], %)	AA+, 24.3	AA+, 39.6	NR, 26.5	AAA	AAA
Class B	NR, 2.5	NR, 29.6	NR, 2.5	A	A
Class C		NR, 25.6		BBB	BBB
Class D		NR, 22.6		CCC	BB+
Class E		NR, 1.6			CCC
Portfolio summary as of closing – Key attributes [c]					
Total principal amount (EURm)	390.0	403.1	420.0	1,415.4	1,819.8
Avg. loan balance (EUR)	115,487	121,998	111,780	173,742	151,515
WA original term (years)	31.8	31.4	n.a.	n.a.	n.a.
WA seasoning (years)	4.6	9.3	5.6	0.8	0.7
WA remaining term (years)	27.2	22.1	27.2	n.a.	n.a.
Original and current loan-to-values (OLTV and CLTV, %) [c]					
WA OLTV before adjustments	79.4	79.1	75.9	72.2	74.5
WA OLTV after adjustments [d]	79.9	86.0	n.a.	n.a.	n.a.
WA CLTV	71.3	62.5	68.7	71.6	73.9
WA indexed CLTV [e]	81.6	77.8	n.a.	75.0	78.5
Interest rate[d]					
Floating rate (% portfolio balance)	51.7	99.7	73.5	100.0	100.0
Fixed/mixed (% portfolio balance)	48.3	0.3	26.5	0.0	0.0
WA interest rate (%)	2.5	1.5	2.2	4.7	4.2
WA margin over index (%)	0.8	1.3	1.5	1.5	1.5
Type of loan					
Standard amortising	84.7	45.9	94.7	10.0	0.0
Flexible features loans [f]	15.3	54.1	38.1	90.0	100.0
Geographic concentration					
- Madrid	25.2	6.0	25.9	13.5	13.4
- Catalunya	23.2	75.7	18.4	15.2	13.3
- Andalusia	21.6	3.2	24.4	25.9	27.1
- Other	30.0	15.1	31.3	n.a.	n.a.
Other features					
Spanish residents	100.0	100.0	100	100	100.0
Foreign borrowers	8.6	6.0	8.4	0.0	20.0
Second homes	0.0	9.9	5.1	5.0	5.9
VPO subsidised properties	10.0	6.5	11.9	11.0	14.7
Purpose other than purchase	0.0	25.2	0.0	0.0	0.0
Instalment build-up	0.0	8.5	4.9	20.0	19.0
Current arrears status					
- Performing	100.0	91.9	100	100.0	100.0
- 0-1 months	0.0	8.1	0.0	0.0	0.0
Prior restructurings					
- Not restructured	93.0	17.3	92.9	0.0	0.0
- RLs < 36m	0.3	35.3	0.7	n.a.	n.a.
- RLs < 48m	1.5	29.1	2.4	n.a.	n.a.
- RLs >= 48m	5.2	18.3	4.0	n.a.	n.a.
WA CPH for RL (months) [d, g]	59.4	42.0	n.a.	n.a.	n.a.

[a] All portfolio data for SRF 2017-1 within this column is consolidated by borrower ID by Fitch, and it can differ from the statistics presented by the respective transaction documents
[b] Credit enhancement is provided by structural subordination and a cash reserve
[c] WA figures are weighted by outstanding portfolio balance
[d] Fitch estimates OLTV at the restructuring date for those loans that have undergone modifications. Additionally Fitch accounts for the possibility of additional drawdowns that can be made. The compounded LTV migration of these two adjustments is reflected on the WA OLTV after adjustments
[e] Indexed CLTV estimated based on national house price index trends
[f] Examples include: Joker instalment, CPI cap and easy instalments (further advances or grace period permitted if certain conditions are met by the borrowers in the case of SRF 2017-1)
[g] Clean payment history (CPH) for restructured loans (RL) is estimated as the number of months since the last time the borrower was in arrears (for more than 35 days in the case of SRF 2017-1), or the end of the restructuring period (or the end of the last reported grace period in the case of SRF 2017-1)
Source: Transaction documents, Fitch

