RMBS/Spain
New Issue

Bankinter 9, Fondo de Titulización de Activos Draft

Ratings*

Series P

Class	Amount (EURm)	Final Maturity	Rating	CE (%)
A1	66.6	July 2042	AAA	4.00
A2	656.0	July 2042	AAA	4.00
B	15.3	July 2042	A+	1.95
C	7.1	July 2042	BBB	1.00

Series T

Class	Amount (EURm)	Final Maturity	Rating	CE (%)
A1	21.6	July 2042	AAA	11.00
A2	244.2	July 2042	AAA	11.00
B	17.2	July 2042	A	5.10
C	7.0	July 2042	BBB-	2.70

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* Ratings are based on the portfolio with a cut-off date of 3 January 2005

Summary

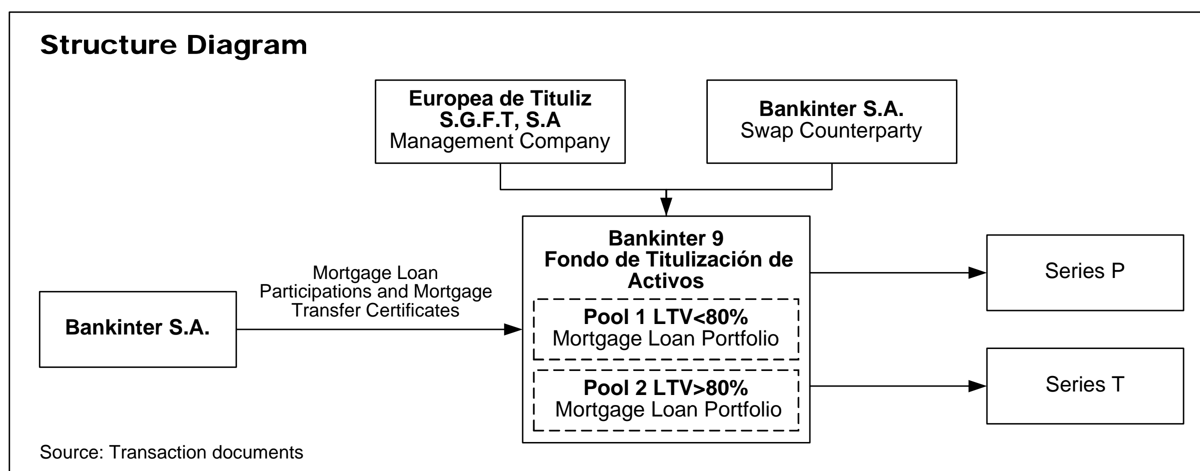
This EUR1.035 billion transaction is a securitisation of residential mortgage loans originated in, and secured on property located in, Spain. Fitch Ratings has assigned ratings to the notes to be issued by Bankinter 9, Fondo de Titulización de Activos ("Bankinter 9" or "the fund") as indicated at left.

At closing, Bankinter 9 issued two series of notes ("the Series") backed by two segregated portfolios of residential mortgage loans originated by Bankinter S.A. ("Bankinter" or "the seller", rated 'A+/F1'). The pools were segregated according to their loan-to-value ("LTV") ratio. Series P is backed by a pool of loans with an LTV below 80% ("pool 1"), while Series T is backed by loans with an LTV of over 80% ("pool 2"). The Series are not cross-collateralised, but benefit from separate subordination and reserve funds.

Bankinter will continue to service the loans. Bankinter 9 is regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to transform the mortgage loan participations (*Participaciones Hipotecarias* or PHs) and mortgage transfer certificates (*Certificados de Transmision de Hipoteca* or CTHs) issued by Bankinter into variable-rate residential mortgage-backed securities ("RMBS"). The PHs and CTHs were subscribed on behalf of Bankinter 9 by Europea de Titulización, S.A., S.G.F.T. ("the *Sociedad Gestora*"), whose sole function is to manage asset-backed funds.

Bankinter is one of Spain's largest financial institutions, created in 1965 by Banco Santander Central Hispano ('AA-(AA minus)/F1+') and Bank of America ('AA-(AA minus)/F1+'). Securitisation is an important tool in its financing strategy and the bank has issued several securitisation transactions since 1998, including eight RMBS and one SME CDO. Since it began operations, the bank's business has become more consumer orientated and it has come to focus on the Spanish residential mortgage market, where it has a current market share of around 8% in terms of volume.

The ratings are based on the quality of the collateral, the underwriting and servicing of the mortgage loans, available credit enhancement and the sound legal and financial structures. To determine appropriate levels of credit enhancement, as indicated at left, Fitch analysed the collateral using a loan-by-loan mortgage default model specific to Spain. The agency also modelled the cash flow contribution from excess interest using stress scenarios determined by its default model. The cash flow test showed that, taking available credit enhancement into account, each class of rated notes could withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall, according to the terms and conditions of the notes.



