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Presale Report: MBS/Prime/Spain

Bankinter 16 Fondo de Titulización de Activos

€2,043 Million Floating-Rate Notes

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This presale report is based on information as of March 6, 2008. The credit ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of initial credit ratings that differ from the preliminary credit ratings.

Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support¶ (%)	Interest	Step-up margin	Optional call date	Legal final maturity
A	AAA	1,882	8.05	Three-month EURIBOR plus a margin	N/A	N/A	September 2050
B	AA	46	5.75	Three-month EURIBOR plus a margin	N/A	N/A	September 2050
C	BBB	38	3.85	Three-month EURIBOR plus a margin	N/A	N/A	September 2050
D	BB	34	2.15	Three-month EURIBOR plus a margin	N/A	N/A	September 2050
E	CCC-	43	N/A	Three-month EURIBOR plus a margin	N/A	N/A	September 2050

**The rating on each class of securities is preliminary as of March 6, 2008, and subject to change at any time. Initial credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely interest and principal.*
¶This credit support uses current figures.
NR—Not rated.
N/A—Not applicable.

Transaction Participants	
Originator	Bankinter S.A.
Arrangers	Bankinter S.A. and Europea de Titulización S.G.F.T., S.A.
Mortgage administrator/servicer	Bankinter S.A.
Seller	Bankinter S.A.
Security trustee	Europea de Titulización S.G.F.T., S.A.
Interest swap counterparty	Bankinter S.A.
Transaction account provider	Bankinter S.A.

Supporting Ratings	
Institution/role	Ratings
Bankinter S.A. as interest swap counterparty and transaction account provider	A/Positive/A-1

Transaction Key Features	
Expected closing date	March 14, 2008
Collateral	First-, second-, or further-ranking mortgage loans backed by residential properties (94.6%) and commercial properties (5.4%)
Principal outstanding (Mil. €)	2,207,285,247.45
Country of origination	Spain
Concentration	23.47% of the pool is concentrated in the Madrid region, 17.21% in Catalonia, and 15.61% in Andalucia
Weighted-average LTV ratio (%)	62.09
Average loan size balance (€)	137,645
Loan size range (€)	44 to 4,500,000
Weighted-average seasoning (months)	22
Weighted-average asset life remaining (months)	323
Weighted-average mortgage interest rate (%)	4.92
Weighted-average margin at closing (%)	0.47
Redemption profile	100% of the loans are amortizing
Excess spread at closing (%)	0.47
Cash reserve (%)	2.15
Mortgage priority	90.81% of pool are first-ranking mortgages and 9.19% are second- and further-ranking mortgages
Maximum LTV ratio (%)	100
Number of jumbo loans (>€400,000)	385

Transaction Summary

Standard & Poor's Ratings Services has assigned preliminary credit ratings to the €2 billion mortgage-backed floating-rate securitization notes to be issued by Bankinter 16 Fondo de Titulización de Activos. At the same time, it will issue €43 million of class E notes.

The originator is Bankinter S.A. (Bankinter). At closing, Bankinter will sell the issuer a €2 billion closed pool of mortgage loans granted to Spanish residents. The mortgage loans will be backed by first-, second-, and further- ranking mortgages.

To fund this purchase, Bankinter 16 will issue five classes of floating-rate, quarterly paying notes. The class E notes will fully fund the cash reserve account at closing. Bankinter 16 is a fund whose sole purposes will be to purchase the collateral from Bankinter, issue the notes, and carry out related activities. The issuer will hold a distinct and closed pool of assets available for distribution to the noteholders. The assets will be insulated from the insolvency of the originator and the trustee.

The preliminary ratings on the notes reflect the subordination of the respective classes of notes below them, the cash reserve account, the interest rate swap, and comfort provided by various other contracts.

Bankinter S.A., which ranks among the top 10 Spanish banks, mainly focuses on three areas: retail, wholesale corporate, and private banking. Bankinter 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 Bankinter's shares are widely held and publicly traded on the Madrid stock market.

Notable Features

This will be the 16th securitization of Bankinter's mortgage credit and the third where Hipoteca SIN credits are being securitized. Hipoteca SIN credits are flexible loans that allow borrowers, with Bankinter's approval, to take payment holidays, make additional draws, and increase the term of their mortgage credit.

Unlike in previous Bankinter RMBS transactions, a small percentage of the loans from the preliminary pool will not be backed by residential properties but commercial properties.

In this transaction, Bankinter will act as originator, servicer, transaction accounts provider, and swap counterparty.

As in other Spanish transactions, interest and principal will be combined into a single priority of payments, with some triggers in the payment of interest to protect senior noteholders.

