Fondo de Titulización, RMBS Prado VI

New Issue

Inside This Report

Transaction Summary 1
Key Rating Drivers 1
Transaction and Legal Structure 3
Asset Analysis 4
Financial Structure and Cash Flow Modelling 7
Counterparty Risk 9
Rating Sensitivity 10
Criteria Application, Model and Data Adequacy 10
Performance Analytics 11
Appendix I: Origination and Servicing Standards 12

Related Appendix

Fondo de Titulización, RMBS Prado VI – Appendix

Related Criteria

European RMBS Rating Criteria (May 2018)
Exposure Draft: Structured Finance and Covered Bonds Counterparty Rating Criteria (May 2018)
Structured Finance and Covered Bonds Counterparty Rating Criteria: Derivative Addendum (May 2018)
Structured Finance and Covered Bonds Country Risk Rating Criteria (September 2017)
Global Structured Finance Rating Criteria (May 2018)
Structured Finance and Covered Bonds Interest Rate Stresses Rating Criteria (February 2018)

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Capital Structure

Class	Rating	Outlook	Amount (EURm)	CE[a] (%)	Interest Rate (%) (Pre Step-Up)	Interest Rate (%) (Post Step-Up)	Legal Maturity
A	AA+sf	Stable	351.0	20.3	3m Euribor + 0.43	3m Euribor + 0.86	Mar 55
B	A+sf	Stable	42.8	10.3	3m Euribor + 0.60	3m Euribor + 1.20	Mar 55
C	NR	n.a.	34.2	2.3	3m Euribor + 0.75	3m Euribor + 1.50	Mar 55
Total			**428.0**				

Closing occurred on 12 July 2018. The ratings assigned above are based on information provided in the final transaction documents, dated 2 July 2018. Ratings are not a recommendation to buy, sell or hold any security. The offering circular and other material should be reviewed prior to any purchase.
[a] Credit enhancement (CE) consists of structural subordination plus a reserve fund.
Source: Fitch

Transaction Summary

This is a cash flow securitisation of a static EUR428.0 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 S.A. (A+/Stable/F1) and Banco Santander, S.A. (A−/Stable/F2). This is the sixth RMBS conducted out of UCI's Prado RMBS programme that started in 2015, while UCI conducted 18 securitisations between 1994 and 2009.

Key Rating Drivers

Comparable to Prior Prado: This transaction is comparable to the Prado IV and V securitisations in terms of the nature of the assets and structural arrangements. The majority of the portfolio is originated via brokers, and 21.1% is linked to Unreleased Bridge Loans (UBLs) that were granted for the purchase of a new home with the expectation that this first house would be sold within a short time. However, the UBL borrowers did not sell these first houses, and so their outstanding debt balance comprises two loan parts and two houses.

Younger Loans: Nearly half of the portfolio in Prado VI is less than two years seasoned, corresponding to a weighted average (WA) current loan to value (CLTV) of 66.3% versus 58.3% for Prado V. On the other hand, Prado VI's debt-to-income (DTI) ratio estimated by Fitch of 42.8% is lower than the 49.1% for Prado V.

Broker Origination (Criteria Variation): Of the portfolio, 73.6% has been originated via brokers or intermediaries, which introduce applicants to UCI where a full underwriting process is conducted, inclusive of documentation checks. Fitch has applied a foreclosure frequency (FF) adjustment for broker-originated loans of 1.2x that constitutes a variation from the agency's criteria, which suggest a 1.5x FF adjustment. See *Criteria Variation* section.

Strictly Sequential Amortisation: The transaction operates a strictly sequential paydown of liabilities. Moreover, if certain cumulative default levels on the portfolio are breached, Class A investors are protected by the interest deferral of Class B and the turbo amortisation mechanism where all subordinated items are used first to repay Class A principal outstanding.

Interest Rate Hedge: A swap will hedge the risk between the 42.1% of the portfolio that pays a fixed interest rate (for life or during an initial period before switching to floating rate) and the floating-rate securitisation notes.

Issuer Account Bank Limits Senior Ratings: The class A notes' rating is capped at 'AA+sf' as per Fitch's *Structured Finance and Covered Bonds Counterparty Rating Criteria*, due to the account bank replacement trigger being set at 'A−' or 'F1', which is insufficient to support a 'AAAsf' rating.