Credit Committee Highlights

- This is the ninth RMBS transaction to be conducted by Bankinter. Fitch has given credit to the above-average performance of existing Bankinter RMBS deals.

- The fund will issue two series of notes (Series P and Series T) backed by two separate portfolios of residential mortgage loans, segregated according to their LTV ratios. Series P is backed by a pool with LTV ratios below 80%, while Series T is backed by loans with LTVs of over 80%. The Series are not cross-collateralised, but benefit from independent (and identical) priority of payments.

- Debt-to-income ("DTI") information was provided on a loan-by-loan basis, which Fitch views as positive. For both sub-pools, around 50% of the obligors were in Fitch's DTI class 3, and the remainder in lower DTI classes. The average DTI ratios are 27.8% for pool 1 and 28.7% for pool 2 (for DTI definitions, see appendix 1 on page 9).

- Since seasoning is around 20 months for both sub-pools, their weighted average ("WA") indexed current LTVs and WA current LTVs are similar – in the range of 57% for pool 1 and 85% for pool 2.

- The hedging mechanisms in place mitigate the risk of a mismatch between the indices to which the mortgages and the notes are referenced. They also mitigate the carrying costs incurred by the short-term Class A1 notes of each Series in the first 15 months of the transaction's life owing to the "expected bullet" amortisation profile of these notes.

- At the borrowers' request, Bankinter may lower the margin of securitised loans in both pool 1 and pool 2. If, on any payment date, the WA margin ("WAM") of the portfolio falls to 0.45%, Bankinter will pay the fund the difference between the original and renegotiated margins for each renegotiated loan. Fitch has not given credit to this mechanism in its 'AAA' rating scenario analysis.

- The mezzanine and junior notes (rated 'A+' to 'BBB-(BBB minus)') are partially linked to the credit quality of Bankinter, as the cash flow modelling of these notes assumes that Bankinter will honour its obligations to maintain the WAM at 0.45%. Therefore, any negative migration in Bankinter's credit quality may have an impact on the then-outstanding ratings of these notes.

- The ratings address payment of interest on the notes according to the terms and conditions of the documentation (subject to a deferral trigger for the Class B and Class C notes) as well as the repayment of principal at final maturity.

Financial Structure

Interest on the notes will be paid quarterly in arrears based on three-month EURIBOR plus a margin.

The mortgages will continue to be serviced by Bankinter, acting as the administrator. Amounts received from the mortgages will be transferred by the bank into the fund's Guaranteed Investment Contract ("GIC") account, held at Bankinter, on a weekly basis.

The legal maturity of the notes is in July 2042. The notes are subject to a clean-up call when less than 10% of the mortgage participations at closing remain outstanding.

Key Information

Provisional Portfolio Characteristics (As of 3 January 2005)

Pool 1 - PH

Total Amount: EUR793,849,170

WA Original LTV: 63.8%

WA Current LTV: 58.9%

WA Indexed Current LTV: 55.0%

WA Remaining Maturity: 277.7 months

WA Seasoning: 20.5 months

Pool 2 - CTH

Total Amount: EUR316,490,125

WA Original LTV: 91.6%

WA Current LTV: 88.2%

WA Indexed Current LTV: 83.3%

WA Remaining Maturity: 338.0 months

WA Seasoning: 19.6 months

Structure

Originator & Seller: Bankinter S.A. ("Bankinter", rated 'A+/F1')

Servicer: Bankinter

Fund: Bankinter 9, Fondo de Titulización de Activos ("Bankinter 9")

Sociedad Gestora: Europea de Titulización, S.A., S.G.F.T.

Swap Counterparty: Bankinter

Final Legal Maturity: July 2042

Servicing of the Securitised Portfolio

The mortgage loans will continue to be serviced by Bankinter. However, if it is unable to perform this function adequately, the *Sociedad Gestora,* if it is legally possible according to existing regulation, will appoint a replacement administration company for the securitised portfolio.

According to Royal Decree 685/1982, governing the issuance of PHs and CTHs, the originator must continue to act as the servicer for the loans backing the PHs and CTHs (the securitised portfolio). Since the decree does not envisage the possibility of a servicer replacement, the implication is that this may only occur on the bankruptcy of the PH and CTH issuer (seller).

Priority of Payments

The transaction has two identical priority of payment structures ("waterfalls"): one for Series P and another for Series T. The Series are not cross-collateralised, but benefit from individual subordination and credit enhancement. Both payment structures involve combined waterfalls, whereby principal collections can be used to pay interest on the notes.

