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Madrid

COMUNICACIÓN DE OTRA INFORMACIÓN RELEVANTE

MADRID RMBS III, FONDO DE TITULIZACIÓN DE ACTIVOS
Actuaciones sobre las calificaciones de los bonos por parte de Standard and Poors Global Ratings.

Titulización de Activos, Sociedad Gestora de Fondos de Titulización, S.A. comunica la siguiente Información Relevante:

I. Respecto al fondo de referencia, adjuntamos nota de prensa publicada por Standard and Poor´s Global Ratings, con fecha 15 de marzo de 2021, donde se llevan a cabo las siguientes actuaciones:

- Bono A2, subida a **AA+ (sf)** desde **AA (sf).**
- Bono A3, subida a **AA (sf)** desde **AA- (sf).**
- Bono B, afirmado como **D (sf).**
- Bono C, afirmado como **D (sf).**
- Bono D, afirmado como **D (sf).**
- Bono E, afirmado como **D (sf).**

En Madrid a 8 de abril de 2021

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Consejero Delegado

S&P Global Ratings

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Rating Actions Taken In MADRID RMBS II And III Following Revised RMBS Criteria Implementation

March 15, 2021

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Overview

- We have reviewed MADRID RMBS II and MADRID RMBS III following the implementation of our revised Spanish RMBS criteria.
- Following our review of these transactions under our relevant criteria, we have taken various rating actionson the notes.
- Madrid RMBS II and III are Spanish RMBS transactions that securitize a portfolio of first-ranking mortgage loans granted to Spanish residents. Bankia originated the loans.

MADRID (S&P Global Ratings) March 15, 2021--S&P Global Ratings today took various rating actions in MADRID RMBS II, Fondo de Titulizacion de Activos and MADRID RMBS III, Fondo de Titulizacion de Activos. We affirmed our 'AAA' rating on Madrid RMBS II's class A2 notes. We raised our ratings on the class A, B, C, and D notes to 'AA+ (sf)' from 'AA (sf)', to 'AA (sf) from 'AA- (sf)', to 'A (sf)' from 'BBB (sf)', and to 'B+ (sf)' from 'B- (sf)', respectively. At the same time, we affirmed our 'D (sf)' rating on the class E notes. In Madrid RMBS III, we raised our ratings on the class A2 and A3 notes to 'AA+ (sf)' from 'AA (sf)' and to 'AA (sf)' from 'AA- (sf)', respectively. Our ratings on the class B to E notes were affirmed at 'D (sf)' to reflect missed interest payments.

Today's rating actions follow the implementation of our revised criteria and assumptions for assessing pools of Spanish residential loans (see "Related Criteria"). They also reflect our full analysis of the most recent information that we have received and the transaction's current structural features.

Upon revising our Spanish RMBS criteria, we placed our ratings on some of the notes under criteria observation. Following our review of the transaction's performance and the application of our updated criteria for rating Spanish RMBS transactions, the ratings are no longer under criteria observation.

Our weighted-average foreclosure frequency (WAFF) assumptions have decreased primarily due to the calculation of the effective loan-to-value (LTV) ratio, which is based on 80% of the original LTV (OLTV) and 20% of the current LTV (CLTV). Under our previous criteria, we used only the OLTV. Our WAFF assumptions also decreased because of the removal of the arrears projections. In addition, our weighted-average loss severity (WALS) assumptions have decreased, due to the lower CLTV and lower market value declines. The reduction in our WALS is partially offset by the increase in our foreclosure cost assumptions.

Credit Analysis Results: Madrid RMBS II

Rating level	WAFF (%)	WALS (%)
AAA	29.98	26.59
AA	20.57	22.86
A	15.82	16.11
BBB	12.04	12.73
BB	8.00	10.47
B	5.17	8.49

Credit Analysis Results: Madrid RMBS III

Rating level	WAFF (%)	WALS (%)
AAA	30.40	33.85
AA	20.91	29.98
A	16.11	22.55
BBB	12.26	18.57
BB	8.18	15.82
B	5.31	13.38

The credit enhancement for all classes of notes has increased since our previous full review, due to the collateral amortization.

The notes are repaying sequentially as one of the conditions for the pro rata amortization is not met on both transactions.

The reserve fund is only at 8.5% of its target in Madrid RMBS II, slightly building up after being fully depleted from December 2012 to January 2019. The reserve's build-up is due to the transaction's good performance recently, given the improved macroeconomic environment and Bankia S.A.'s enhanced servicing policies. Prior to that, the transaction did not perform well, especially due to the high unemployment in Spain during the 2008 crisis and the lack of servicing activities by the originator. The reserve fund in Madrid RMBS III has been fully depleted to cover for outstanding defaults. There is still a €26.5 million amortization deficit in this transaction and we do not expect the reserve fund to be topped up in the short term.

