Bankinter 7 Fondo de Titulización Hipotecaria

Bankinter
RMBS
Spain

PLEASE NOTE: *This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of February. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The* ***definitive*** *ratings may differ from the* ***provisional*** *ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk.*

CLOSING DATE
February 2004

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RATINGS

Class	Rating	Amount	% of Total	Legal Final Maturity	Maturity Expected
A	(P)**Aaa**	€471,800,000	96.29	26/09/40	23/06/38
B	(P)**A2**	€13,000,000	2.65	26/09/40	23/06/38
C	(P)**Baa3**	€5,200,000	1.06	26/09/40	23/06/38
Total		€490,000,000	100		

The ratings address the expected loss posed to investors by the legal final maturity. The structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

OPINION

Strengths of the Transaction

- Good quality collateral, not loans with high LTV
- Good information provided by Bankinter
- Credit enhancement provided by a reserve fund and the subordination of the notes
- Basis swap provided by Bankinter (**Aa3**/**P-1**)
- Excess spread-trapping mechanism through an 18 months "artificial write-off" mechanism
- Strong performance and track record on previous Bankinter deals
- 100% of the loans are paid via direct debit and through monthly instalments

Weaknesses and Mitigants

- Pro-rata amortisation of the B and C Series of notes leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which terminate the pro-rata amortisation of the notes as the performance of the transaction deteriorates.
- Limited excess spread on the transaction

STRUCTURE SUMMARY

Issuer:	Bankinter 7 Fondo de Titulización Hipotecaria
Structure Type:	Spanish Fondo de Titulización Hipotecaria (FTH)
Seller/Originator/Servicer:	Bankinter (**Aa3**/**P-1**)
Issue Price:	100%
Payment Dates:	26 March, 26 June, 26 September, 26 December
Interest Payments:	Quarterly on each payment date
Principal Payments:	Pass-through on each payment date
Credit Enhancement/Reserves:	Transaction Spread 1.5% Reserve fund Subordination of the notes
Hedging:	Basis swap
Interest Rate Swap Counterparty:	Bankinter
Paying Agent:	Bankinter
Management Company (*Gestora*):	Europea de Titulización S.G.F.T, S.A
Arranger:	Europea de Titulización S.G.F.T, S.A
Lead Manager:	Bankinter

PROVISIONAL POOL (AS OF 20 JANUARY 2004)

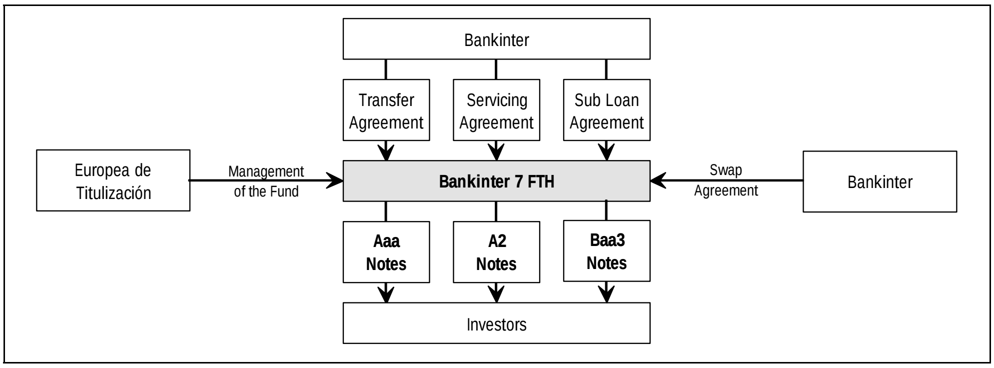
Collateral:	First-lien mortgages on residential properties
Total Amount:	€509,496,938
Highest Exposure:	€296,802
Average Loan:	€96,575
Number of Contracts:	5,275
Number of Borrowers:	5,275
Geographic Diversity:	Madrid (25%), Catalonia (17%), Pais Vasco (13%)
Weighted Average LTV:	73.70%
Weighted Average Remaining Term:	24.11 years
WA Seasoning:	2.8 years
Delinquency Status:	No loans more than 30 days in arrears at closing date
Interest Basis:	Floating (100%)
WA Interest Rate:	3.062%

Structural and Legal Aspects

Repeated plain vanilla structure

With this transaction, Bankinter is tapping the RMBS market for the seventh time. Bankinter 7 repeats the same structure as its predecessors.