For each Series of notes, on each distribution date, interest and principal available funds will be allocated in the following order of priority:

1. senior fees and expenses;
2. payments due under the swap agreement;
3. interest due on the Class A1 and A2 notes;
4. interest due on the Class B notes, if not deferred;
5. interest due on the Class C notes, if not deferred;
6. from closing to 16 April 2006, provisioning of the principal amortisation account; thereafter, principal due on the notes (see *Principal Redemption*);
7. interest due on the Class B notes, if deferred;
8. interest due on the Class C notes, if deferred
9. replenishment of the reserve fund;
10. payments due under the swap in the event of termination;
11. subordinated amounts, including interest and amortisation of the loans for initial expenses and the constitution of the reserve fund.

Interest due on the Class B notes will be deferred if the amortisation deficit exceeds 50% of the initial Class B note balance and 100% of the initial Class C note balance. Deferral of the Class B notes may only occur while the Class A1 and A2 notes remain outstanding.

Interest due on the Class C notes will be deferred if the amortisation deficit exceeds 50% of the initial Class C note balance. Deferral of the Class C notes may only occur while the Class A1 A2 and B notes remain outstanding.

The amortisation deficit is the difference between: 1) the current balance of the notes; and 2) the current balance of the loans excluding losses. Losses are defined as mortgages more than 18 months in arrears.

On each payment date, funds deposited in each segregated collection account will be applied to each waterfall. The senior fees and expenses will be paid pro rata for each series based on the then-outstanding balance of the notes. Amounts deposited in the collection account of either series will be used to cover the extraordinary expenses of each individual series. In circumstances where extraordinary expenses may affect the financial condition of the fund regardless of the performance of the notes, such expenses should be allocated *pro rata* according to the then-outstanding balances of the notes.

If it becomes necessary to liquidate the fund, the notes will become due and payable. All available funds will then be allocated sequentially to cover interest and principal payments due on the Class A1 and Class A2 notes, on a *pro rata* basis, then the Class B notes and, finally, the Class C notes.

Principal Redemption

Class A1 Notes Redemption

No principal will be repaid on the notes until 16 April 2006. Between closing and this date, principal receipts received from debtors will be paid into the principal amortisation account, to be used for redemption of the A1 notes. A certain amount of negative carry will be created by the fact that the note balance will not decrease in this period while the mortgage balance will – generating lower interest payments and therefore temporarily depressing excess spread. This negative carry will be covered by the swap agreement.

However, the Class A1 and A2 notes may amortise *pro rata* if the following conditions are met:

- principal funds accumulated in the principal amortisation account are insufficient to repay the A1 notes on 16 April 2006; and
- the current balance of loans over 90 days in arrears, excluding losses, is less than 2.00% of the outstanding loan balance, excluding losses.

In any case, the final maturity date for the A1 notes will be 16 July 2042.

Class A2, B and C Notes Redemption

Once Class A1 is fully amortised, principal repayments on the notes will be allocated sequentially, starting with the Class A2 notes, then the Class B notes and, finally, the Class C notes.

However, Class B may begin to amortise if the following conditions are met:

- if the credit enhancement available to the Class B notes is twice the level at closing – i.e. 4.1% and 11.8%, respectively, for Series P and Series T;
- if the current balance of loans more than 90 days in arrears, excluding losses, is less than 1.5% of the outstanding loan balance, excluding losses.

Likewise, Class C may begin to amortise under the following conditions:

- if the credit enhancement available to the Class C notes is twice the level at closing – i.e. 1.9% and 4.8%, respectively, for Series P and Series T;
- if the current balance of loans more than 90 days in arrears, excluding losses, is less than 1.0% of the outstanding loan balance, excluding losses.

In addition to the above conditions, *pro rata* amortisation of Class A2, Class B and Class C may only commence on any such payment date if the reserve fund is at its maximum level (this implies that no PDL balances exist on this payment date).

Interest Rate Risk

Hedge Agreements

The fund will enter into an interest hedging agreement with Bankinter for each Series to cover the risk of a mismatch between the indices to which the mortgages and the notes are referenced. Each hedge agreement will have identical terms and conditions.

The fund will therefore pay Bankinter the index received from mortgages less than 18 months in arrears and will, in return, receive three-month EURIBOR on the notional balance of the notes from Bankinter. No excess spread is guaranteed.

The notional balance is defined as the outstanding balance of loans less than 18 months in arrears plus the balance of the principal amortisation account multiplied by the WAM on the notes.

If Bankinter's Short-term rating is downgraded below 'F1', it will, within 10 days, take one of the following steps:

- cash- or security-collateralise its obligations in an amount satisfactory to the agency;
- find a replacement counterparty with a Long term rating of at least 'A' and Short-term rating of at least 'F1'; or
- find an entity rated at least 'A' and 'F1' to guarantee its obligations under the swap.

Credit Enhancement

Series P

Initial credit enhancement for the Class A1 and Class A2 notes, totalling 4.10%, is provided by subordination of the Class B notes (2.05%), the Class C notes (0.95%) and an initial reserve fund (1.00%). Initial credit enhancement for the Class B notes is 1.95%, provided by the Class C notes and the reserve fund, while initial credit enhancement for the Class C notes is 1.00%, provided by the reserve fund.

