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Research:

New Issue: Bankinter 4 Fondo de Titulizacion Hipotecaria

€1.025 Billion Mortgage-Backed Floating-Rate Notes

Publication date: 16-Oct-2002

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Ratings Detail

Profile

New Ratings	
Class A	AAA
Class B	A+
Class C	BBB+

Closing date: Sept. 25, 2002

Transaction Summary

Collateral: A pool of mortgage loans secured by first-ranking mortgages on residential properties located in Spain.

Participants
Lead managers: Bankinter S.A., Credit Agricole Indosuez S.A., and Deutsche Bank AG.
Issuer: Bankinter 4 Fondo de Titulización Hipotecaria.
Seller: Bankinter S.A.
Servicer: Bankinter S.A.
Fund manager ('sociedad gestora'): Europea de Titulización S.A.
Subordinated line of credit provider: Bankinter S.A.
Notes swap provider: Bankinter S.A.
Guaranteed investment contract (GIC) provider: Bankinter S.A.
Supporting ratings: Bankinter S.A. (A/Stable/A-1).

Rationale

The credit ratings assigned to the €1.025 billion mortgage-backed floating-rate notes issued by Bankinter 4 Fondo de Titulización Hipotecaria reflect:

- The ability of the servicer to perform its roles in this transaction;
- The sound legal structure of the transaction; and
- The protection for the noteholders provided by the levels of subordination and excess spread.

Strengths, Concerns, and Mitigating Factors

Strengths

The strengths of the transaction observed in the rating analysis are as follows:

- The credit quality of the collateral is strong.
- All of the mortgage loans in the pool are first-charge mortgage loans.
- LTV ratios are low, with no loan having an LTV greater than 80%.
- Principal can be used to pay class B and class C interest, but only to the extent that the amount of principal used to pay class B and class C interest is less than or equal to the amount of subordination provided by the class B and class C notes, and a subordinated line of credit.
- Bankinter S.A. (A/Stable/A-1) provides strong origination and servicing.

Concern

A concern identified with respect to the transaction is that a reserve fund in the form of a subordinated line of credit provided by Bankinter was not drawn down upon closing.

Mitigating Factors

The following factors mitigate this concern:

- The class A notes are supported by the subordination of the class B and C notes and the excess spread, and are not dependent on the undrawn subordinated line of credit.
- The class B notes, which are capped at 'A+' due to the 'A-1' short-term rating on Bankinter, are supported by the subordination of the class C notes, excess spread, and the undrawn subordinated line of credit.
- The class C notes are supported by the excess spread and undrawn subordinated line of credit.
- There are triggers to form a fully funded reserve fund by drawing down the subordinated line of credit upon a lowering of Bankinter's short-term 'A-1' and long-term 'A' ratings.

Main Transaction Parties

Bankinter 4 Fondo de Titulización Hipotecaria (Issuer)

The issuer of the notes is a separate special-purpose entity (SPE) established for the purpose of this transaction and registered with the Comision Nacional del Mercado de Valores. It was established to issue the notes and purchase the portfolio of loans.

Bankinter S.A. (Originator, Servicer, Interest Rate Swap Provider, and Account Bank)

The originator of the assets is Bankinter, which was founded in 1965 as a joint venture between the former Bankinter and Bank of America. Since then, both banks have divested their participations and their shares are widely held and publicly traded on the Madrid stock market. Bankinter focuses on three main areas: retail banking, wholesale corporate banking, and middle-market operations and private banking. Bankinter is the interest rate swap provider under the terms of the swap agreement.

The collection account is held with Bankinter, as long as it has the required short-term rating of 'A-1'. If Bankinter is downgraded, there is suitable replacement language in the documentation for the appointment of a substitute account bank.

Europea de Titulización S.A. (Sociedad Gestora)

The role of Europea de Titulización S.A. is to represent and protect the interests of the noteholders generally, and to oversee the administration of the portfolio. Only this company can enforce the security under the terms and conditions of the notes, and it always has to act in the best interests of the noteholders.