Strengths, Concerns, And Mitigating Factors

Strengths
• The collateral is of a high quality, comprising first-, second-, and further-ranking residential mortgage loans, with a weighted-average LTV ratio of 62.09% and an average seasoning of 22 months. • There is adequate credit enhancement for the target ratings. The cash reserve, which will be fully funded at closing using the class E note issuance proceeds, and the excess spread will both be available to cover any interest or principal shortfalls. • Bankinter has good servicing and securitization experience; this will be its 16th RMBS transaction. • There will be a swap agreement between the issuer and Bankinter to mitigate interest rate basis risk in the transaction.

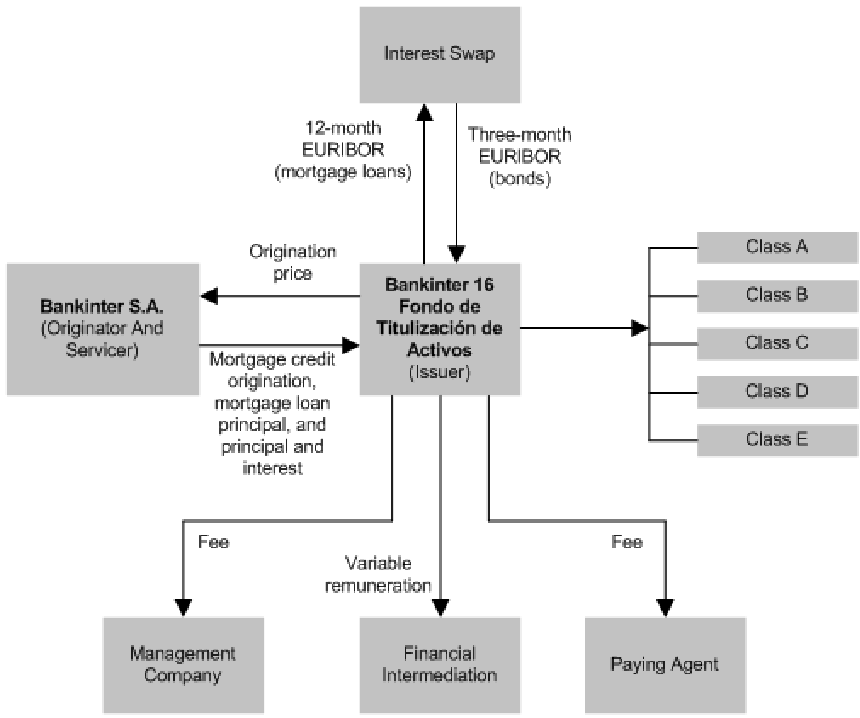
Concerns and mitigating factors

- 43.82% of the preliminary pool comprises Hipoteca SIN flexible credits that allow borrowers to take payment holidays, make further drawdowns, and increase the term of their mortgage credit. Standard & Poor's analysis of the portfolio has taken into account the characteristics of the Hipoteca SIN product, which are in all cases subject to Bankinter's approval.
- The excess spread of the pool may decrease from its current margin of 47 bps because mortgage credit can be renegotiated at the borrowers' request. The available margin was stressed in Standard & Poor's cash flow analysis. According to the offering circular, margins can be renegotiated down to a floor of the weighted-average margin of the pool of 35 bps. This will be guaranteed in the transaction by Bankinter paying the difference in spread if the weighted-average spread is lower than 40 bps.
- 5.55% of the loans in the preliminary pool are secured by a commercial property and not by a residential one. Standard & Poor's has taken this into account in its credit analysis of the pool.
- The pool has geographical concentration: 56.3% of the pool is concentrated in Madrid, Catalonia, and Andalucía. The presence of any regional concentrations has been taken into account in Standard & Poor's analysis of the portfolio.
- The 'BB' rating on class D notes is weak-linked to the rating on Bankinter as servicer. If the rating on the originator falls below that on the class D notes, Standard & Poor's will review the ratings on the notes. Standard & Poor's will carry out constant surveillance on class D notes.

Transaction Structure

At closing, the originator will issue mortgage certificates ("*certificados de transmission hipotecaria*"; CTHs) that will be purchased by Europea de Titulización S.G.F.T., S.A., the trustee, on the issuer's behalf (see chart 1).

Chart 1: Bankinter 16 Fondo de Titulización de Activos Transaction Structure



Each CTH will represent, in equal amount and interest rate, the securitized mortgage loans and mortgage credits. The CTHs will entitle Bankinter 16 to any rights and proceeds due under principal and interest on the mortgage loans and the credit line first draws.