Series T

Initial credit enhancement for the Class A1 and Class A2 notes, totalling 11.00%, is provided by subordination of the Class B notes (5.90%), the Class C notes (2.40%) and an initial reserve fund (2.70%). Initial credit enhancement for the Class B notes is 5.10%, provided by the Class C notes and the reserve fund, while initial credit enhancement for the Class C notes is 2.70%, provided by the reserve fund.

Reserve Funds

A reserve fund was set up for each Series on the closing date.

At closing, the reserve funds equated to 1.00% and 2.70%, respectively, of the initial Series P and Series T notes balance. Subject to the following conditions, the reserve funds will be permitted to amortise to the lesser of: a) 0.5% and 1.35%, respectively, of the initial Series P and Series T notes balance; or b) 2% and 5.40%, respectively, of the then-outstanding Series P and Series T notes balance:

- the reserve fund cannot step down in the first three years after closing;
- the balance of mortgage loans more than 90 days in arrears must remain below 1% of the outstanding mortgage balance;
- the reserve fund must be funded to the required amount.

Representations and Warranties

Bankinter has provided representations and warranties in relation to the pool of mortgages, on whose breach Bankinter must repurchase the loan(s) in question.

Specifically, the representations and warranties include the following, among others:

- each mortgage loan is registered in the relevant property registry and is a first-ranking mortgage on the corresponding property;
- Bankinter has full right and title to, and the power to sell and transfer, the mortgages;
- Bankinter is unaware that any of the underlying properties have been subject to a reduction in value of more than 20%;
- all properties are located in Spain;
- the property underlying each mortgage loan has been the subject of a valuation, as required by law; and
- each mortgage loan constitutes a legal, valid, binding and enforceable obligation of the relevant borrower.

■ Legal Structure

At closing, Bankinter transferred the mortgage loans to the *Sociedad Gestora* on behalf of the fund. The seller also transferred all present or future rights under the various transaction documents to the fund. The *Sociedad Gestora* is a special-purpose company with limited liability incorporated under Spanish laws. Its activities are limited to the management of asset-backed notes.

As per Royal Decree 685/1982, mortgages with current LTVs below 80% were transferred to the fund as *Participaciones Hipotecarias*; and, as per Law 44/2002, loans with LTVs over 80% were transferred to the fund as *Certificados de Transmisión de Hipoteca*.

Collateral

Provisional pools 1 and 2 consist of mortgage loans originated by Bankinter. Both pools are secured by residential properties in Spain and benefit from first-ranking mortgages registered in the *Registro de la Propiedad* (the official Spanish register). All the loans are variable rate, linked to EURIBOR and MIBOR. The portfolio has no large geographical concentration: the regions with the largest proportion of loans are Madrid and Catalonia. Income information was available on a loan-by-loan basis. A summary of the characteristics of each pool is listed below.

■ Origination and Servicing

Bankinter, S.A. (Bankinter), which was created in 1965 by Santander and Bank of America, became independent in 1972 and was the 11th largest banking group in Spain by total assets at end-2003. Since its formation, the bank has altered its strategy to concentrate on the retail sector (including residential mortgage lending and loans to small and medium enterprises). This area now makes up a much larger portion of the bank's balance sheet and, according to Bankinter's 2003 annual report, accounted for more than 50% of its lending activities. Within this sub-total, the largest segment is mortgage lending, which contributes approximately 87% of the total retail sector portfolio.

In recent years, the bank has decided to concentrate on a specific segment of customers: above-average income earners with an average age of 30-40 years. The bank claims to have an average of 5.91 products per client, compared with the market average of around three or four products per client.

Although Bankinter has reported strong growth in mortgage origination, defaults have remained lower than those of its peers – 0.17%, compared with a market average of 0.41% (calculated as loans 90

Provisional Portfolio Summary

Pool 1 Characteristics	
Current Principal Balance (EURm)	793.8
Average Current Loan per Borrower (EUR)	102,631
Average Original Loan per Borrower (EUR)	113,476
Oldest Loan in Portfolio	January 2000
Most Recent Loan in Portfolio	March 2004
Interest Rate Type	
Floating-Rate Loans (%)	100
WA Interest Margin (%)	0.60
Interest Index	EURIBOR/MIBOR
Payments	
Payment Frequency (%)	Monthly 99.3
Payment Method	Direct Debit
Loans <30 Days in Arrears (%)	98.26
Regional Concentration (%)	
Madrid	28.44
Catalonia	17.61
Lien Position (%)	
First-Ranking	100
LTV (%)	
WA Original LTV	63.8
Original LTV 70% - 80%	32.0
Original LTV Below 50%	22.0
WA Indexed Current LTV	55.0
WA Current LTV	58.9
DTI (%)	
Class 1	20.63
Class 2	29.89
Class 3	49.48
Type of Property (%)	
First Home	87.72
Second Home	12.28
Property Price	
Average Property	198,768
Property Hit (%)	32.49