Related Research

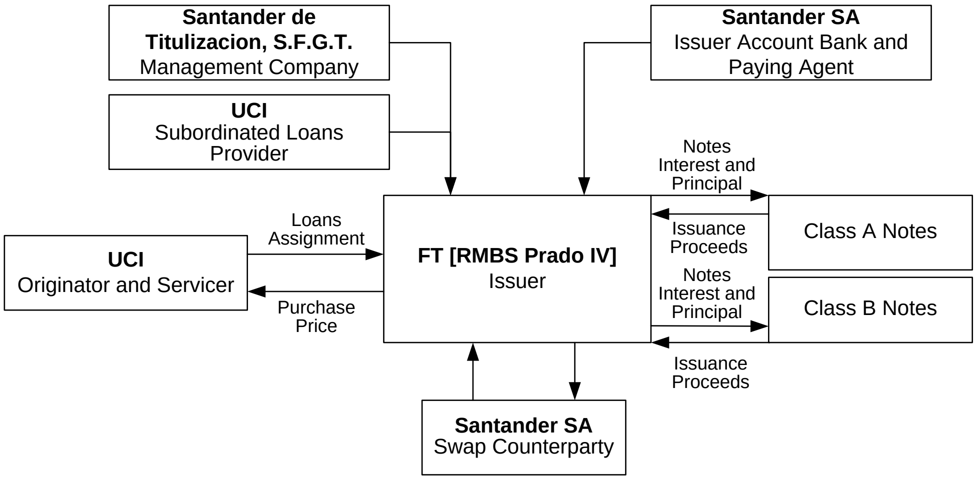
Spanish Repossession Analysis 2016 (October 2016)

Global Housing and Mortgage Outlook – 2017 (February 2017)

RMBS Compare (September 2016)

Transaction and Legal Structure

Structure Diagram



Source: Transaction documents, Fitch

Issuer and True Sale

The notes will be issued by Prado IV, F.T. RMBS (the issuer), a limited-liability special purpose vehicle (SPV) incorporated under the laws of Spain, the sole purpose of which is to acquire mortgage loans from UCI (seller) as collateral for the issuance of quarterly-paying notes. The credit rights sold to the issuer consist of interest and principal instalments due by the borrowers under the mortgage loans, together with any recoveries obtained from them.

The trustee or management company, Santander de Titulización, SGFT, which is supervised by the Comisión Nacional del Mercado de Valores (CNMV), is responsible for cash reconciliation, payment and waterfall calculations and their reporting, including the monitoring of applicable triggers. It is also responsible for taking any action in the interests of the noteholders, such as the replacement of the servicer or account bank counterparties.

Representations and Warranties

The seller provided the issuer with specific representations and warranties (R&Ws) concerning the seller's organisation and the asset characteristics. The related appendix includes the main R&Ws that are available to investors, which were disclosed in the offering documents and that relate to the underlying asset pool. The R&Ws are substantially comparable to those typically contained in other European RMBS transactions, as described in Fitch's research *Representations, Warranties and Enforcement Mechanisms in Global Structured Finance Transactions.* Fitch made no adjustments to its analysis in relation to the R&Ws.

Permitted Variations

The servicer is authorised, at the request of a debtor, to agree on amendments to the interest rate and term of the loans. These modifications are subject to certain conditions, eg no further advances will be granted, margins cannot fall below a certain floor for each reference rate index (0.5% for Euribor and minus 0.4% for IRPH), and the term cannot be extended beyond the legal maturity of the issuer. These amendments are limited to 15% of the initial portfolio balance if granted to distressed borrowers; this may lead to a delay on provisioning for defaults. Fitch notes no limit is set on the amount of permitted variations granted for commercial reasons. Under exceptional circumstances, the trustee may suspend or amend the authorisation and requirements for renegotiation by UCI, as set forth above.

Substitutions

The seller is required to substitute or repurchase all loans that do not comply with the R&Ws, or that have been modified with amendments not contemplated under the permitted variations. UCI guarantees to substitute such loan for one with similar characteristics within 15 calendar days of being notified, subject to prior consent from the trustee. If no suitable substitute loan is found in the 15-day period, UCI should repurchase such loan, paying its outstanding principal, plus any interest accrued amounts.

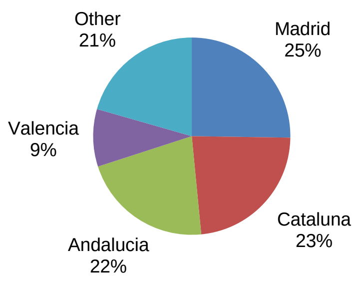
Disclaimer

For the avoidance of doubt, Fitch relies, in its credit analysis, on legal and/or tax opinions provided by transaction counsel. As Fitch has always made clear, Fitch does not provide legal and/or tax advice or confirm that the legal and/or tax opinions or any other transaction documents or any transaction structures are sufficient for any purpose. The disclaimer at the foot of this report makes it clear that this report does not constitute legal, tax and/or structuring advice from Fitch, and should not be used or interpreted as legal, tax and/or structuring advice from Fitch. Should readers of this report need legal, tax and/or structuring advice, they are urged to contact relevant advisers in the relevant jurisdictions.