UCI Transaction Comparison Table

Issuer	Prado VI	Prado V	Prado IV	Prado III	UCI 17
Closing date	July 2018	November 2017	April 2017	October 2016	May 2007
Issuance volume (EURm)	428.0	415.0	390.0	420.0	1,415.4
Class A (Rating, CE[a], %)	AA+, 20.3	AA+, 20.8	AA+, 24.3	NR, 26.5	AAA
Class B	A+, 10.3	NR, 2.5	NR, 2.5	NR, 2.5	A
Class C	NR, 2.3				BBB
Class D					CCC
Class E					
Portfolio summary as of closing – key attributes[b]					
Total principal amount (EURm)	428.0	415.0	390.0	420.0	1,415.4
Avg. loan balance per borrower (EUR)	137,441	120,185	116,045	111,780	173,742
WA original term (years)	32.5	33.6	32.0	n.a.	n.a.
WA seasoning (years)	5.8	7.6	4.7	5.6	0.8
WA remaining term (years)	26.7	26.0	27.3	27.2	n.a.
Stressed WA debt to income (DTI)	42.8	49.1	35.0	n.a.	40.1
Original and current loan-to-values (OLTV and CLTV, %)[c]					
WA OLTV	75.4	69.4	79.3	75.9	72.2
WA CLTV	66.3	58.3	71.0	68.7	71.6
WA indexed CLTV	72.4	66.9	81.7	n.a.	75.0
Interest rate					
Floating rate (% portfolio balance)	57.9	78.1	53.2	73.5	100.0
Fixed/mixed (% portfolio balance)	42.1	21.9	46.8	26.5	0.0
WA interest rate (%)	2.0	1.7	2.5	2.2	4.7
WA margin over index (%)	1.4	0.9	0.8	1.5	1.5
Type of loan					
- Standard amortising	80.5	53.0	84.7	94.7	10.0
- Flexible features loans[d]	19.5	47.0	15.3	38.1	90.0
- Un-released bridge loans[e]	21.1	55.4	0.0	0.0	0.0
Geographic concentration[f]					
- Madrid	29.0	22.5	24.9	25.9	13.5
- Catalunya	27.5	23.7	22.9	18.4	15.2
- Andalusia	19.7	23.2	21.7	24.4	25.9
- Other	23.7	30.5	30.5	n.a.	n.a.
Other features					
Spanish residents	100.0	100.0	100.0	100.0	100.0
Foreign borrowers[g]	7.4	6.7	8.5	8.4	0.0
Second homes	0.0	2.5	0.0	5.1	5.0
VPO subsidised properties	10.8	12.6	10.0	11.9	11.0
Purpose other than purchase	0.9	0.1	0.0	0.0	0.0
Instalment build-up	0.0	0.1	0.0	6.1	20.0
Current arrears status					
- Performing	100.0	100.0	100.0	100.0	100.0
- 0-1 months	0.0	0.0	0.0	0.0	0.0
Prior restructurings					
- Not restructured	93.3	96.9	91.8	100.0	100

[a] Credit enhancement is provided by structural subordination and a cash reserve.
[b] WA figures are weighted by outstanding portfolio balance.
[c] Indexed CLTV estimated based on national house price index trends.
[d] Examples include: Joker instalment, CPI cap and easy instalments.
[e] For unreleased bridge loans backed by properties in different regions, Fitch has used the region with the highest market value decline to derive the recovery expectation.
[f] Region of the property with the highest value when multiple collateral exists.
[g] Fitch classifies a loan as foreign if any of the borrowers that contributes most in terms of income is foreign.
Source: Transaction documents, Fitch