Pool 2 Characteristics	
Current Principal Balance (EURm)	316.5
Average Current Loan per Borrower (EUR)	154,687
Average Original Loan per Borrower (EUR)	160,707
Oldest Loan in Portfolio	January 2000
Most Recent Loan in Portfolio	March 2004
Interest Rate Type	
Floating-Rate Loans (%)	100
WA Interest Margin (%)	0.58
Interest Index	EURIBOR/MIBOR
Payments	
Payment Frequency (%)	Monthly 99.8
Payment Method	Direct Debit
Loans <30 Days in Arrears (%)	98.57
Regional Concentration (%)	
Madrid	34.22
Catalonia	25.07
Lien Position (%)	
First-Ranking	100
LTV (%)	
WA Original LTV	91.6
Original LTV 80% - 90%	46.0
Original LTV 90% - 100%	54.0
WA Indexed Current LTV	83.3
WA Current LTV	88.2
DTI (%)	
Class 1	13.54
Class 2	36.55
Class 3	49.91
Type of Property (%)	
First Home	95.99
Second Home	4.01
Property Price	
Average Property	176,048
Property Hit (%)	18.42

Source: Fitch Ratings

days in arrears as a proportion of the outstanding mortgage loan balance).

Origination

Mortgages are originated through the bank's branches, as well as via telephone banking, the internet and a network of estate agents. Information required for origination purposes includes, among others, details of a borrower's family and employment situation, other sources of revenue, history with the bank and total debts outstanding. The bank also requires a valuation of the underlying property, conducted by one of Bankinter's accepted valuers, all of which are valuation companies registered with and regulated by the Bank of Spain. The bank runs credit checks through its own internal customer databases as well as external credit agencies, such as ASNEF and CIRBE (which keeps records on individuals' default history and current debt exposure).

Bankinter's internal credit system bases its decisions on the borrower's capacity to repay their debt. The vast majority of mortgages loans are approved through this system and, while manual approvals do occur, the loan amounts, LTVs and DTI limits are restricted and depend on the seniority of the approving credit officer.

Servicing

As soon as a loan is more than one day overdue it is passed to the delinquencies and defaults department ("D+D"), where a credit officer decides whether to use an external telephone recovery agency or to commence a more formal recovery process – i.e. by mail and, if necessary, legal proceedings. Simultaneously, the bank will take other action

internally on other products that the customer has with the bank (i.e. blocking their accounts etc).

The bank uses an external telephone recovery agency for loans it expects to remain at the delinquency stage. A standard series of telephone calls is scheduled and, if necessary, personal visits take place. The bank also employs external legal counsel for all legal proceedings, who prepare all the required documentation and organise the foreclosure process. However, they must revert to Bankinter for all business decisions and are also obliged to provide regular updates.

The majority of delinquent loans fall overdue owing to temporary financial difficulties. However, where the financial situation of the borrower is such that they will be unable to repay their debt, they will most often organise the sale of the property to avoid going to court. Importantly, the bank will not abandon the legal process once it has started unless either the entire amount due or a large part of it is paid. Hence, although the actual legal process lasts an average of one to two years, and can even last up to three (fairly infrequent in the last decade), the vast majority of recoveries tend to occur in the first eight months after default.

Bankinter uses a system of alerts to identify potential delinquent borrowers. The system uses external credit databases, which identify defaults on a borrower's credits with other financial institutions as well as important changes in the borrower's debt structure. An internal database tracks and flags abnormal changes.

Credit Analysis

Fitch analysed the collateral for this transaction by subjecting the mortgage loans to stresses resulting from its assessment of mortgage loan defaults and historical house price movements in Spain. The analysis was based on default probability and expected recoveries on individual loans (see Appendix 1).