The total outstanding amount of the mortgage credits and mortgage loans purchased for the final pool will be €2 billion. To fund the purchase of collateral, Bankinter 16 will issue five classes of rated notes. To fund the reserve fund, Bankinter 16 will issue the rated class E notes on the issue date.

The collateral will be serviced by Bankinter, which will collect the amounts due under the mortgages. It will then transfer the collected installments weekly into the treasury account.

The issuer will enter into a basis swap agreement with Bankinter to hedge any basis risk resulting from the differences between the index on the mortgages in the pool and the reference interest rate on the notes. The fund will pay 12-month EURIBOR from the collateral. The swap counterparty will pay three-month EURIBOR.

On each quarterly interest payment date, the issuer will pay, in arrears, the interest due to the noteholders. To make the payments, the issuer will have as available funds the proceeds of the interest swap, interest earned on the transaction accounts, the reserve fund, and, if necessary, principal received under the mortgage credit and any other proceeds received in connection with the mortgage credit.

All interest and principal received can be mixed to pay principal and interest due under the notes. There will be a trigger so that in a stressful economic environment the more senior notes will be amortized before interest on the subordinated classes of notes is paid (see "*Priority Of Payments*").

Bankinter S.A., Originator And Servicer

The rating on Spain-based Bankinter (A/Positive/A-1) is supported by the bank's business flexibility, innovative culture, sophisticated management, outstanding efficiency, excellent asset quality track record, and sound and well-developed credit risk management. These positives are counterbalanced by meaningful reliance on wholesale funding, only adequate solvency, and lower business diversification and weaker overall market position than the largest nationwide competitors.

Bankinter's operations are focused on specific market segments where it has a competitive edge thanks to its strong management team, light and flexible operating structure, and superior IT systems. Capitalizing on these strengths, Bankinter's talented management has demonstrated its ability to adapt to changing economic and market conditions. The bank is now gradually increasing the weight of small and midsize enterprise (SME) banking and private banking in its profile, thereby enhancing its business diversification.

Bankinter has a relatively low risk profile, with high-quality residential mortgages accounting for 63% of its total portfolio, and limited market and operational risk. Asset quality indicators have remained significantly better than the market average throughout the economic cycle, as a result of the bank's good credit risk management and systems. The bank's strong credit expansion, particularly into SMEs, during the past few years—although now decelerating—adds some risk to the balance sheet. Bankinter's sound credit risk management and tight monitoring, good track record in the middle-market segment, and strong reserve cushions mitigate concerns about this risk. Standard & Poor's consequently expects the effect on asset quality of a higher interest rate environment and expected slowing economic growth to be contained.

Operating profitability benefits from Bankinter's excellent and improving efficiency. This has helped absorb pressure on gross operating returns that have led bottom-line returns to average levels by domestic and international standards. Pressure on operating profitability is nevertheless abating amid a more comfortable interest rate environment and with Bankinter's less aggressive pricing.

Strong loan growth outpacing that of deposits has led Bankinter to rely on wholesale funding, including a substantial proportion of short-term financing in the funding mix. While wholesale funding needs remain manageable, they mean Bankinter has a comparatively higher exposure to trends in short-term (particularly domestic) debt markets.

Core risk-adjusted solvency is just adequate. Our analysis of Bankinter's solvency takes into account the bank's transfer of most of the credit risk associated with securitizations of mortgage loans, which has in turn freed up associated capital. We expect solvency to remain relatively stable, underpinned by slowing growth and the bank's strong capital generation capacity (including excess provisions).

Collateral Description

As of Feb. 4, 2008, the pool comprised 16,036 amortizing mortgage loans and credits secured by first-, second-, and further-ranking mortgages over residential owner-occupied and second-home properties in Spain (see table 1).

Table 1: Pool Composition

		€	%
Mortgage credit lines	First-ranking	967,311,566.09	43.82
Standard mortgage loans	First-ranking	1,037,074,295.38	46.99
Standard mortgage loans	Second- and further-ranking	202,899,385.98	9.19
Total		2,207,285,247.45	100.00

The securitized product is a flexible mortgage credit called Hipoteca SIN, which is effectively a flexible credit line and standard mortgage loans. The main features of the SIN product allow borrowers, with Bankinter's approval in all cases, to make further drawdowns on the mortgage credit, to take payment holidays, and to increase the term of their mortgage credit.

Hipoteca SIN flexible loans: additional draws

Borrowers may draw further on their lines up to the original amount they borrowed at the origination date. The maximum LTV ratio is 80%. The initial and subsequent credit line drawdowns are guaranteed by the underlying property.