Asset Analysis

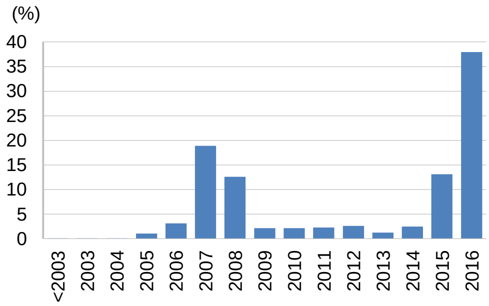
The pool comprises annuity amortising mortgages backed by residential properties in Spain, with a weighted average (WA) seasoning of 4.5 years and a WA original term to maturity of 31.8 years. The portfolio is 89.2% originated via brokers and the remaining 10.8% via UCI's online platform called "Hipotecas.com". The portfolio WA Initial debt-to-income (DTI) is 34.8%, estimated based on household net income at origination and a 5.0% stressed interest rate.

Regional Concentration



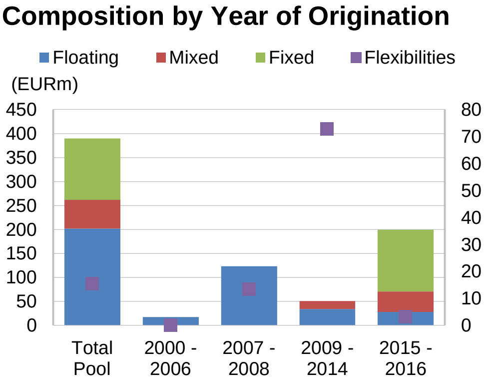
Source: UCI

Pool Composition by Year of Origination

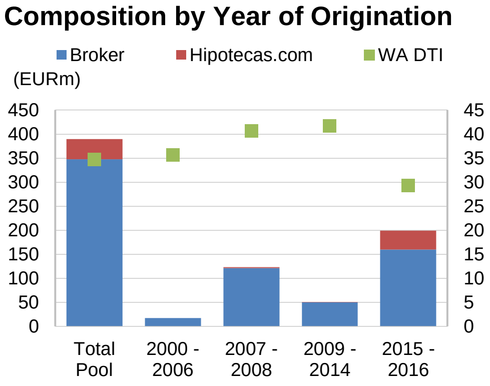


Source: UCI

Regarding the payable interest rate on the mortgages, 32.9% of the portfolio will continue paying a fixed interest rate until maturity and 15.3% a fixed rate that will switch to floating rate in five years on average. Around 51.7% of the pool pays a floating interest rate of which the majority is linked to IRPH, an index that represents the average costs of a mortgage in Spain. IRPH rates have historically been above the 12-month Euribor rate. This is especially the case in low interest rate environments, where the positive difference between IRPH and 12-month Euribor is usually at its largest. In its cash flow modelling, Fitch gave credit to this positive difference between the reference rates.



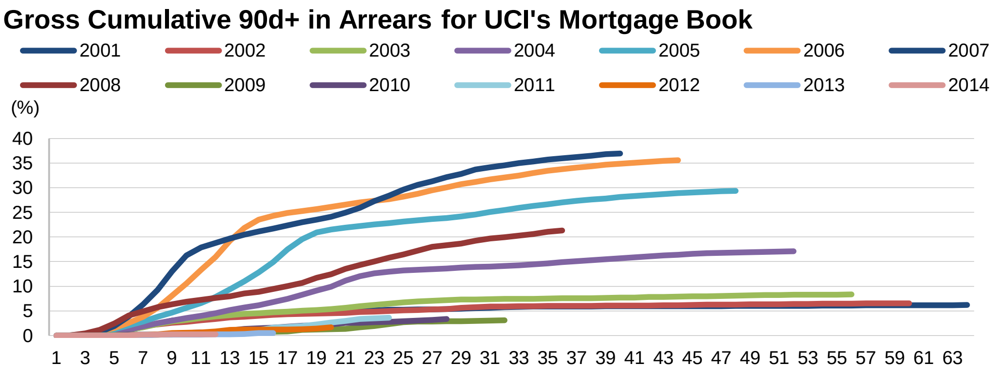
Source: UCI



Source: UCI

89.2% Broker Origination

UCI is a specialised Spanish mortgage lender that originates the majority of its business from a network of 1,000 brokers. While Fitch considers broker origination riskier than branch origination, the agency has reduced the FF adjustment to broker loans in this transaction to 10%, from 200% as presented in Fitch's Spanish RMBS criteria. This FF adjustment is a criteria variation, substantiated by the default vintage data provided by UCI which demonstrates improvements in credit performance since UCI introduced enhancements to its underwriting and servicing standards post 2009. See *Criteria Variations*.