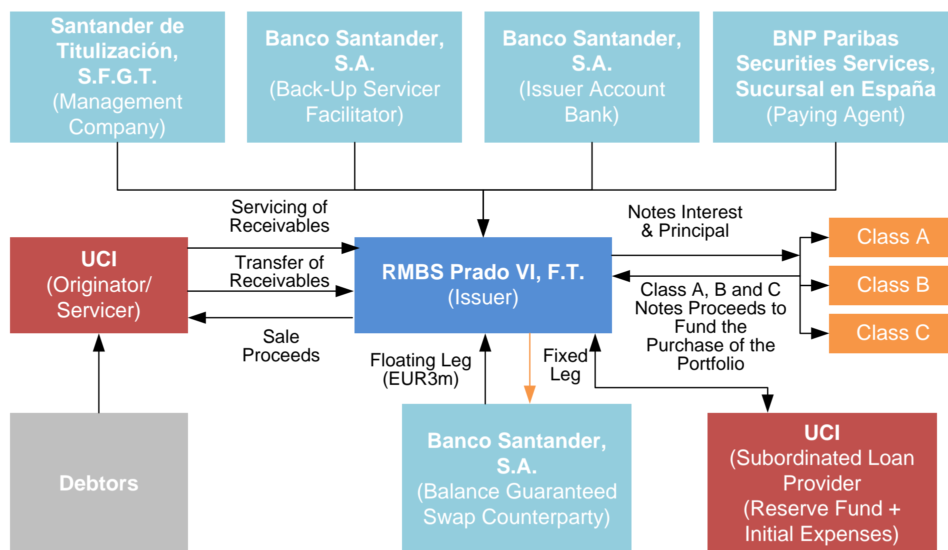
Related Research

Spanish Repossession Analysis 2017 (October 2017)

Global Housing and Mortgage Outlook – 2018 (January 2018)

Transaction and Legal Structure

Transaction Structure Diagram



Source: Transaction documents, Fitch

Issuer and True Sale

The notes have been issued by Fondo de Titulización, RMBS Prado VI (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 (inclusive of both houses in the case of UBLs).

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 and waterfall calculations and their reporting, including the monitoring of applicable triggers. It is also responsible for taking any action in the interests of noteholders, such as the replacement of the servicer or account bank counterparties.

Representations and Warranties

A description of the transaction's representations, warranties and enforcement mechanisms ("RW&Es") that are disclosed in the offering document and which relate to the underlying asset pool is available by accessing the appendix referenced under *Related Appendix* on the front page. The RW&Es are substantially comparable to those typically contained in global structured finance and European RMBS transactions, as detailed in the Special Report titled *Representations, Warranties and Enforcement Mechanisms in Global Structured Finance Transactions*, dated 31 May 2016.

Permitted Variations

As with previous Prado transactions, the servicer is authorised, at the request of a debtor, to agree on amendments to the interest rate and maturity of the loans. These modifications are subject to certain conditions. For example, no further advances will be granted, changes from variable to fixed interest reference rate cannot be made to more than 5% of the initial pool, margins cannot fall below a certain floor for each reference rate index (0.75% for Euribor and minus 0.25% for IRPH), and the maturity cannot be extended beyond the final maturity of the issuer.

The servicer may also agree to temporarily reduce the monthly instalment payable by the borrowers, always covering at least 100% of the applicable interest plus a small fraction of principal repayment. The reduced principal amortisation mechanism usually applies for 24-36 months subject to the borrowers making payments during this period, and the loan amortisation amount is then increased to the new level that corresponds to full redemption by the scheduled amortisation date. These amendments are limited to 15% of the initial portfolio balance, inclusive of the 5% that can be switched from floating to fix described above. Under exceptional circumstances, the trustee may suspend or amend the authorisation and requirements for permitted variations by UCI.

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. This approach is similar to that in place for previous Prado deals. UCI guarantees to substitute such loans for ones 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 a loan, paying its outstanding principal, plus any interest accrued. Prior to taking any of these actions, the seller must ensure that neither the financial structure of the SPV nor the rating of the class A and B notes will be affected.