The portion of the mortgage credit securitized is the first drawdown made under the credit line. Further drawdowns are treated separately, but rank pari passu with the initial withdrawal.

The maximum amount to be drawn per mortgage credit is the lower of:

- The positive difference between (i) the original drawn amount and (ii) the current amount; and
- The positive difference between (i) the original drawn amount multiplied by twice the percentage that the remaining life represents over the original term and (ii) the current amount.

Hipoteca SIN flexible loans: payment holidays

All the mortgage credits can have payment holidays, but only after the first three years of their life. There is a maximum of three monthly installment holidays (consecutive or not) per year. For every 10 years, there is a maximum of three monthly installment holidays (consecutive or not) distributed across four years.

Pending and accrued interest is paid at once when the payment holiday is finished and principal is re-included in the outstanding balance of the mortgage credit. No mortgage credit in arrears has the option of payment holidays.

Hipoteca SIN flexible loans: increasing the original term of the mortgage credit

The current maximum term of the mortgage credit is established at 35 years. It is possible to increase the term of the mortgage credit at a rate of six months per year that has been paid, excluding the first two years. The installment then has to be recalculated. The term may be extended to a maximum of 40 years. No mortgage credit in arrears has the option to increase the maturity.

Other characteristics of the mortgage credits

Other features of the mortgage pool include:

- Of the pool, 56.29% is concentrated in Madrid, Catalonia, and Andalucía (see chart 2).
- The pool was originated between 2003 and 2007. The weighted-average seasoning is 22.2 months, with 69.84% of the pool being originated more than 12.0 months ago (see chart 3).
- The weighted-average LTV ratio is 62.09%, the minimum 0.01%, and the maximum 100.00% (see chart 4).
- In the preliminary pool, 5.55% of the loans are not secured by residential properties but by commercial and other type of properties (see chart 5).
- The pool comprises floating-rate mortgage credits that are indexed to one-year EURIBOR. Mortgages in the pool have a weighted-average margin over the floating rate of 47 bps. The weighted-average interest rate is 4.92%. In addition, there are no caps or floors in the pool, and margins can be renegotiated down to a floor of a weighted-average margin of the pool of 40 bps (this is guaranteed by Bankinter paying the difference in spread if the weighted-average spread is lower than 40 bps). Each individual mortgage credit has a floor of 35 bps.