Source: UCI

15.3% Flexibility Features

The following characteristics constitute flexible features that may signal a weaker borrower profile; they are subject to a FF increase of 20% under Fitch`s analysis. Around 13% of borrowers have the option to limit the growth of their instalments under a rising interest rate scenario to a maximum of 200%, or 100% of the Consumer Price Index annual change. Based on data presented by UCI, the frequency of use of this flexibility (*instalment growth cap*) is very limited, and its activation requires the formal request from the borrower in most cases.

Around 2.3% of the borrowers have an initially fixed interest rate period of three, five, seven or 10 years, during which the loan instalment increases gradually from a lower-than-normal base (*easy payment loans*); 1% of the borrowers have the option to skip one instalment a year (*wildcard option*) for the first three years post origination, as long as the borrower is not in arrears and the use of this feature is not consecutive.

7.0% Restructured Loans (RLs)

About 7.0% of the pool has undergone some type of restructuring, such as temporary interest rate reductions and grace periods. Fitch's analysis of RLs is influenced by LTV and DTI ratios at the restructuring date, and a clean payment history (CPH) since the restructuring date. As some information was missing to calculate these ratios, Fitch estimated the property valuation at the restructuring date by indexing the original property value up to the restructuring point, and assumed income at restructuring to be the same as at origination. The RL portion of the portfolio has a WA CPH of 50.3 months.

Bridge Loans

Around 8.6% of the mortgages were previously bridge loans, provided for the purchase of a new house when the borrower had not sold the previous property and with both properties servicing as security for the bridge loan. At closing, all bridge loans had converted into standard residential loans, as the previous properties had been sold and the loan balance reduced accordingly.

Foreign Borrowers

Around 8.6% of the loans in the pool were granted to non-Spanish borrowers. All borrowers are residents of Spain; Fitch increases the FF for these loans by 200% as per its rating criteria.

VPO Loans

Approximately 10% of the loans were granted under a Vivienda de Protección Oficial (VPO) program, which is a government-regulated platform offering specific economic and tax benefits to facilitate housing affordability. VPO properties are linked to a number of legal obligations and restrictions on property rights, although it does not preclude the foreclosure of a mortgage related property. The mortgages do not have any judicial restriction. In its analysis, Fitch used the specific VPO property value index from the Ministerio de Fomento for indexation purposes. As none of the VPO loans in the pool benefit from any subsidy, no further adjustment to their FF has been carried out.

Portfolio Credit Analysis

Fitch analysed the portfolio using its ResiEMEA Spain Model, which implements the agency's criteria for granular Spanish RMBS on a loan-by-loan basis. The model produces WA foreclosure frequency (WAFF) and WA recovery rates (WARR) for the portfolio, as presented by the table below.

Fitch Default Model Output

Rating level (%)	WAFF[a]	WARR[b]	MVD[c]
Bsf stress scenario	11.0	52.8	45.0
AA+sf stress scenario	31.6	35.8	60.8

[a] This represents the lifetime default rate on the portfolio, relative to its initial balance
[b] Weighted average recovery rate on defaulted loans
[c] Market value decline applied to the property appraisal values after indexation. Used to estimate recovery rates
Source: Fitch

Lender Adjustment

An on-site operational review with the originator was carried out for the purpose of this analysis, which complements the knowledge gained by Fitch as the agency has rated four RMBS transactions from UCI in the past (see *Appendix I: Origination and Servicing Standards*). Fitch believes the origination, underwriting and servicing practices and procedures applicable to the portfolio have improved significantly compared to those applied by UCI before the financial crisis.

Financial Structure and Cash Flow Modelling

Fitch analysed the structure using a proprietary cash flow model. The timing of defaults, the level of prepayments and the interest rates under different rating stresses were tested in the cash flow model to determine if there would be sufficient cash flow to pay interest and principal according to the terms of the notes.

Credit Enhancement (CE)

At closing, the class A notes will have a 24.29% CE provided by structural subordination and the reserve fund. The analysis showed that the CE levels provided for the senior tranche would be sufficient to withstand the credit stresses determined by the agency for the rating.

