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Research:

New Issue: Bankinter 5 Fondo de Titulizacion Hipotecaria

€710 million mortgage-backed floating-rate notes

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Ratings Detail

Profile

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

Closing date: Dec. 17, 2002

Transaction Summary

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

Participants
Lead manager: Bankinter S.A.
Seller: Bankinter S.A.
Servicer: Bankinter S.A.
Fund manager (sociedad gestora): Europea de Titulización, S.A., Sociedad Gestora de Fondos de Titulización ("Europea de Titulización").
Reserve fund provider: Bankinter S.A.
Interest rate 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 €710 million mortgage-backed floating-rate notes issued by Bankinter 5 Fondo de Titulización Hipotecaria ("Fondo") reflect:

- The ability of the servicer to perform its roles in this 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, as partly reflected by the relatively low LTV ratios. No loan has an LTV ratio greater than 80%.
- All of the mortgage loans in the pool are first-charge mortgage loans.
- Principal can be used to pay class B and C interest, but only to the extent that the amount of principal used to pay class B and C interest is less than or equal to the amount of subordination provided by the class B and C notes and the reserve fund.
- Strong origination and servicing is provided by Bankinter S.A. (A/Stable/A-1).

Concern

A concern identified with respect to the transaction is that a small number of loans in the portfolio are for second homes or holiday homes.

Mitigating Factors

Standard & Poor's analysis of the portfolio and cash flow model stresses have taken the presence of holiday homes into consideration.

Main Transaction Parties

Bankinter 5 Fondo de Titulización Hipotecaria (Issuer)

The issuer of the notes is a special-purpose entity (SPE) established for the purpose of this transaction and registered with the Comision Nacional del Mercado de Valores. The issuer has been established for the purpose of issuing the notes and purchasing 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 Banco de Santander and Bank of America. Since then, both banks have divested their participations and the 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 a substitute account bank.

Europea de Titulización S.A. (Sociedad Gestora)

The role of Europea de Titulización 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 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 €710 million 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 were 9,054 mortgages in the collateral pool at closing with an average loan size of €80,725. 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 LTV ratio at closing was just under 64%. The mortgages were originated between March 1997 and March 2002.

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 and are serviced by Bankinter.

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 4.5% subordination of the class B and class C notes and the reserve fund.

Class B noteholders are protected from potential credit losses on the underlying mortgages by the 2.4% subordination of the class C notes and the reserve fund.

Class C noteholders are protected from potential credit losses on the underlying mortgages by the 0.85% reserve fund.

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

Note Terms

Interest is paid on the 12th day of February, May, August, and November, beginning in May 2003. Unless redeemed earlier, the notes are redeemed at their maturity in November 2039.

All available principal is used to redeem the class A notes until the balance of the class B notes and the balance of the class C notes is equal to 4.2% and 3.1%, respectively, of the outstanding balance of all classes of notes. Once these ratios have been reached, principal is allocated on a pro rata basis to all classes. However, pro rata redemption is interrupted if any of the following should occur:

- With respect to the amortization of the class B notes, if 2.5% or more of the mortgages are at least 90 days delinquent;
- With respect to the amortization of the class C notes, if 2% or more of the mortgages are at least 90 days delinquent; or
- If the reserve fund is not at the required amount (as defined below) and if there is an amortization deficit.

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 amount of subordination of the class B and C notes and the reserve fund.

The reserve fund is determined in the following way:

- The greater amount of 1.7% of the outstanding principal balance of the notes and 0.6% of the initial issuance of the notes is taken;
- This is compared with 0.85% of the initial issuance of the notes, and the lower of the two is set as the amount of the reserve fund.

The reserve fund is not reduced, however, if arrears reach a certain level and if there is an amortization deficit.

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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