Chart 2: Geographic Concentration

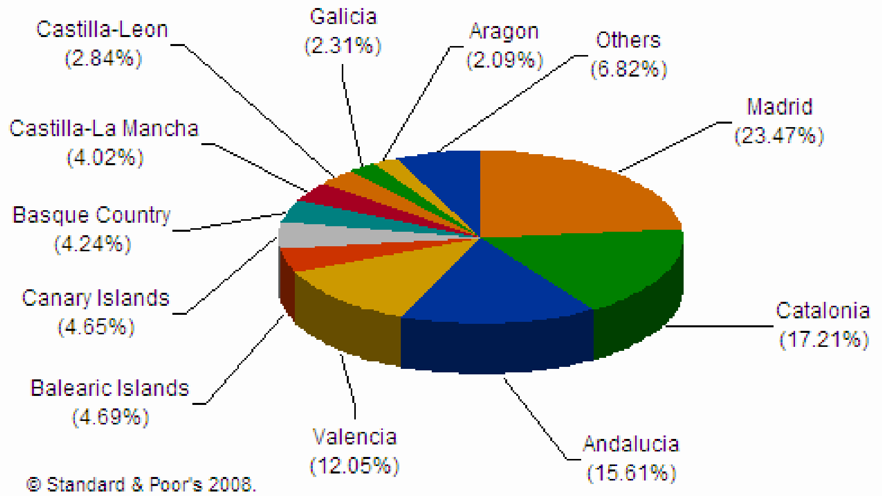


Chart 3: Seasoning Distribution

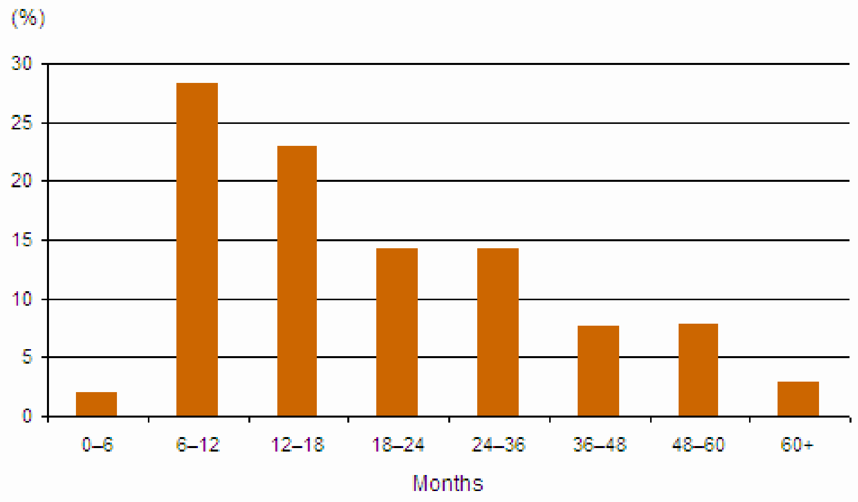


Chart 4: LTV Ratio Distribution

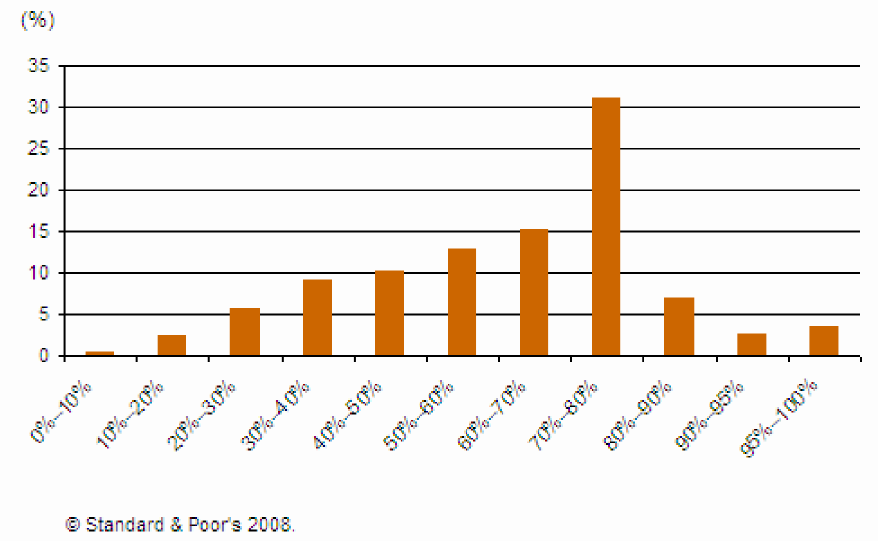
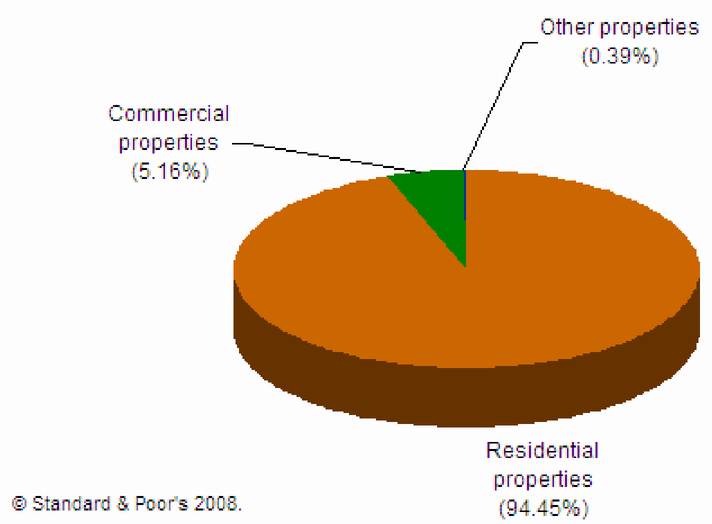


Chart 5: Property Type Distribution



Credit Structure

Credit support for the notes will be provided by a combination of subordination, the reserve fund, and excess spread on the mortgages (see table 2).

Table 2: Credit Support For The Notes						
Class	Rating	Size of class (%)	Mil. £ (equivalent)	Credit support (% notes)	Credit support (% reserve)	Credit support (total %)
A	AAA	94.1	1,882	5.90	2.15	8.05
B	AA	2.3	46	3.60	2.15	5.75
C	BBB	1.9	38	1.70	2.15	3.85
D	BB	1.7	34	0.00	2.15	2.15
E	CCC-	2.15	43	0.00	0.00	0.00

Cash collection arrangements and transaction account

Funds received at Bankinter due to interest and principal payments of the CTHs will be transferred to the treasury account in the name of the fund seven working days after its receipt.