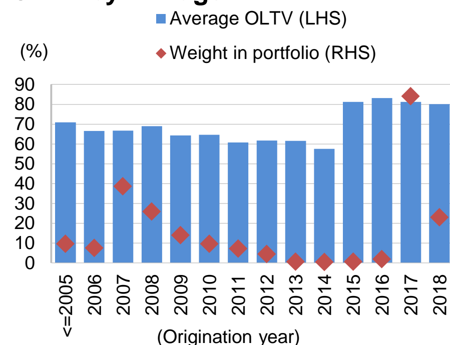
Disclaimer

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

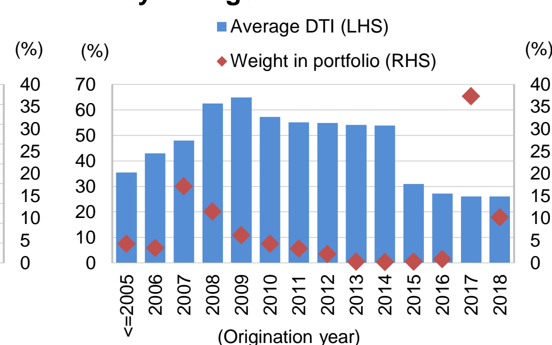
The pool comprises annuity amortising mortgages backed by residential properties in Spain, with a WA seasoning of 5.8 years and a WA original term to maturity of 32.5 years.

OLTV by Vintage



Source: Prado VI loan by loan data

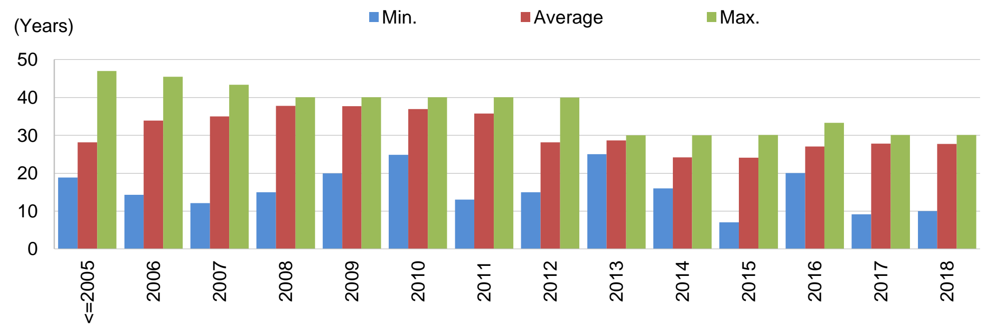
DTI by Vintage



Source: Prado VI loan by loan data

Nearly half of the portfolio balance has been originated during 2017 and 2018, with a WA OLTV of 83.1%, a 27.2% WA DTI ratio and 27.8 years of original tenor. Furthermore, recently originated loans have a larger proportion of fixed interest rates that are less exposed to potential interest rate rises, and contain no flexible features typically observed in older vintages.

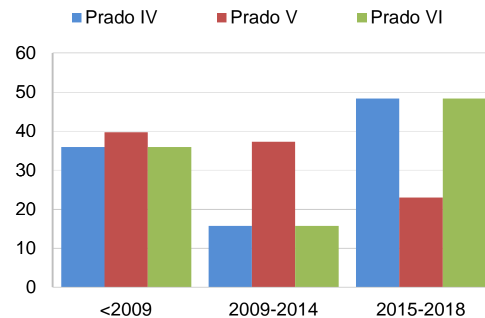
Original Loan Term by Vintage



Source: Prado VI - loan by loan data

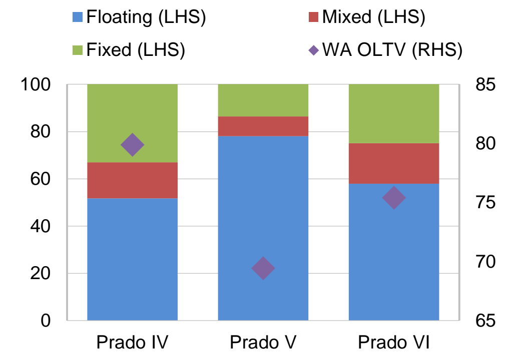
The portfolio's WA stressed DTI ratio is 42.8%, estimated based on household net income at origination and assuming a 4% stressed Euribor plus a margin of at least 1% for floating-rate loans, and a contractual rate for fixed-rate loans. As with the Prado V securitisation, the DTI ratio for UBLs is estimated based on the sum of the two loan parts.