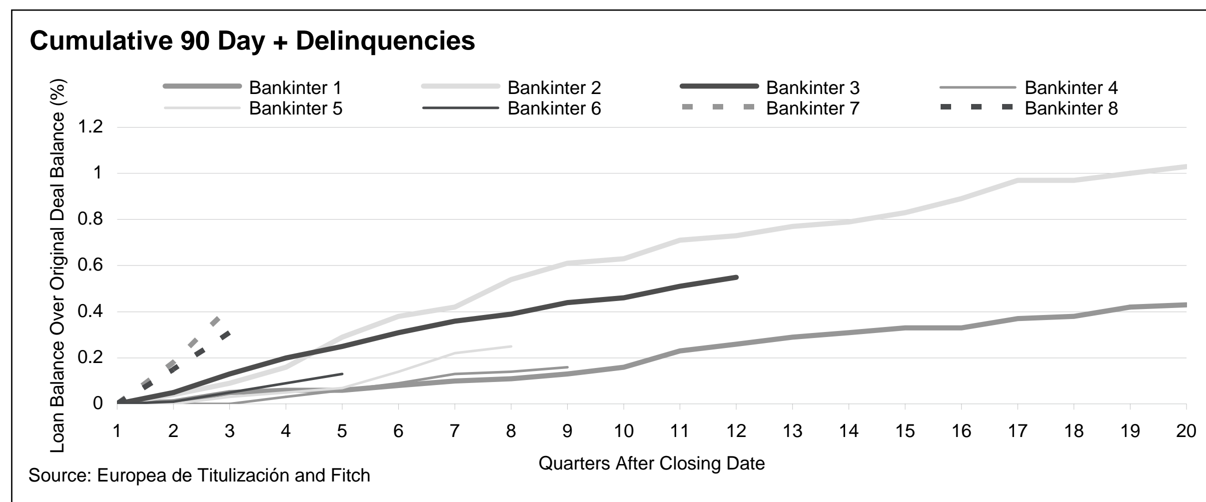
Fitch also analysed: (i) the collateral's original LTV distribution; and (ii) the performance of existing RMBS transactions executed by Bankinter. The agency looked particularly at these characteristics of the most seasoned deals (Bankinter 1, 2 and 3). Historical performance and estimates conducted on the collateral are consistent with the agency's base case default probabilities derived from Fitch's Spanish Default Model (please see chart 1).

To evaluate the contribution of structural elements such as excess spread, subordination, deferral triggers and other factors, Fitch modelled the cash flows based on the WA frequency of foreclosure ("WAFF") and WA recovery rate ("WARR") provided by the loan-by-loan collateral analysis (see "*A Guide to European RMBS Cash Flow Analysis"* dated 20 December 2002 and available at www.fitchratings.com).

Fitch Default Model Output – Pool 1

Rating Level	WAFF* (%)	WARR** (%)	Loss Severity (%)	MVD*** (%)
AAA	7.8	82.1	32.9	43.8
AA	6.3	88.3	26.7	39.3
A	4.7	94.2	20.8	34.7
BBB	3.1	98.1	16.9	31.3

Recovery time (years): interest accrued on contractual rate for three years
* Weighted Average Foreclosure Frequency
** Weighted Average Recovery Rate
*** Market Value Decline
Source: Fitch



Source: Europea de Titulización and Fitch

Fitch Default Model Output – Pool 2

Rating Level	WAFF* (%)	WARR** (%)	Loss Severity (%)	MVD*** (%)
AAA	17.9	54.4	60.6	44.6
AA	14.3	59.9	55.1	40.1
A	10.7	65.7	49.3	35.3
BBB	7.2	69.9	45.1	31.9

Recovery time (years): interest accrued on contractual rate for three years
* Weighted Average Foreclosure Frequency
** Weighted Average Recovery Rate
*** Market Value Decline
Source: Fitch

Default Probability

Generally, the two key determinants of default probability are a borrower's willingness and ability to make the mortgage payments. Willingness to pay is usually measured by the LTV ratio. Fitch assumed higher default probabilities for high-LTV loans and lower default probabilities for low-LTV loans, as in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low-LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property.

Ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. Bankinter focuses mainly on a borrower's ability to pay and has comparatively strict origination guidelines in this area, allowing a maximum DTI of 40%.

Fitch has taken the specific characteristics of the product into consideration in its default probability analysis of the portfolio. It has taken, as its main measure of a borrower's willingness to pay, LTV based on the original balance of the initial drawdown.

Recoveries

To estimate recoveries on the mortgage loans, Fitch examined house price movements in Spain on a regional basis from 1987-2004 and found significant differences, most notably between Madrid, Catalonia and the Basque Country and the other regions. Cities in these three regions have experienced higher price increases than elsewhere in Spain. Based on its analysis of the real estate market, Fitch assumed marginally larger market value declines ("MVDs") for certain regions, as well as for some large urban areas.

Fitch has increased MVDs for higher-value properties. These are generally subject to greater MVDs in a deteriorating market than homes with average or below-average market values, for reasons of limited demand.

When calculating recovery values, Fitch's model reduces each property's worth by the MVD, external foreclosure expenses and the cost to the servicer of carrying the loan from delinquency through to default. The carrying cost will depend on the time to foreclosure as well as the interest rate applied, which Fitch assumes to be 5%. Bankinter's current time to foreclosure is eight months, but Fitch assumed a figure of three years.

Cash Flow Analysis

To evaluate the contribution of structural elements such as excess spread, the reserve fund and other factors, Fitch modelled the WA cumulative frequency of foreclosure and the WARR provided by the loan-by-loan collateral analysis to determine the cash flows generated by the mortgages. Recoveries included both interest and principal.