Structurally, Bankinter 7 consists of three rated series: a senior series for an amount equal to €471.8 million, a mezzanine series for an amount equal to €13.0 million and a subordinated series for an amount equal to €5.2 million.



The products being securitised are first-lien mortgage loans granted to individuals resident in Spain who will use these loans primarily to acquire or refurbish a primary residence. All of the mortgage loans were originated by Bankinter, which will continue to service them.

Payment structure allocation

On each quarterly payment date, the Fondo's available funds (principal received from the asset pool, the reserve fund, amounts received under the swap agreement and interest earned on the transaction accounts) will be applied in the following simplified order of priority:

1. Cost and fees, excluding servicing fee (except in the case in which Bankinter is replaced as servicer of the loans)
2. Any amount due under the swap agreement (except termination payments if Bankinter defaults under the swap agreement)
3. Interest payment to Series A notes
4. Interest payment to Series B notes (if not deferred)
5. Interest payment to Series C notes (if not deferred)
6. Retention of an amount equal to the principal due under the notes
7. Replenishment of the reserve fund
8. Interest payment to Series B notes (if deferred)
9. Interest payment to Series C notes (if deferred)
10. Termination payments under the swap agreement
11. Junior expenses

Interest Deferral Mechanism

The payment of interest on the Series B and C notes will be brought to a more junior position on the second consecutive payment date in which the following criteria are met:

Series B	Series C
a) The principal deficiency exceeds 50% of the initial outstanding balance of Series B notes plus 100% of the initial outstanding balance of Series C notes	a) The principal deficiency exceeds 50% of the initial outstanding balance of Series C
b) Series A notes are not fully redeemed	b) Series A notes and Series B notes are not fully redeemed

Principal due and 18 months "artificial write-off" mechanism

The transaction's structure benefits from an "artificial write-off" mechanism, which traps available excess spread to cover losses (if any). This type of "artificial write-off" is hidden in the definition of principal due, which is calculated as the difference between (1) the outstanding amount of the notes and (2) the difference between (i) the outstanding amount of the portfolio and (ii) the outstanding amount of the loans with any amount due but unpaid for more than 18 months.

Pro-rata amortisation

As in the most recent Bankinter transactions, this transaction also includes pro-rata amortisation. Pro-rata amortisation entails risk as opposed to fully sequential transactions, given that the credit enhancement decreases in absolute terms. The risks introduced by pro rata amortisation are mitigated by the following triggers:

- Series B Notes will start amortising pro rata with the Class A notes when they represent 5.30% of the outstanding balance under the Series A, B and C notes.
- Series C Notes will start amortising pro rata with the Class A and B notes when they represent 2.10% of the outstanding balance under Series A, B and C notes.

However, the pro rata amortisation will not take place on the payment date on which any of the following events occur:

- The outstanding amount of loans more than 90 days but less than 18 months past due is higher than 1.50% of the outstanding amount of performing loans (including loans up to 18 months in arrears)
- The cash reserve is not funded at its required level

In addition to these triggers, the pro-rata amortisation will cease when the loan balance is less than 10.0% of the initial loan balance.

Treasury Account

The treasury account will be held at Bankinter. The proceeds from the loans, any amount received under the swap agreement and the reserve fund will be deposited in the treasury account.

Moody's has set up some triggers in order to protect the treasury account from the possible downgrade of the short-term rating of Bankinter. Should Bankinter's short-term rating fall below **P-1**, it will have to perform any of the following actions in the indicated order of priority within 10 business days:

1. Find a suitably rated guarantor or substitute.
2. Collateralise its payment obligations under the treasury account in an amount sufficient to maintain the then current rating of the notes.
3. Invest the outstanding amount of the treasury account in securities issued by a **P-1** rated entity.

Bankinter guarantees an annual yield of the amounts deposited in the treasury account equal to the index reference rate of the notes.