Our operational, sovereign, and legal risk analysis remains unchanged since our last review, and those rating pillars do not constrain the ratings on the notes. There are no rating caps due to counterparty risk neither.

Our analysis considers the transactions' sensitivity to the potential repercussions of the coronavirus outbreak. Of the pool, close to 7.3% of loans are on payment holidays in Madrid RMBS II and 5.2% in Madrid RMBS III under the Spanish sectorial moratorium schemes, and the proportion of loans with either legal or sectorial payment holidays has remained low. The government announced it will approve a new payment holiday scheme available until March 31, 2021, where the payment holidays could last up to three months. In our analysis, we considered the potential impact of this extension and the liquidity risk the payment holidays could present should they become arrears in the future. We have also considered the ability of the transaction to withstand increased defaults and extended foreclosure timing assumptions, and the ratings remain robust.

Loan-level arrears currently stand at 0.7% in Madrid RMBS II and 0.9% in Madrid RMBS III, and they have started stabilizing after increasing in April 2020. Overall delinquencies remain well below our Spanish RMBS index (see "Related Research"). There is still a large number of defaulted loans that will need to be worked out. The transaction has a high number of loans that defaulted during the financial crisis. Due to the uncertainty on when these recoveries might be realized and to test the ability of the outstanding notes to being repaid without the benefit of such recoveries, we have tested the transaction with no credit given to recoveries on already defaulted assets.

The outstanding balance of defaulted credit rights (net of recoveries), represent 7.2% of the closing pool in Madrid RMBS II. The interest deferral trigger was breached for the class E notes and interest was not paid as the reserve fund was depleted to cover defaulted assets. In Madrid RMBS III, the trigger is based on cumulative defaults. This is at 23.1% which means that all subordinated interest deferral triggers on classes B, C, D, and E have been breached. Due to the breach and the lack of a reserve fund in this transaction, these classes have previously failed to pay timely interest.

In Madrid RMBS II, we have affirmed our 'AAA (sf)' rating on the class A2 notes based on the strong cash flow model results that encompass sensitivity to increased defaults in the current macroenvironment, a decline in recovery rates on already defaulted assets, and a potential extension of the recovery lag during the coronavirus outbreak. At the same time, we have raised the ratings on the class A3, B, C, and D notes below their passing cash flow levels. The ratings on these classes of notes reflect their overall credit enhancement and position in the waterfall, the deteriorating macroeconomic environment, and potential exposure to increased defaults, and the current level of the reserve fund that remains at 8.5% of the target level.

Madrid RMBS II's class E notes started missing timely interest payments in 2009. In 2019, the class E notes paid all due and unpaid interest. However, in line with our principles of credit rating criteria, we believe the likelihood of the class E notes to miss timely payment of interest is extremely high as it fully depends on the reserve fund to make these payments and this may be used to cover first for future defaults arising due to the COVID-19 crisis.

Under our cash flow analysis, Madrid RMBS III's class A2 and A3 notes could withstand stresses at a higher rating than the current ratings assigned. However, the ratings on these classes of notes also consider their overall credit enhancement and position in the waterfall, deteriorating macroeconomic conditions, potential exposure to increased defaults, and the depleted reserve fund.

Madrid RMBS II and Madrid RMBS III are Spanish RMBS transactions that securitize first-ranking mortgage loans. Bankia originated the pools, which comprise loans granted to borrowers mainly located in Madrid.

Related Criteria

- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Methodology To Derive Stressed Interest Rates In Structured Finance, Oct. 18, 2019
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | General: Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- General Criteria: Methodology Applied To Bank Branch-Supported Transactions, Oct. 14, 2013
- Criteria | Structured Finance | General: Global Derivative Agreement Criteria, June 24, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

- Criteria | Structured Finance | General: Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- European RMBS Outlook 2021, Jan. 25, 2021
- Spanish Banks Need To Bolster Provisions, Cut Costs, And Preserve Capital In 2021, Jan. 25, 2021
- S&P Global Ratings Definitions, Jan. 5, 2021
- Spanish RMBS Index Report Q3 2020, Dec. 11, 2020
- Spain Outlook Revised To Negative From Stable On Mounting Fiscal and Structural Challenges; Affirmed At 'A/A-1', Sept. 18, 2020
- Banking Industry Country Risk Assessment: Spain, June 18, 2020
- Residential Mortgage Market Outlooks Updated For 13 European Jurisdictions Following Revised Economic Forecasts, May 1, 2020
- 2017 EMEA RMBS Scenario And Sensitivity Analysis, July 6, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- European Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016