The cash flow model assumes that defaults are spread over the first five years of origination immediately after closing. The analysis simulates the cost of carrying defaulted loans as the difference between the performing balance of the mortgages and the notional note balance. Excess spread, the reserve fund and principal must be sufficient to cover the carrying cost until recoveries are received after the assumed 36 months. Variable interest rates due on the notes are stressed upwards over time. However, the effect of this factor is limited by the basis swap in place.

The cash flow analysis assumes high levels of prepayment on the mortgages – which stresses available excess spread (see *Margin Renegotiation* below) – of 25%, 21% and 18% per annum under 'AAA', 'A' and 'BBB' scenarios, respectively.

Margin Re-Negotiation

At a borrower's request, Bankinter may reduce the margin of a securitised loan. However, if, on any payment date, the WAM of the portfolio falls to 0.45%, Bankinter will pay the fund the difference between the original and the renegotiated margin for each renegotiated loan. No loans may be renegotiated if the portfolio's WAM is 0.35%.

As of the cut-off date, the WAMs of the pools are 0.60% and 0.58%, respectively, for pool 1 and pool 2. Also, around 10.5% of pool 1 and 8.46% of pool 2 accrues a margin below 0.45%. Only 2% and 0.5%, respectively, accrues a margin of 0.35%

Under these circumstances, it is very difficult (if not impossible) to estimate how the margins on the portfolio will compress during the life of the transaction.

To model margin compression in the 'AAA' rating scenario, the agency assumed that, the seller will go insolvent in year 2 and that all possible margin renegotiations will have taken place at that time, leaving the portfolio's WAM at 0.35%. Since some of the outstanding loans may prepay from year 2 until maturity, Fitch assumed that the portfolio's WAM would fall further, to 0.30%.

Fitch gave credit to the margin renegotiation mechanism when modelling the mezzanine and junior notes of each Series, assuming that the portfolio's WAM would be maintained at around 0.45%. Hence, the rating of these notes may be affected by any negative migration in the credit quality of Bankinter.

Under these stresses, the payment of principal will be received before the final legal maturity date. Interest payments will be received without interruption for the Class A1 and the Class A2 notes. However, interest payments on the Class B and Class C notes will be subject to the deferral trigger and the terms and conditions of the notes. If the deferral triggers are hit, Class B and Class C notes may not receive any interest for a period of time.

Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance surveillance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is accessible at www.fitchratings.com.

Appendix I: Rating Methodology

To determine appropriate levels of credit enhancement, Fitch analyses the collateral for Spanish residential transactions using a loan-by-loan mortgage default model. The model subjects the mortgage loans to stresses resulting from its assessments of historical house price movements and defaults. Fitch's study showed that the LTV, reflecting the size of the borrower's down payment, and the borrower's income multiple (original loan advanced divided by income) are the primary indicators of default risk in Spain. Fitch also modelled the cash flow contribution from excess interest using stress scenarios determined by its default model. The cash flow test showed that each class of rated notes, taking available credit enhancement into account, can withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make the mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch's model assumes higher default probabilities for high-LTV loans and lower default probabilities for low-LTV loans. The main reason is that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low-LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property.

The ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. Historical data available for Spain shows low levels of default. Base default probabilities are determined using a matrix which considers each loan's affordability factor and LTV. The matrix classifies affordability into five classes, the lowest of which (Class 1) encompasses loans with debt-to-income ratios ("DTI") of less than 20% and the highest of which (Class 5) encompasses all loans with DTIs exceeding 50%. The average DTI for the mortgage market in Spain is c. 27%-33%.

Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for individual loan characteristics of the collateral across all rating levels.

- **Product Type:** Fitch increases default probability assumptions by 0%-10% for the index volatility experienced by variable-rate mortgage holders.
- **Repayment Type:** Fitch will increase base default rates by 5%-10% for loans to be paid by *cuota creciente*, whereby the amortisation of capital is always the same and the interest payment is increasing.
- **Loan Purpose:** Fitch believes that a financially distressed borrower is more likely to default on a second home or investment property than on a primary residence. Accordingly, Fitch will double the base default rates in both cases. If the purpose of the loan is not to acquire a property in Spain, Fitch will increase the default probability by 50%-100%.
- **Borrower Profile:** Fitch increases default probability on loans to self-employed borrowers by 33%-50% to account for their lack of a fixed annual salary.
- **Arrears Status:** when rating portfolios combining current and arrears mortgages, Fitch increases base default rates for mortgages in arrears by 1-30, 31-60, and 61-90 days by 10%, 35% and 70% respectively, and mortgages over 91 days in arrears (non-performing status) by 100%.
- **Underwriting Quality:** Fitch's review and analysis of the origination process determines whether the agency decreases default rates by up to 25% or increases them by 0%-200%.