Composition by Year of Origination



Source: UCI

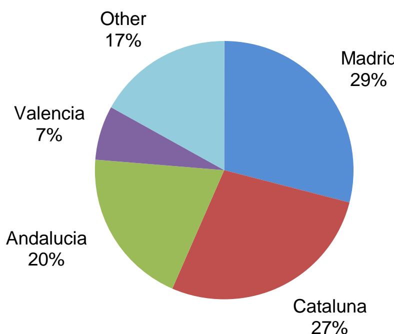
Composition by Interest Rate



Source: UCI

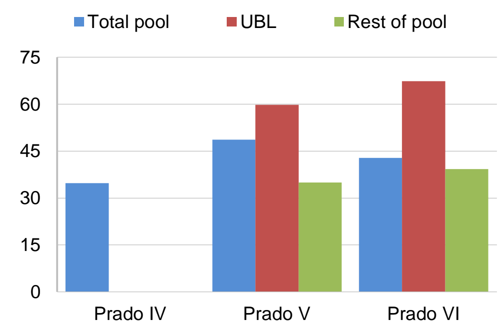
Nearly 24.9% of the portfolio will continue paying a fixed interest rate until maturity, and 17.1% will pay a fixed rate that will switch to floating in 10 years on average. On the other hand, 57.9% of the portfolio will continue to pay a floating interest rate, of which 23.2% is linked to IRPH, an index that represents the average costs of a mortgage in Spain. Fitch gave +100bp credit to IRPH loans versus Euribor-linked loans, as per its *European RMBS Rating Criteria*.

Regional Concentration



Source: UCI

DTI Distribution by Type of Product



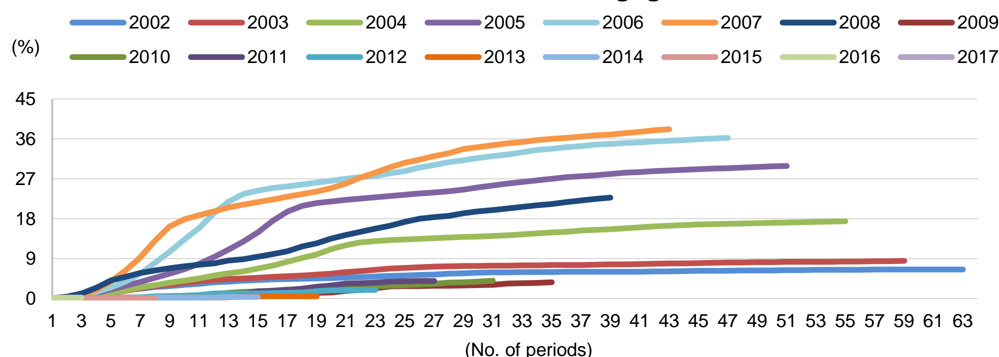
Source: UCI

73.6% Broker Origination

UCI is a specialised Spanish mortgage lender that originates the majority of its business from a network of 1,000 intermediaries and/or real estate agents. While Fitch considers this origination riskier than branch origination, the agency has reduced the FF adjustment to broker loans in this transaction to 1.2x, from 1.5x as per Fitch's *European RMBS Rating Criteria*. This FF

adjustment is a criteria variation, substantiated by the default vintage data provided by UCI. The data demonstrates improvements in credit performance since UCI introduced enhancements to its underwriting and servicing standards post 2008 (see *Criteria Variation*).

Gross Cumulative 90d+ in Arrears for UCI's Mortgage Book



Source: UCI

21.1% Unreleased Bridge Loans

At closing, around 21.1% of the portfolio balance is linked to UBLs positively selected by including only those with the best internal UCI underwriting scores, and those that have never been in arrears or been restructured and with 9.6 years of seasoning.

When estimating default rate expectations for UBLs, Fitch has aggregated the debt balance to include both loan parts, leading to a higher DTI ratio than for a standard mortgage.

UBL contracts allow borrowers to cash 100% of the sale proceeds of one of their two houses, as long as the aggregate loan amortisation amount exceeds one of the mortgage liability thresholds recorded in the loan agreement. In these situations, Fitch anticipates the CLTV ratio of the loan to increase to the OLTV level, therefore delivering higher losses in the event of default. Fitch has analysed the combined effect of these two developments (ie deleverage and higher LTV) and concluded that the benefit of loan amortisation would outweigh the LTV increase for the class A and B notes' ratings.

Fitch acknowledged in its analysis that distressed UBL positions may be offered restructuring alternatives, such as the consensual sale of one of the two houses to amortise the loan balance, triggering a substantial reduction in the remaining debt service amount. This management strategy differs from the traditional foreclosure process seen in Spanish mortgages that are secured on a single house, where distressed borrowers may face judicial repossession orders straight away.

