Fitch Downgrades Caixa Catalunya's Cedulas to 'AA+' from 'AAA'
13 Mar 2009

Fitch Ratings-London-13 March 2009: Fitch Ratings has today downgraded the outstanding mortgage covered bonds (cedulas hipotecarias) issued by Caixa Catalunya to 'AA+' from 'AAA'. Caixa Catalunya's outstanding cedulas hipotecarias (CHs) currently amount to EUR7.33bn.

The downgrade has been caused by the agency's downgrade of Caixa Catalunya's Long-term Issuer Default Rating (IDR) to 'BBB+' from 'A'. (Please see the commentary, entitled "Fitch Downgrades Caixa Catalunya to 'BBB+'; Outlook Stable", available on the agency's subscriber site, www.fitchresearch.com, for further details.)

When rating covered bonds, Fitch expresses the likelihood of an interruption of payment under the covered bonds at the time of an issuer default on a scale of 100% for automatic interruption to 0% for absolute continuity through a Discontinuity Factor (D-Factor). The combination of Caixa Catalunya's IDR of 'BBB+' and a D-Factor of 31.6% allows the mortgage covered bonds to achieve a 'AA-' (AA minus) rating on a probability of default (PD) basis, and 'AA+' after taking into account recoveries from the total mortgage book in the event of a covered bonds default. This limit applies irrespective of the percentage of overcollateralisation (OC) supporting the covered bonds.

As of December 2008, nominal OC between Caixa Catalunya's total mortgage book of EUR22.23bn and outstanding CHs of EUR7.33bn stood at 203.17%. This is sufficient, in Fitch's opinion, to compensate for credit losses in the cover pool as well as for maturity and interest rate mismatches between the mortgage book and the covered bonds in a 'AA-' (AA minus) stress scenario. This OC is also sufficient to sustain stressed recoveries of at least 91% of outstanding CHs in a 'AA+' scenario, resulting in a corresponding two-notch uplift above Caixa Catalunya's CH rating on a PD basis.

As stated in a 11 March 2009 comment, Fitch is in the process of reviewing the agency's assumptions related to liquidity risks within covered bond programmes. Overall, the proposed amendments would lead to a tighter relationship between the IDR of the issuer and its covered bond rating. In addition, the level of OC in line with a given scenario is expected to increase. Other aspects of the Fitch covered bonds rating methodology remain unchanged.

Should the new criteria be implemented as proposed, the maximum rating achievable on a probability of default (PD) basis would be 'A+', all else staying equal, and 'AA' after taking into account recoveries from the total mortgage book in the event of a covered bonds default. This limit applies irrespective of the percentage of OC supporting the covered bonds.

Due to the dynamic nature of the mortgage book and covered bonds, Fitch will continue monitoring the key characteristics of the cover assets and check whether OC continues to provide protection commensurate with the assigned rating.

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