Priority of Payments

This transaction is structured with a combined priority of payments that governs how the issuer's available funds are allocated on each quarterly payment date. The issuer's available funds will be applied in the order shown below.

Simplified Pre-Enforcement Combined Priority of Payments

1	Ordinary and extraordinary expenses
2	Payments due under the swap agreement
3	Class A interest
4	Reserve fund top-up to target balance
5	Class A principal by the target amortisation amount (If no turbo event has taken place)
6	Class B interest, only after class A being fully repaid
7	Class B principal
8	Swap termination payments (If applicable)
9	Subordinated items

Source: Fitch

Excess spread will be available to provision for defaults, defined as receivables over 12 months in arrears. This is implied by the definition of the principal due amount on the notes, which is equal to the outstanding balance of the notes, minus the aggregated outstanding principal of all non-defaulted receivables.

Class A Turbo Amortisation Event (Turbo Event)

If the balance of cumulative defaults exceeds 1%, 2%, 3%, 4% and 5% during the first five years of the transaction respectively, all available funds, after paying the first four items of the priority of payments, will be diverted to amortise the class A notes. This turbo amortisation of the class A notes will take place from the step-up date of June 2022 irrespective of the cumulative defaults trigger.

Reserve Fund (RF)

The RF will be established at closing for the purpose of providing liquidity to cover class A interest for as long as these notes remain outstanding, to amortise class A principal on its last payment date, and to cover junior items after full redemption of the class A. The RF will be pre-funded by a subordinated loan provided by UCI for an amount that represents 2.5% of the class A and B notes' initial balance. On each payment date, the RF required amount will be the higher of 2.5% of the class A and B principal balance, or 1.0% of the class A and B notes' initial balance.

Swap Agreement

The issuer will enter into an interest rate swap agreement with Banco Santander to hedge the mismatch between the interest earned on the fixed rate (including mixed rate loans in a fixed phase) mortgages and the floating rate notes. Under the swap agreement the SPV will pay 90bp, retaining the remaining of the WA coupon of the fix/mixed assets, currently 2.87%, and receives 3-month Euribor in return.

Fitch considers the structure adequately addresses the hedge provider counterparty risk, by incorporating eligibility rating thresholds that would trigger remedial action within 30 days if the account bank was downgraded below 'F2' or 'A−'. Remedial actions upon downgrade include collateralisation (within 14 days), replacement with an eligible counterparty, or eligible guarantor.

Prepayment Risk

Fitch tests the transaction's sensitivity to high and low prepayment scenarios. The structure is particularly sensitive to low prepayment scenarios, as the slower note amortisation increases the impact of negative carry, especially after the margin step-up date on the notes. Information provided by UCI suggests the average constant prepayment rate (CPR) of its mortgage book is below Fitch's expectations; as a result, the agency has revised downward the low prepayment stresses used in its models, to 0% from 2%. This is a criteria variation from the agency's *EMEA RMBS Rating Criteria*.

Quick Sale Adjustment (QSA)

Fitch received a loan-by-loan dataset from UCI relating to repossessed and sold properties during the years 2007 to 2016, which suggests an average value decline of 37% between the property appraisal value at the repossession date and the ultimate sale price. Given the significant size of the sample provided and the timeframe covered, Fitch has reduced the QSA assumption to 37% in its analysis, from the standard 45%, as per the agency's criteria (see *Criteria Variation*).

Counterparty Risk

Key Transaction Parties

Issuer	FT Prado IV	Not Rated
Originator/seller/servicer	Unión de Créditos Inmobiliarios (UCI)	Not Rated
Collection account bank/back-up servicer facilitator/SPV account bank/paying agent/GIC provider and swap counterparty	Banco Santander, S.A. (Santander)	A−/Stable/F2
Management company	Santander de Titulización, S.G.F.T., S.A.	Not Rated
Joint arrangers and lead managers	BNP Paribas; Banco Santander S.A.	

Source: Transaction documents and Fitch

Originator and Servicer

Fitch conducted an operational review of the originator and servicer to assess, among other things, its business strategy and servicing capabilities. For detailed information see *Appendix I.*

Payment Interruption Risk

The structure provides mitigants against servicer disruption events that can affect the cash collection process. The RF operates like a liquidity facility, and its size is considered sufficient to cover for the transaction's senior expenses, swap payments, and class A interest payments during the servicer replacement period. The RF cannot be used to cover principal deficiencies unless there is any excess over its target amount and then only at the earlier of class A full amortisation, or final legal maturity of the fund, when all monies are released. In addition, the transaction operates a combined waterfall of payments and therefore available funds comprise principal collections.