Multiple Collaterals

Approximately 21.3% of the loans are backed by multiple collaterals, which are not necessarily attachments to the residential properties (eg garage) and whose values could represent a significant proportion of the total collateral. This could be the case of a borrower using a second house as additional collateral for the loan.

Once the mortgage liability of the secondary collateral has been paid down by the borrower, he can request the release of the second property and UCI may accept (typically it will). This constitutes a risk as the CLTV of these loans could rise when the secondary property is released, in a similar way to the case of UBLs if one of the properties is released.

Fitch has analysed the potential rating impact of the release of secondary collateral, running a sensitivity assuming the amortisation of the mortgage liability and release of the secondary property, which reduces the expected recoveries from foreclosure loans. This sensitivity is performed combined with the UBL impact assessment explained above.

19.5% Consumer Price Index (CPI) Cap

At closing, around 19.5% 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 CPI annual change. This exposure rapidly decreases as all loans will lose this feature by 2029. Based on data presented by UCI, this feature (called an instalment growth cap) is used seldom and its activation requires the formal request of the borrower in most cases. While this may result in a slower amortisation for these loans, Fitch has not increased the FF of these borrowers, given the extremely rare use of the feature, the limited impact on the amortisation and the temporary nature of the feature.

Foreign Borrowers

Around 7.4%[1] of the loans in the pool were granted to non-Spanish borrowers. Fitch increases the FF for these loans by 350%, as per its rating criteria. All borrowers are residents in Spain.

VPO Loans

Approximately 10.8% of the loans were granted under a Vivienda de Protección Oficial (VPO) programme, 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 VPO does not preclude the foreclosure of a mortgage-related property. The mortgages do not have any judicial restrictions. 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 made.

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 (WARRs) for the portfolio, as presented in the table below.

Fitch Default Model Output

Rating level (%)	WAFF[a]	WARR[b]	Loss rate
Bsf	6.9	66.7	2.3
AA+sf	20.4	51.9	9.8

[a] This represents the lifetime default rate on the portfolio, relative to its initial balance.
[b] Weighted average recovery rate on defaulted loans.
Source: Fitch

Lender Adjustment

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. No lender adjustment has been incorporated within the agency's analysis, while UCI's practices are recognised by the FF adjustment applied to broker-originated loans. An on-site operational review with the originator was carried out for the purpose of this analysis, which complemented the knowledge gained by Fitch from its rating of seven previous UCI RMBS transactions (see *Appendix I: Origination and Servicing Standards*).

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.

[1] Fitch classifies a loan as foreign if the borrower who contributes most of the income is not from Spain.

Credit Enhancement

At closing, the class A and B notes have 20.3% and 10.3% CE respectively provided by structural subordination and the reserve fund. The analysis showed that the CE levels provided for the two most senior tranches would be sufficient to withstand the credit and cash flow stresses determined by the agency for their respective ratings.

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	Swap net payments
3	Class A interest
4	Class B interest; if not deferred
5	Reserve fund top-up to target balance
6	Class A principal by the target amortisation amount (If no turbo event has taken place)
7	Class B interest; if deferred
8	Class B principal to the target amortisation amount (if no turbo event has taken place) after class A is fully repaid
9	Class C interest
10	Class C principal to the target amortisation amount (if no turbo event has taken place) after class A and B is fully repaid
11	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.

According to the transaction documents, interest on the Class A and B notes is payable up to the scheduled maturity date of the SPV that corresponds to the longest maturity date of the mortgage loans. In the hypothetical event that any Class A and/or Class B principal balance remains outstanding beyond this date, no interest will be accrued on the notes up to the legal maturity date of the SPV (defined as three years later than the scheduled maturity date). Fitch ratings address the timely payment of interest on the notes in accordance with transaction documents, and the ultimate repayment of principal up to the legal maturity date (March 2055)

Class A Turbo Amortisation Event (Turbo Event)

If the balance of cumulative defaults exceeds 1%, 2%, 3%, 4% and 5% of the initial portfolio balance during the first five years of the transaction, respectively, all available funds, after paying the first five items of the priority of payments, will be diverted to amortise the class A notes. This turbo amortisation of the class A notes will also take place from the step-up date of September 2023, irrespective of the cumulative defaults trigger.