The mortgage securitization law in Spain requires the notes to be issued by a "fondo" (fund), whose activities are managed by a "sociedad gestora", an independent management company authorized by the Ministry of Economy and Treasury. The fondo's remit includes responsibility for purchasing the mortgage participations, issuing the notes, and conducting related activities. The sociedad gestora represents and defends the interests of the noteholders, and enters into the various contracts for the issuer.

Collateral Description

The collateral securing the notes consists of a €1.025 billion pool of mortgage participations issued by Bankinter. Each participation is backed by an individual first mortgage loan, which is fully amortizing and secured by a residential, owner-occupied property in Spain. The issuer is entitled to receive all principal and interest from the underlying mortgages.

Bankinter does not advance or guarantee amounts due on the mortgage participations. The participations are subject to the same risks of delayed payments and losses as the underlying mortgage loans. According to Spanish legislation, interest payments on the mortgage participations are not subject to any withholding tax.

There are 12,385 mortgages in the collateral pool with an average loan size of €84,314. All of the loans in the pool are floating-rate loans. The mortgage payments are level pay and made monthly. None of the loans has an LTV ratio greater than 80%, and the average current LTV is just under 60%. The mortgages were originated between March 1997 and December 2001.

At the sale date of the notes, none of the mortgages had been delinquent longer than one month.

Transaction Structure

The mortgage participations were issued by Bankinter, which acts as the servicer. Each participation is backed by a single residential mortgage loan. Mortgagors make their payments directly to Bankinter, which then pays these amounts to the fondo. If Bankinter's short-term rating falls below 'A-1', the issuer's account is transferred to an appropriately rated institution.

Class A noteholders are protected from potential credit losses on the underlying mortgages by the

3.65% subordination of the class B and class C notes. Class B noteholders are protected from potential credit losses by the 2.6% subordination of the class C notes and the undrawn subordinated line of credit. Class C noteholders are protected by the 1.05% subordination of the undrawn subordinated line of credit.

Bankinter provides a subordinated credit line, so long as it is rated at least 'A-1'. If Bankinter is downgraded, the line is drawn down in full to form a reserve fund.

An interest rate swap agreement between the sociedad gestora (on behalf of the issuer) and Bankinter converts the interest payments received on the mortgage participations into the variable amount payable on the notes.

Note Terms

Interest is paid on the 12th day of February, May, August, and November, beginning in February 2003. Unless redeemed earlier, the notes are redeemed at their maturity in November 2038.

All available principal is used to redeem the class A notes until the value of the class B notes is equal to 3.68% of the value of the class A notes. Once the ratio is 3.68%, principal is allocated on a pro rata basis to both classes until the class A and B notes have been fully redeemed. However, redemption of the class B notes is interrupted if 2.5% or more of the mortgages are at least 90 days delinquent, if the principal is sufficient to pay only class A noteholders, or if there is any deficit in the amortization.

Once the class A and B notes have been fully redeemed, the class C notes start to amortize.

Principal can be used to pay interest on all classes of notes. However, principal cannot be used to pay interest on the class B and C notes if the amount of principal required to pay interest on the class B and C notes is greater than or equal to the then amount of subordination of the class B and C notes to the class A notes.

The subordinated credit line is the lesser of (i) 1.05% of the initial issuance of the notes, and (ii) the greater of 2.10% of outstanding principal balance of the notes and 0.50% of the initial note issuance. However, the subordinated credit line is not reduced if delinquencies reach a certain level.

The notes may be fully redeemed if:

- The remaining balance of the collateral falls below 10% of its original balance; or
- The sociedad gestora becomes bankrupt or its authorization is revoked and no replacement can be found.

Surveillance Details

Continual surveillance is maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral are analyzed, supporting ratings are monitored, and regular contact is made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.

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