Commingling Risk

Commingling losses can take place upon a collection account bank default, as cash collections from the borrowers are clustered on two specific days of every month (and swept to the SPV account bank the next business day after collection). Fitch has sized for one month of commingling losses in its cash flow modelling.

Account Bank

Banco Santander will act as account bank provider, holding the RF and the collections from the assets. Fitch considers the structure adequately addresses account bank counterparty risk by incorporating eligibility rating thresholds that would trigger remedial actions within 30 days if the account bank was downgraded below 'F1' or 'A−'. Remedial actions upon downgrade are replacement with an eligible account bank, or eligible guarantor.

Fitch does not expect a hypothetical loss of large principal collections in a jump-to default scenario for the account bank to cause a downgrade of more than 10 notches. Fitch therefore deems this counterparty exposure as not excessive.

No Deposit Set-Off

Fitch views the likelihood of structured finance investors incurring losses as a result of set-off on domestic deposits insured by obligors as highly remote; this is based primarily on the high level of political support for protecting such deposits (see *Deposit Set-Off for EU Structured Finance and Covered Bonds*). Fitch has not applied additional stresses to account for this risk.

Rating Sensitivity[1]

The structure's sensitivity is robust to the potential variability of key model assumptions, as the class A notes' rating is driven by the maximum achievable structured finance rating in Spain. In addition, CE provides a significant buffer to cover for losses from weak asset performance. The table below shows the model-implied ratings on stressed defaults and recovery rates.

Rating Sensitivity to Defaults and Recovery Rates

	Class A
Original Rating	AA+sf
Increase FF and decrease recovery rates by 15%	AAsf
Increase FF and decrease recovery rates by 30%	Asf

Source: Fitch

Criteria Application, Model and Data Adequacy

Fitch analysed the portfolio using its ResiEMEA Spain Model that implements the agency's criteria for Spanish RMBS on a loan-by-loan basis; Fitch also used its proprietary cash flow model to complete the rating analysis and simulate the transaction cash flows and capital structure (see the *Related Criteria* box on the front page for a complete list of applicable criteria).

Fitch received loan-by-loan information for nearly all the fields under the agency's RMBS data template, and an agreed-upon-procedures (AUP) report from the pool as of March 2017 prepared by an international audit firm. In Fitch's view, the overall level of available data was very good and supports the rating analysis, complemented with a satisfactory on-site operational review of the servicer. Fitch views the originator's underwriting and servicer's servicing procedures to be adequate (see *Appendix I*).

Criteria Variations

Treatment for Broker-Originated Loans

Fitch has reduced the FF hit assumption to 10% from 200% for broker-originated loans. This criteria variation is supported by the overhaul of the underwriting and servicing strategies, implemented by UCI after the financial crisis, and the performance data provided. Both point towards better performance when compared to traditional broker origination. A model-implied rating impact of eight notches is linked to this variation.

Low Constant Prepayment Rate Scenario

Fitch has reduced the low CPR assumption to 0% from 2%. This variation is supported by historical data provided by UCI. No model-implied rating impact is linked to this variation.

[1] These sensitivities describe the model-implied impact of a change in multiple 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.

QSA

Fitch has reduced the QSA assumptions to 37% from 45%. This variation is supported by the recovery data information received from UCI. A model-implied rating impact of one notch is linked to this variation.

Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events, with a review conducted at least yearly. Performance reports will be provided by the trustee on a quarterly basis. Fitch's quantitative analysis will focus on monitoring the key performance parameters (delinquencies, defaults, recoveries and prepayments) against the base case assumptions. Fitch's structured finance performance analytics team will ensure 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 will be available to subscribers at www.fitchratings.com.

Appendix I: Origination and Servicing Standards

Fitch met with UCI in Madrid to determine the firm's corporate strategy, underwriting, IT platforms, servicing and recovery strategies. Fitch views UCI's origination and servicing practices as robust and reliable.

Origination Overview

UCI originates residential mortgage loans through a network of 1,000 real estate professionals and intermediaries in the Spanish property market, or brokers. These professionals bring business to UCI via one of its 23 branches located throughout Spain. UCI is the market leader in mortgage loans originated via this channel.

Since 2009, all borrower documentation has been collected and validated by UCI, which also maintains direct contact with the applicant during the decision making process. UCI terminates the relationship with brokers that do not grant access to borrowers. Another safeguard in place is the early arrears management department, which monitors brokers for fraud, and also monitors arrears performance. A significant deterioration in the performance of mortgages originated by a broker can lead to the termination of the relationship between UCI and the broker.