Class B Interest Deferral Event (Deferral Event)

If the balance of cumulative defaults exceeds 2.5%, 5.5%, 11%, 15.5% and 20% of the initial portfolio balance during the first five years of the transaction, respectively, the Class B notes interest payment will rank seventh in the waterfall. This feature offers protection to senior investors against a possible credit deterioration of the portfolio.

Reserve Fund (RF)

The RF has been established at closing for the purpose of providing liquidity to cover class A and B interest for as long as these notes remain outstanding (and no Deferral Event has taken place), to amortise class A principal on its last payment date, and to cover junior items after full redemption of the class A. The RF has been pre-funded by a subordinated loan provided by

UCI for an amount that represents 2.25% of the class A, B and C notes' initial balance. On each quarterly payment date, the RF required amount will be the higher of 2.25% of the outstanding balance of the pool or 1.0% of the class A, B and C notes' initial balance.

Fitch views this RF, which operates like a senior liquidity facility, as sufficient to mitigate any payment interruption risk on the securitisation notes following a hypothetical servicer disruption event. Fitch has tested the available liquidity provided by the reserve fund against senior expenses and class A interest on a 'AA+' stress and against senior expenses and class A and B interest on an 'A+' stress assuming a Euribor scenario equal to 2.5%. As a result, the minimum coverages are two Interest Payment Dates (IPDs), which is above Fitch's expectations of the length of a potential disruption of the collections process. In addition, the transaction operates a combined waterfall of payments and therefore available funds comprise principal collections.

Swap Agreement

The issuer entered into an interest rate swap agreement with Banco Santander to hedge the mismatch between the fixed-rate loans (for life or during an initial period before switching to floating rate) and the floating-rate liabilities. Under the swap agreement, the SPV will pay 98bp and will receive three-month Euribor on a notional defined as the principal outstanding balance of all fixed loans and mixed loans while on their fixed period. The SPV will therefore retain an estimated excess spread of 166bp, mainly linked to fixed interest rate loans.

Fitch considers that the structure adequately addresses hedge provider counterparty risk, by incorporating eligibility rating thresholds that would trigger remedial action within 30 days if the swap provider was downgraded below 'F1' or 'A−'. Remedial actions upon downgrade include collateralisation (within 14 days), replacement with an eligible counterparty, or eligible guarantor.

Counterparty Risk

Key Transaction Parties

Role	Name	Rating
Issuer	FT Prado VI	Not Rated
Originator/seller/servicer	Unión de Créditos Inmobiliarios (UCI)	Not Rated
Collection account bank/back-up servicer facilitator/SPV account bank/ GIC provider/swap provider	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.	
Paying agent	BNP Paribas, Securities Services	A+/Stable/F1

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; see *Appendix I* for details.

Commingling Risk

Commingling risk is not material for the ratings, as cash collections will be transferred from the collection account bank to the SPV account bank within two business days. This is in line with Fitch's *Exposure Draft: Structured Finance and Covered Bonds Counterparty Rating Criteria*.

Account Bank

Banco Santander will act as account bank provider, holding the RF and the collections from the assets until transferring to BNP Paribas, Securities Services, which acts as paying agent; the transfer takes place one business day before each quarterly payment date. Fitch considers that 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 or paying agent were downgraded below ‘F1’ or ‘A−’. Remedial actions upon downgrade are replacement with an eligible account bank or eligible guarantor. The ratings of the notes are capped at ‘AA+sf’, as the above-mentioned triggers do not support ‘AAAsf’ ratings. Moreover, UCI is not a deposit-taking institution.

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; available at* www.fitchratings.com). Fitch has not applied additional stresses to account for this risk.

Rating Sensitivity[2]

The table below shows the model-implied ratings on stressed defaults and recovery rates.

Rating Sensitivity to Defaults and Recovery Rates

	Class A	Class B
Original Rating	AA+	A+
Increase FF and decrease recovery rates by 25%	AA+	BBB
Increase FF and decrease recovery rates by 50%	BBB	BB

Source: Fitch

Criteria Application, Model and Data Adequacy

Fitch analysed the risk of borrower default using its RMBS asset model and criteria (see *European RMBS Rating Criteria*). Fitch also used its proprietary cash flow model to complete the rating analysis and simulate the transaction cash flows and capital structure (see *Related Criteria*).