The rest of the amounts, the reserve fund, the GIC margins, the subordinated loan for initial expenses, etc. will be directly deposited in the treasury account. The treasury account for Bankinter 16 is held at Bankinter. Both of them will have a guaranteed interest rate of three-month EURIBOR.

According to Standard & Poor's "*Revised Framework For Applying Counterparty And Supporting Party Criteria*" published on May 8, 2007, if the bank account provider is downgraded below 'A-1', it has 60 days until it becomes an ineligible counterparty and it has to:

- Find a replacement with a short-term rating of at least 'A-1', or
- Find an adequate Standard & Poor's guarantor with a short-term rating of at least 'A-1'.

Any counterparty replacement or guarantee will be subject to rating confirmation. All the costs of the remedies will be borne by the downgraded counterparty.

Reserve funds

At closing, the issuer will issue the class E notes, which will fully fund the cash reserve account to 2.15% of the original principal amount of the rated notes. The cash reserve will not amortize for the first three years of the transaction. After the third anniversary of the closing date and on each payment date, the cash reserve account will amortize if the following conditions are met:

- The outstanding balance of the loans in the pool with any payment in arrears for more than 90 days is higher than 1% of the outstanding balance of the loans in the pool;
- The reserve fund is below its required level; or
- The margin of the outstanding balance of the loans is equal to or lower than 37.6 bps

Amortization of the notes

Amortization will occur for the:

- Class A notes, from the first payment date until fully amortized;
- Class B notes, once the class A notes are fully amortized
- Class C notes, once the class A and B notes are fully redeemed; and
- Class D notes, once the class C notes are fully redeemed.

The available amortization fund on each payment date will be equal to the balance of the capital repayment fund. The capital repayment fund, on each payment date, will be the difference between:

- The principal outstanding balance under all the series of notes; and
- The principal outstanding balance of all outstanding non-doubtful loans (no more than 18 months in arrears).

The conditions for the pro rata amortization of the class B, C, and D notes are that they will amortize pro rata with the class A notes if:

- The ratio of the aggregate balance of delinquent loans to the aggregate balance of non-doubtful loans is below 1.50% for the class B notes, below 1.25% for the class C notes, and below 0.75% for the class D notes;
- The total outstanding principal balance of the class B, C, and D notes represents at least 4.6%, 3.8%, and 3.4% of the outstanding principal balance of all the notes;
- The cash reserve is at the required amount after the previous payment date; and
- The total outstanding balance of the non-doubtful loan portfolio is equal to or greater than 10% of the initial balance of the loan portfolio.

Class E note amortization

On each payment date, the amount designated to amortize the class E notes will be the difference between the required reserve fund at the previous payment date and the required reserve fund at this payment date.

If the clean-up call happens, the class E notes will be fully amortized together with the other notes.

Priority of payments—pre-enforcement interest payments

On each quarterly interest payment date (IPD), the issuer will pay in arrears the interest due to the noteholders. To make the payments, the issuer's available funds will include the proceeds of the interest swap, the reserve fund, and, if necessary, principal received under the loans and any other proceeds received in connection with the loans.

All interest and principal received can be mixed to pay principal and interest due under the notes in the following order:

- Senior fees (including the administration fee if Bankinter is substituted;
- Termination cost of the swap due to the Fund;
- Interest on the class A notes;
- Interest on the class B notes;
- Interest on the class C notes;
- Interest on the class D notes;
- Principal on the class A notes;
- Principal on the class B notes;
- Principal on the class C notes;
- Principal on the class D notes;
- Interest on the class B notes, if postponed;
- Interest on the class C notes, if postponed;
- Interest on the class D notes, if postponed;
- Reserve fund replenishment;
- Interest on the class E notes;
- Principal on the class E notes;
- Termination cost of the swap due to the counterparty;
- Interest on the start-up loan;
- Amortization of the start-up loan;
- Administration fee if Bankinter is the administrator; and
- Residual margin.

Interest deferral triggers

The interest on the class B, C, and D notes will be subject to a deferral on a given payment date to a lower position in the waterfall:

- Class B interest will be deferred if the cumulative gross default rate, as a percentage over the initial balance of the pool exceeds 8.65%.
- Class C interest will be deferred if the cumulative gross default rate, as a percentage over the initial balance of the pool exceeds 5.00%.
- Class D interest will be deferred if the cumulative gross default rate, as a percentage over the initial balance of the pool exceeds 4.25%.

Hedging Risk

Interest swap agreement

The interest rate swap agreement will mitigate any basis mismatch between the 12-month EURIBOR reference rate of loans in the pool, and the three-month EURIBOR reference rate on the notes. The interest rate swap provider will be Bankinter.