Loss Severity

To estimate loss severity on the mortgage loans in Spain, Fitch examined house price movements in Spain on a regional basis from 1987-2001. The agency found significant differences in price development among the regions, mainly between the regions of Madrid, Catalonia and the Basque Country, and the rest of the regions in Spain. The cities of these regions have experienced higher price increases than other cities in Spain. As in most other countries, rural areas tend to develop on a more stable basis. Based on its analysis of the real estate market, Fitch assumed slightly higher MVDs for certain regions and for some large urban areas.

To derive MVDs for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with markets in other European countries. As with its other European mortgage default models, Fitch has increased MVDs for higher-value properties. These properties are generally subject to larger market value declines in a deteriorating market than homes with average or below-average market values owing to limited demand for such properties.

When calculating recovery value, Fitch’s model reduces each property value by the MVD, external foreclosure expenses and the cost to the servicer of carrying the loan from delinquency through default. For Spain, Fitch assumes external foreclosure costs represent 10% of the loan’s balance at the time of default. Loss severity also incorporates the fact that the length of time of the foreclosure process might be longer than currently in a recession period. To calculate carrying costs, Fitch uses a worst-case scenario analysis which assumes that the borrower does not pay any interest and the collateral is not realised for a period of three years.

Excess Spread

Excess spread represents the monetary difference between the income received by the issuer from the borrowers and the interest on the notes and other expenses paid by the issuer. Any reserve fund will be replenished from available excess spread, if it is drawn. The actual value of excess spread depends on levels of delinquencies, defaults and prepayments, as well as the WA interest rate of the reference mortgage portfolio throughout the life of a transaction.

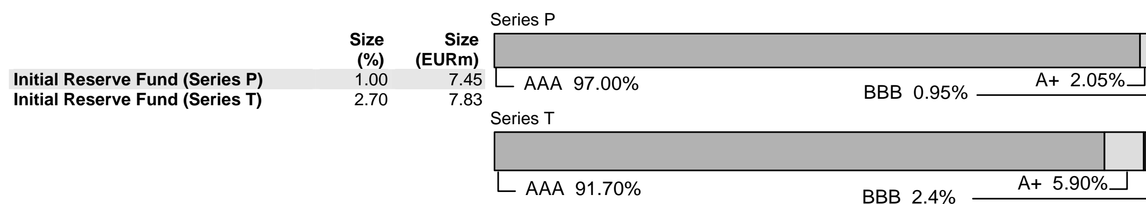
Appendix II: Additional Transaction Information

Bankinter 9, Fondo de Titulización de Activos — RMBS/Spain

Capital Structure

Class	Rating	Size (%)	Size (EURm)	Credit Enhancement (%)	Spread	I/P PMT Freq	Maturity	Coupon
Series P								
A1	AAA	8.94	66.6	4.00	Between 05 and 15bps	Quarterly	July 2042	3 month Euribor + spread
A2	AAA	88.06	656.0	4.00	Between 08 and 22bps	Quarterly	July 2042	3 month Euribor + spread
B	A+	2.05	15.3	1.95	Between 35 and 55bps	Quarterly	July 2042	3 month Euribor + spread
C	BBB	0.95	7.1	1.00	Between 70 and 120bps	Quarterly	July 2042	3 month Euribor + spread
Series T								
A1	AAA	7.4	21.6	11.00	Between 05 and 15bps	Quarterly	July 2042	3 month Euribor + spread
A2	AAA	84.3	244.2	11.00	Between 08 and 22bps	Quarterly	July 2042	3 month Euribor + spread
B	A	5.9	17.2	5.10	Between 35 and 55bps	Quarterly	July 2042	3 month Euribor + spread
C	BBB-	2.4	7.0	2.70	Between 70 and 120bps	Quarterly	July 2042	3 month Euribor + spread

	Size (%)	Size (EURm)
Initial Reserve Fund (Series P)	1.00	7.45
Initial Reserve Fund (Series T)	2.70	7.83



Key Information

		Role	Party (Trigger)
Closing Date	15 February 2005	**Sellers/Originators**	Bankinter S.A.
Country of Assets	Spain	**Structurer**	Europea de Titulización, S.G.F.T, S.A.
Structure	Pass through and Sequential	**Issuer**	Bankinter 9 Fondo de Titulización de Activos
Type of Assets	Residential mortgages	**Lead Manager**	Credit Suisse First Boston / Société Generale/ Bankinter
Currency of Assets	EUR		
Currency of Notes	EUR	**Trustee**	Europea de Titulización, S.G.F.T, S.A
Primary Analyst	gustavo.celi@fitchratings.com	**Swap provider**	Bankinter S.A.. (A/F1)
Secondary Analyst	natalia.bourin@fitchratings.com	**Financial agent**	Bankinter S.A.(F1)
Performance Analyst	sf_surveillance@fitchratings.com		

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