Fitch received loan-by-loan information for nearly all the fields under the agency’s RMBS data template, and also an agreed-upon-procedures (AUP) report from the pool as of June 2018, 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 by a satisfactory on-site operational review of the servicer. Fitch considers the originator’s underwriting and servicing procedures to be adequate.

Criteria Variation

Treatment for Broker-Originated Loans

Fitch has reduced the FF adjustment assumption to 1.2x from 1.5x 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 to better performance than for traditional broker origination in Spain. A model-implied rating impact of 0 and 1 notches for Classes A and B respectively is linked to this variation.

[2] 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.

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 assess the firm's corporate strategy, its underwriting, servicing and recovery workflows and IT platforms. Fitch views UCI's origination and servicing practices as robust and reliable.

Origination Overview

UCI originates residential mortgages through a network of about 1,000 real estate professionals and intermediaries, or brokers, who bring loan applicants to one of UCI's 24 branches located throughout Spain. UCI also originates via its own online channel "Hipotecas.com", which contributed 24% of the volume originated in 2017. UCI is the market leader in Spain in terms of mortgage loan origination via intermediaries.

UCI's new lending volumes remain relatively low compared to pre-crisis years; however, UCI's origination increased by 57% year on year in Spain in 2017, well above new mortgage lending in Spain, which grew by 16%. Fitch believes this growth can be partly explained by the high OLTV of newly originated loans (64.2% of new loans originated from 2015 in the securitised portfolio have an OLTV above 80%), a lending strategy that is not expecting borrowers to engage in multiple additional products or services, UCI's commercial efficiency in dealing with real estate professional and intermediaries, and the improved outlook for the mortgage and real estate market in Spain.

Higher OLTV allows first-time buyers to access the mortgage market. However, this is compensated by the low DTI ratios (around 70.4% of loans originated from 2015 in the securitised portfolio have DTI ratios at or below 30%, calculated as per Fitch criteria), which indicate a relatively high borrower ability to service its debt.

After 2008, UCI carried out a complete overhaul of its underwriting and servicing practices, resulting in lower origination volumes and more stable credit performance. Since then, all borrower documentation has been collected and validated by UCI, which also maintains direct contact with the applicant from the beginning of the decision-making process.

The early arrears management department monitors all intermediaries for fraud, and also monitors arrears performance. A significant deterioration in the performance of mortgages originated by a specific intermediary can lead to the termination of the relationship between UCI and said intermediary.

Underwriting Process

- Step 1 – basic information from the borrower is collected by UCI's commercial department.
- Step 2 – UCI's risk department 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 downpayment – One of UCI's key considerations is the downpayment made by the borrower when requesting the mortgage. The minimum payment required depends on the borrower characteristics, so for example a couple should make an average 25% downpayment.
- 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 23 transactions in the past 24 years (including five under the Prado programme), and has placed over EUR14 billion 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 Fitch considering them non-conforming
• After 2008, UCI tightened its underwriting guidelines. It stopped working with intermediaries that had bad performance history, which led to a reduction in the number of intermediaries 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.
• No cross-selling is performed, in contrast to other originators that offer discounts on interest rates in exchange of purchasing pension plans, insurance (home and life), credit cards, etc. This makes UCI offering very simple, transparent and easy to understand for borrowers.	• In the past, interaction with mortgage borrowers was mainly conducted online and via telephone, which are non-traditional communication channels compared to 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. The recovering housing market has allowed UCI to sell its current inventory of repossessed assets more easily and also to perform sales mandate solutions for distressed borrowers with better outcomes, in terms of sale price achieved and time to sell.

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, an amicable solution is not achieved, the judicial process commences.

Source: Fitch

Typical Debt Solution Plans

- Modifications to the terms of the loan, either temporarily or indefinitely, to maintain payment flows from the borrower; examples include maturity extensions, instalment reductions, or interest rate reductions.
- 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. For UBLs, the sales mandate may be issued for just one of the properties backing the loan.
- 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 Real Estate Repossessions (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 objective remains the sale of the repossessed property, but rentals are also considered.

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