On each IPD, the issuer will pay the swap counterparty the reference index on the mortgage loans based on a notional amount of the performing principal balance of loans in the pool plus the balance of all loans less than 18 months in arrears. In return, the issuer will receive note EURIBOR multiplied by the same notional balance.

According to Standard & Poor's "*Revised Framework For Applying Counterparty And Supporting Party Criteria*," if the swap counterparty is downgraded to 'A-2', it will still be an eligible counterparty, if it is agreed in 10 days of the downgrade that it will collateralize 100% of the contract's mark-to-market complying with Standard & Poor's requirements.

If this option is not taken, then the swap counterparty will become ineligible and one of the two following options should be taken:

- Within 60 days, find a replacement with a short-term rating of at least 'A-1'; or
- Within 60 days, find a guarantor with a short-term rating of at least 'A-1'

If the swap counterparty is downgraded to 'A-3', it becomes an ineligible counterparty and it should agree in 10 days to deliver additional collateral, no lower than 25% of the mark to market obligation, complying with Standard & Poor's requirements.

In the meantime, and after having complied with the previous steps, one of the two following options should be taken:

- Within 60 days, find a replacement with a short-term rating of at least 'A-1'; or
- Within 60 days, find an adequate guarantor with a Standard & Poor's short-term rating of at least 'A-1'.

If an ineligible counterparty is not replaced within the remedy period, the ratings on the notes may be lowered to levels that could be supported by the counterparty's then-current rating. The amount of collateral will be taken into consideration in analyzing the transaction after the counterparty is downgraded.

Any counterparty replacement or guarantee will be subject to rating confirmation. All the costs of the remedies will be borne by the downgraded counterparty.

Credit Analysis

We stressed the transaction cash flows to test both the credit and liquidity support provided by the assets, subordinated tranches, cash reserve, and any external sources (such as a liquidity facility). We implemented these stresses to the cash flows at all relevant rating levels.

For example, we subject a transaction that incorporates 'AAA', 'A', and 'BBB' rated tranches of notes to three separate sets of cash flow stresses. In the 'AAA' stresses, all 'AAA' notes must pay full and timely principal and interest, but this will not necessarily be the case for the 'A' or 'BBB' rated tranches as they are subordinated in the priority of payments. In the 'A' case, all 'AAA' and 'A' notes must receive full and timely principal and interest, but not necessarily so for the 'BBB' rated tranche, as it is subordinated to both 'AAA' and 'A'.

Amount of defaults and recoveries

For each loan in the pool, we estimated the likelihood that the borrower will default on its mortgage payments (the foreclosure frequency), and the amount of loss on the subsequent sale of the property (the loss severity, expressed as a percentage of the outstanding loan). We assume the total mortgage balance to default. We determine the total amount of this defaulted balance that is not recovered for the entire pool by calculating the WAFF and the WALS.

The WAFF and WALS estimates increase as the required rating level increases, because the higher the rating required on the notes, the higher the level of mortgage default and loss severity they should be capable of withstanding. This credit analysis is based on the characteristics of the loans and the associated borrowers. We have applied market-specific criteria in our assessment of the WAFF and the WALS for this portfolio, which are shown in table 3.

Table 3: Portfolio WAFF And WALS

Rating level	WAFF (%)	WALS (%)	Market value declines (%)
AAA	12.92	15.91	37
AA	8.61	11.69	32
A	6.46	8.69	28
BBB	4.31	6.05	24
BB	3.23	4.91	20

Timing of defaults

The WAFF at each rating level specifies the total balance of the mortgage loans assumed to default over the life of the transaction. We assume that these defaults occur over a three-year recession. Further, we assess the effect of the timing of this recession on the ability to repay the liabilities, and choose the recession start period based on this assessment.

Although the recession normally starts in the first month of the transaction, the 'AAA' recession is usually delayed by 12 months. The WAFF is applied to the principal balance outstanding at the start of the recession (e.g., in a 'AAA' scenario, the WAFF is applied to the balance at the beginning of month 13). We assume defaults occur periodically in amounts calculated as a percentage of the WAFF. The timing of defaults in Spanish transactions follows one path, referred to here as "equal" defaults. This timing is shown in table 4.

Table 4: Default Timing Equal Default Curve

Percentage of WAFF	AAA (recession month)	Rest of rating scenarios (percentage of WAFF)
1/3	13	1
1/3	25	13
1/3	37	25

Timing of recoveries

We assume that the issuer would regain any recoveries 30 months after a payment default in Spanish transactions. The value of recoveries at the 'AAA' level will be 100% minus the WALS given above.