Reserve fund fully funded upfront to cover potential shortfall in interest and in principal

Bankinter will provide the reserve fund. At every point in time the required amount under the reserve fund will be the lesser of the following amounts:

1. 1.50% of the initial balance of the notes
2. The higher of the following amounts:
    - 3.00% of the outstanding notional balance of the notes
    - 1.00% of the initial balance of the notes

The reserve fund will be used to protect the three series of notes against interest and principal shortfall on an ongoing basis. The reserve fund may start to amortise once it represents 3.00% of the outstanding amounts under all notes until it reaches a floor set at 1.00% of the initial amount of the notes. However, amortisation of the reserve fund will cease if either of the following scenarios occurs:

- The amount of loans more than 90 days but less than 18 months in arrears exceeds 1.00% of the outstanding amount of performing loans (including loans up to 18 months in arrears)
- The cash reserve is not funded at its required level

Basis Swap to cover interest rate risk

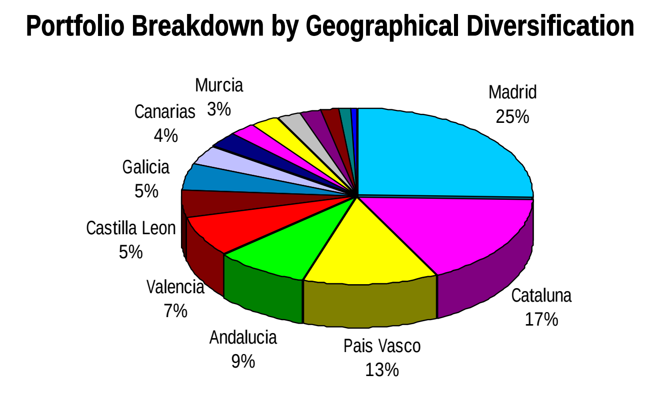
The transaction includes a basis swap by which the index reference rates on the assets are exchanged against the index reference rate on the notes.

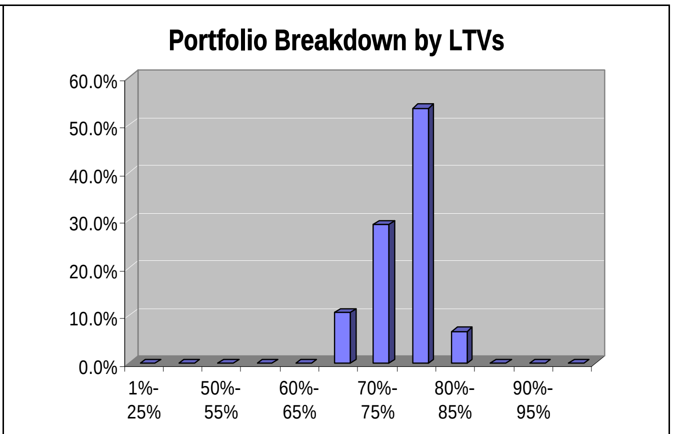
In the event of Bankinter's long-term rating being downgraded below **A1**, within 10 business days it will have to (1) collateralise its obligation under the swap agreement in an amount sufficient to maintain the then current rating of the notes or (2) find a suitably rated guarantor or substitute