UCI's lending volumes in Spain increased by 39% year-on-year (yoy) in 2016. Direct lending via UCI's online platform contributed 25% of new volumes originated in Spain, which represents an 80% annual increase.

Underwriting Process

- Step 1 - Basic information from the borrower is collected.
- Step 2 - UCI contacts the applicant and verifies all the information submitted in step 1.
- Step 3 - UCI calculates the borrower's score (using its own scoring system).
  - DTI – Estimated with household income after taxes. No credit is given for variable income. All current debt is considered using a stressed interest rate floor of 3%. UCI has a hard DTI limit of 40% for all new originations.
  - OLTV or Down payment - UCI bases its underwriting on the down payment made by the borrower. The minimum payment required depends on the borrower characteristics.
- Step 4 - Employment history is analysed.
- Step 5 - UCI makes a final decision on the loan application.

Originator Analysis

Strengths	Weaknesses
• Experience in securitisations: UCI has closed 21 transactions in over 20 years (Including three under the Prado programme), and has placed over EUR13bn in RMBS transactions in the market. It has wide experience in servicing securitised mortgages.	• Past UCI securitisations, excluding the Prado series, had extremely weak performance. The previous transactions rated by Fitch have underperformed substantially, leading to a non-conforming consideration by Fitch.
• After 2008 UCI tightened its underwriting guidelines. It stopped working with brokers that had bad performance history, which lead to a reduction in the number of brokers to about 1,000, from 12,000 in 2007.	• The volatile credit performance of previous securitisations, excluding the Prado series, is mainly explained by the weaker underwriting standards and borrower profile and the economic crisis in Spain.
• Experienced in making repossessions and selling properties.	• In the past, interaction with mortgage borrowers was mainly conducted via online and telephone tools, which are non-traditional communication channels compared to the retail banks, which mainly operate via physical bank branches. Since 2009, all borrowers have been met by a commercial agent from UCI.

Source: Fitch

Servicing Overview

Loans originated by UCI are serviced by a team of around 150 professionals, with significant market experience. UCI has a strong recovery team, and all actions are made on a case-by-case basis, depending on the individual circumstances of the borrowers and prioritising an amicable solution, while preparing in parallel the judicial approach taken when all other measures have failed.

Servicing

Phase	Description
• Prevention department (less than one missed monthly payment)	• Contact distressed borrowers. The borrower is offered a wide range of solutions, tailored to their circumstances.
• Centralised recovery (between one and three missed monthly payments)	• Phone contact with borrower to recover unpaid amounts. Solutions are still offered to the client.
• Personal recovery (more than three missed monthly payments)	• Face-to-face contact with the borrower at their home to assess the situation. Solutions are still offered to the client.
• Judicial recovery (more than seven missed monthly payments)	• If, despite all efforts, a friendly solution is not accomplished, then the judicial process commences.

Source: Fitch

Typical Debt Solution Plans Include

- Modifications to the terms of the loan, either temporarily or indefinitely, to maintain payment flows from the borrower. Maturity extensions, instalment reductions or interest rate reductions are examples.
- A property sales mandate in which UCI helps the borrower sell the property according to the price indicated by the borrower (checked internally by a UCI appraisal team). Sale proceeds are used to repay the outstanding debt.
- Payment in kind, whereby UCI takes the property as payment of the debt (if the debt is not fully amortised then a restructuring of the remaining balance could take place).

Management and Sale of REOs

Real estate repossessions are managed by UCI within a specialised department, linked to a national network of more than 1,200 real estate agencies. The main objective remains the sale of the repossessed property, but rentals are also considered.

Appendix II: Transaction Overview

Fondo de Titulización, RMBS Prado IV — Prime RMBS / Spain

Capital Structure

Class	Ratings	Rating Outlook	Size (%)	Size (EURm)	CE[a] (%)	PMT freq.	Reference index	Note margin (%) (post step-up)	Step-up date	Legal maturity	TT[b] (%)	TTLM [c](x)
Class A	AA+sf	Stable	78.2	305.0	24.29	Quarterly	3m Euribor	0.46 (0.92)	Apr 22	Mar 56	78.2	7.1
Class B	NR	n.a.	21.8	85.0	2.50	Quarterly	3m Euribor	0.75 (1.50)	Apr 22	Mar 56	21.8	2.0
Total				390.0								

Cash reserve	**Initial**	EUR9.75m	**Credit enhancement**	**Overcollateralisation**	Yes
	Floor	EUR3.9m		**Cash reserve**	Yes
Scheduled revolving period	None-static			**Excess spread**	Yes
			Swap		Yes