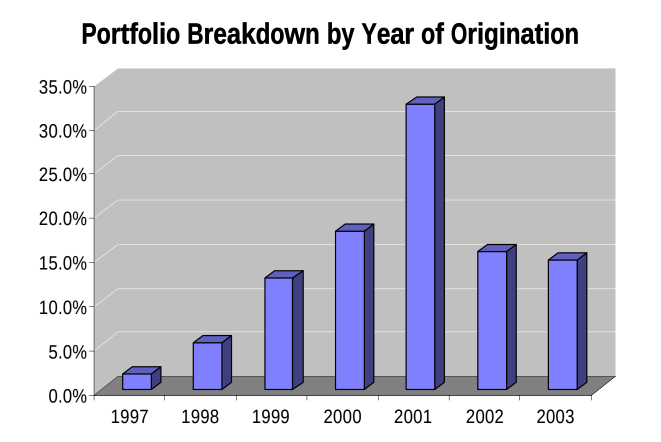
COLLATERAL – REFERENCE PORTFOLIO

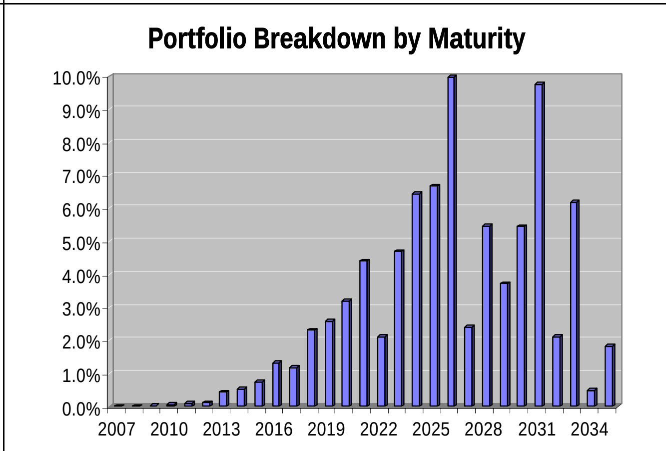
Good quality collateral

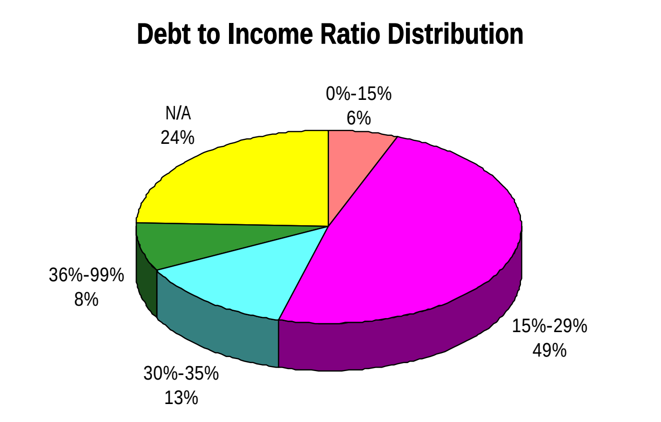
As of January 2004, the portfolio comprised 5,275 loans, representing a provisional portfolio of €509,433,748. The loans have been granted in order to finance the purchase, building and renovation of residential homes located in Spain. The loans consist of first-lien mortgages on residential properties that are all believed to be owner-occupied (only 4% of the loans are granted to acquire second homes). All the properties on which the mortgage security has been granted are covered by property damage and fire insurance. At closing all the loans will have accrued at least two instalments and there will be no loans more than 30 days in arrears.

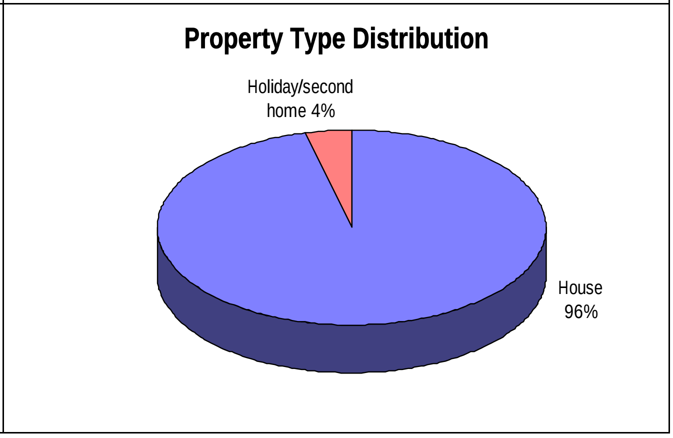












The average loan size is €96,575 and the largest loan is €296,802. The loans are originated between 1997 and 2003 with a weighted average seasoning of 2.8 years and a weighted average remaining maturity of 24.11 years. All the loans are paid through monthly instalments, which are debited to accounts held by the debtors at Bankinter.

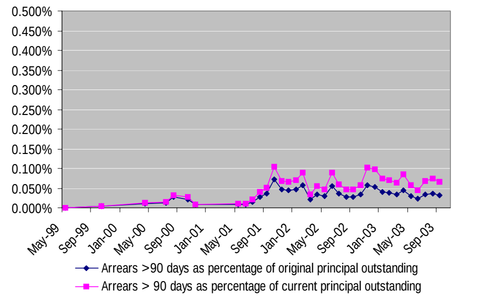
__Limitations on the renegotiation of the participating loans__

Any renegotiation of the terms and conditions of the loans is subject to the *gestora*'s approval. Exceptionally, the *gestora* may authorise the originators to renegotiate the interest rate or the maturity of the loans subject to the following conditions:

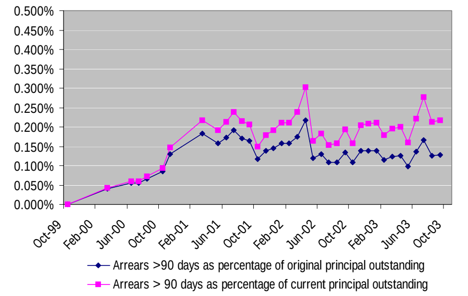
- If the weighted average margin of the loans is less than 0.50%, the originator has agreed to pay the fund, for each revised participated loan, the modified margin until the loan is repaid. However, the originator is not allowed to renegotiate the interest rate of any loan if that weighted average margin falls below 0.35%.
- The global initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the pool.
- The maturity of any loan cannot be postponed later than 23 June 2038.
- The frequency of payments cannot be decreased.
- The repayment system cannot be modified.

__Performance data on previous Bankinter transactions__

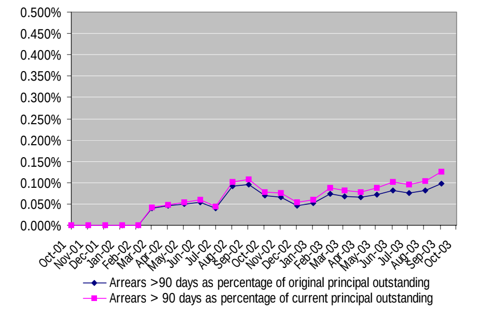
Bankinter 1 Performance Data



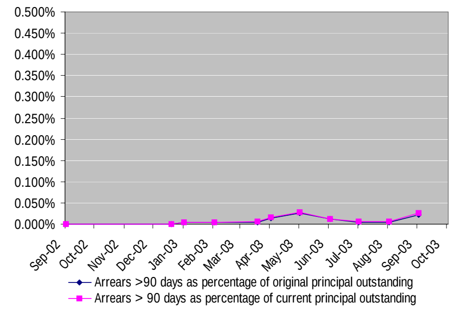
Bankinter 2 Performance Data



Bankinter 3 Performance Data



Bankinter 4 Performance Data



ORIGINATOR, SERVICER AND DUE DILIGENCE

__Bankinter, the fourth largest banking group in Spain, is the originator of the asset pool__

With assets of €25 billion in September 2003, Bankinter (**Aa3**/**P-1**/**B**) is Spain's fourth-largest banking group, but is relatively small compared with the country's largest players. Despite its smaller balance sheet size, Bankinter is a market pioneer in innovation and advanced use of technology.

Bankinter's flexible operating structure, innovative commercial approach and cutting-edge technology offered it a unique starting point for a successful implementation of its multi-channel strategy – an option not available to many other players. The bank's transformation from a traditional banking model to an integrated multi-channel structure, focused on customer service, is bearing fruit, as reflected in its good performance across client segments and distribution channels.

Bankinter's non-performing loans (NPLs) have been gradually increasing at absolute levels, on the back of high loan growth rates and an increasing exposure to the riskier but more profitable – small and medium-sized enterprise (SME) segment. However, at an NPL ratio of 0.31%, and with provisions amounting to 552% of total NPLs in September 2003, Bankinter's asset quality can still be characterised as very strong.

Bankinter's credit risks are widely dispersed, with 58% of the loan portfolio concentrated in low amounts below €100,000, and no sectorial concentrations. About three-quarters of the loan book is to individuals while larger risk exposures tend to be of short-term nature, and approved limits are well below the Bank of Spain's risk concentration limits.

Servicer

Bankinter will act as servicer of the loans, and will transfer the proceeds of the loans to the treasury account on a weekly basis.

In the event of Bankinter being declared bankrupt or failing to perform its obligations as servicer, the management company will have the right to designate a new suitable institution as new servicer.

Paying Agent

Bankinter will act as paying agent of the Fondo.

Management Company

The management company (*gestora*), Europea de Titulización, is an experienced company in the Spanish securitisation market. Its obligations within the structure are guaranteed by its shareholders in proportion of their holding. BBVA accounts for 83% of the gestora's capital. The remainder is owned by 15 institutions including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.53%), Barclays Bank (1.53%) and Citibank España (1.53%).

MOODY'S ANALYSIS

In order to analyse the risk of the transaction and to assess the size of the credit enhancement consistent with the rating assigned, Moody's adopts a three-part focus in its analysis:

The Aaa Credit Enhancement number is determined using a loan-by-loan analysis

Collateral Analysis - Although Moody's does not believe that any predetermined model can accurately reflect all of the possible risk factors and combinations within the Spanish mortgage market, a quantitative-based (Loan-by-Loan) model has been developed to assist in the analysis of mortgage loans under various conditions. Under the Loan-by-Loan approach, Moody's calculates an enhancement level for each loan in the pool to be securitised in the following four ways:

- Deriving a *benchmark credit enhancement numbe*r based on its loan-to-property value ratio (LTV). This number assumes that all of the characteristics of the loan (other than LTV) are identical with those of a good-quality *benchmark loan*.
- Assumptions: In the Loan-by-Loan model, a benchmark credit enhancement figure is obtained by taking into account each loan's current LTV level, and by penalising or benefiting any parameter that on aggregate may shift from our benchmark loan assumption. The model takes into account the following severity of loss assumptions: (1) house price decline is 30%, (2) interest rates going up to 8%, (3) 27 months required to sell a property, and (4) 7% costs associated with the sale of the property. High interest rates affect the affordability, but also increase the severity over the period in which repossession takes place. This period has been assumed to be 27 months, which is approximately twice as long as currently experienced. We also assumed the cost of the sale to be 7%.
- Modifying the resultant benchmark credit enhancement number for each loan so as to reflect how the individual characteristics of that loan differ from those of a benchmark loan. The weighted average benchmark credit enhancement number will then be adjusted according to positive and negative characteristics of each loan or of the pool as a whole to produce the "Aaa credit enhancement" number.

The Aaa credit enhancement number is the basis of committee discussions and is used to derive the lognormal distribution of losses of the pool.

Having obtained the loss distribution of the pool under consideration, a cash flow model is used to assess the impact of structural features of the transaction, such as the priorities of interest and principal, reserve fund and the value of excess spread.

The sum of the loss experience per class of notes weighted by the probability of such a loss scenario will then determine the expected loss on each tranche and hence the rating, consistent with Moody's target losses for each rating category.

Cash flow modelling used to assess impact of structural features

Structural Analysis: This considers how the cash flows generated by the mortgage collateral are allocated to the parties within the transaction, and the extent to which various structural features of the transaction may provide additional protection to investors, or act as a source of risk themselves. In addition, Moody's ensures that the transaction is not affected by the bankruptcy of the originator.

Moody's rating process also involves legal analysis

Legal Analysis: Moody's considers whether the legal documents ensure that the cash flows are allocated to the assumptions made in its structural analysis.

For more information regarding Spanish MBS rating methodology refer to Moodys.com – "Spanish Residential Mortgage-Backed Securities, An Introduction to Moody's Rating Approach".

RATING SENSITIVITIES AND MONITORING

Europea de Titulización, S.G.F.T, S.A, in its capacity as management company, will prepare quarterly monitoring reports with respect to the portfolio and payments to the notes. These reports will detail the amounts received by the issuer during each collection period and will provide portfolio data. Moody's will monitor this transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes to the rating will be publicly announced and disseminated through Moody's Client Service Desk. For updated monitoring information, please contact monitor.madrid@moodys.com.

RELATED RESEARCH

Visit moodys.com for more details

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions, please refer to the following reports:

- RATING METHODOLOGY: Spanish Residential Mortgage-Backed Securities, An Introduction to Moody's Rating Approach, July 2001
- SPECIAL REPORT: Introducing Moody's Arrears Index for Spanish Mortgage-Backed Securities – Overall Credit Quality of Spanish RMBS Transactions Remains Strong, According to New Index, March 2002
- SPECIAL REPORT: Moody's Spanish RMBS Arrears Index Delinquency Levels Remained Persistently Low in 2002 but Are Likely to Rise Given Weakening Global Economy and Factors Affecting Homeowners' Indebtedness, May 2003
- SPECIAL REPORT: Structural Features in the Spanish RMBS Market – Artificial Write-Off Mechanisms: Trapping the Spread, January 2004
- BANKINTER 1 Pre-sale report + Performance Overview
- BANKINTER 2 Pre-sale report + Performance Overview
- BANKINTER 3 Pre-sale report + Performance Overview
- BANKINTER 4 Pre-sale report + Performance Overview
- BANKINTER 5 Pre-sale report + Performance Overview
- BANKINTER 6 Pre-sale report + Performance Overview

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