[a] Credit enhancement (CE) consists of structural subordination plus a reserve fund
[b] Tranche thickness percentage – ratio of class size to closing portfolio balance
[c] The tranche thickness loss multiple (TTLM) is calculated by dividing the tranche thickness (TT) by Fitch's base case loss expectation
Source: Fitch

Key Information

Details		**Parties**	
Closing date	6 April 2017	**Originator**	UCI (Not Rated)
Country of assets and type	Spain/residential mortgages	**Seller**	As above
Country of SPV	Spain	**Servicer**	As above
Analyst	Christian Gómez	**Issuer**	Prado IV Fondo de Titulización RMBS
	Ricardo García	**Collection account bank**	Banco Santander (A−/Stable/F2)
		SPV account bank and Paying agent	As above
Performance analyst	Christian Gómez	**Management company**	Santander de Titulización SGFT, S.A.
		Swap counterparty	Banco Santander (A−/Stable/F2)

Source: Fitch

Key Rating Drivers

Broker Origination: Of the portfolio, 89.2% has been originated via brokers, which introduce applicants to UCI, where a full underwriting process is conducted, inclusive of documentation checks. In its credit analysis, Fitch has increased the default rate expectation for broker-originated loans by 10%, as substantiated with performance data presented by UCI. After 2008, UCI carried out a complete overhaul of its underwriting practices, resulting in lower origination volumes and more stable credit performance.

Turbo Amortisation: The transaction features a mechanism by which payments to junior items may be diverted to amortise the class A notes if certain cumulative default triggers are met, or the relevant step-up date is reached. The transaction operates a fully sequential amortisation of the securitisation notes. Both features offer protection to senior investors against a possible credit deterioration of the portfolio.

Interest Rate Hedge: A swap hedges the cash flow risk of the transaction that is linked to the 48.3% of the portfolio that pays a fixed interest rate, while the securitisation notes receive floating coupons. The swap agreement provides a level of excess spread of around 197bp per annum of the outstanding balance of performing fixed-rate loans.

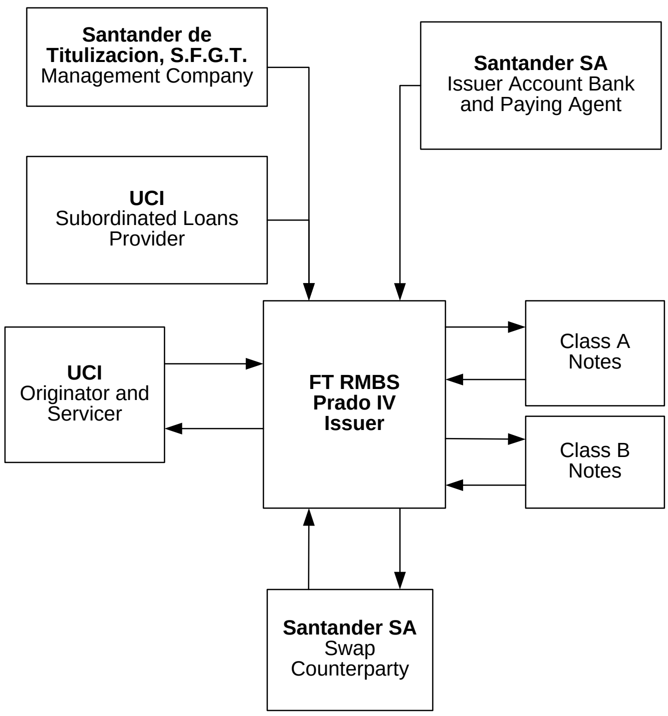
Criteria Variations: Fitch's analysis of this transaction accommodates three variations from the agency's Spanish RMBS criteria: a lower frequency of foreclosure (FF) hit for broker-originated loans; a lower prepayment assumption; and a lower quick sale adjustment (QSA) for repossessed properties that are linked to defaulted loans.

Servicer Discontinuity Risk: Fitch expects payment continuity to the rated notes to be maintained under a servicer disruption event. This is based on the transaction's structural features, which include a cash reserve that operates like a senior liquidity facility and the role of Banco Santander, S.A. as back-up servicer facilitator.

Sovereign Cap: The class A rating is capped at the maximum achievable structured finance rating in Spain of 'AA+sf', six notches above the sovereign's IDR.

Source: Fitch

Simplified Structure Diagram



Source: Transaction documents, Fitch

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.