Note that the WALS used in a cash flow model will always be based on principal loss, including costs. We assumed no recovery of any interest accrued on the mortgage loans during the foreclosure period. After the WAFF is applied to the balance of the mortgages, the asset balance is likely to be lower than that on the liabilities (a notable exception is when a transaction relies on overcollateralization). The interest reduction created by the defaulted mortgages during the foreclosure period will need to be covered by other structural mechanisms in the transaction.

Delinquencies

We model the liquidity stress that results from short-term delinquencies, i.e., those mortgages that cease to pay for a period of time but then recover and become current regarding both interest and principal. To simulate the effect of delinquencies, we assume a proportion of interest receipts equal to one-third of the WAFF to be delayed. We apply this in each month of the recession and assume full recovery of delinquent interest will occur 18 months after it is removed from the transaction. Thus, if in month five of the recession the total collateral interest expected to be received is €1 million and the WAFF is 30%, €100,000 of interest (one-third of the WAFF) will be delayed until month 23.

Interest and prepayment rates

We modeled one interest rate scenario—rising—using both high and low prepayment assumptions. Interest rates were 4.5% at the time of modeling and were modeled to rise by 2% a month to a high of 12% for EURIBOR amounts. In the 'AAA' scenario, the interest rate increase was not modeled to begin until month 13. Also note that interest rate scenarios will be revised if there is sufficient evidence to warrant it.

Transactions are stressed according to two prepayment assumptions, high (24%) and low (0.5%). In a 'AAA' scenario, a prepayment rate of 10% is modeled before the recession for the first year of the transaction for both the high and low prepayment scenarios, to ensure that the WAFF is applied to a consistent asset balance in month 13, when the recession is assumed to start in the 'AAA' scenario.

We assume prepayment rates to be static throughout the life of the transaction and apply them monthly to the decreasing mortgage balance. We reserve the right to increase the high prepayment assumption if historical prepayment rates are at high levels, or the transaction is particularly sensitive to high prepayments (e.g., the transaction relies heavily on excess spread).

It should be noted that in a 'AAA' scenario we will model an expected prepayment rate of approximately 10% before the recession for the first year of the transaction. This is applied for both the low and high prepayment scenarios, to ensure that the WAFF is applied to a consistent asset balance in month 13 (the 'AAA' scenario recession start month).

In combination, the default timings, interest rates, and prepayment rates described above give rise to two different scenarios (see table 5). The ratings we have assigned mean that the notes have all paid timely interest and ultimate principal under each of the scenarios at the proposed rating level.

Table 5: RMBS Stress Scenarios

Scenario	Prepayment rate	Interest rate	Default timing
1	Low	Up	Equal
2	High	Up	Equal

Sectoral Credit Highlights

It's a difficult time for the economies of Europe. But while the environment is difficult for the region as a whole, the ability of individual economies to withstand the conditions will depend on their current health in terms of household debt and savings, corporate debt, and international competitiveness. Against these yardsticks, Standard & Poor's considers that Spain looks to be one of the most exposed to a pronounced slowdown.

This slowdown would be hardly surprising given the systemic economic shocks that are rocking the region: The U.S. is on the brink of recession; the market turmoil triggered by the subprime situation has dried up liquidity and made financial institutions far more reluctant to lend to households and corporates; and housing markets across Europe are easing back after years of spectacular growth, raising concerns for the construction sector and the jobs it has steadily generated in the past 10 years. Consumer price inflation is accelerating, curtailing real income growth. In addition, the euro exchange rate has risen to its highest level against the dollar since its launch in 1999.

From the consumers' standpoint, the new economic environment is characterized in falling asset prices (stocks and houses in most countries), accelerating retail price inflation, and more uncertainty regarding the employment outlook. Consumers' ability to spend in this new context depends in turn on their current level of indebtedness, the savings cushion they can draw on, and their real income growth prospects. Spain has seen a sharp increase in household debt over the past seven years, to 81% of GDP.

The second fundamental point to consider is the level of savings. When asset prices fall, households tend to raise their precautionary savings. The negative effects on consumer spending are likely to be stronger in economies where the overall level of personal savings was already historically low. Spain is interesting because the household savings rate, while trending down, still appears relatively high, at 9.9% in the third quarter of 2007 (10.2% a year earlier). This is because Spanish households continued to benefit from rapid growth in their overall disposable incomes (3.8%) last year, thanks to robust gains in pay (7.2%) on the back of strong employment and wage growth. But over the same 12 months to September 2007, the considerable volume of investment made by the household sector (up 4.5%) increased its overall financing needs to 6.8% of GDP—another sign of the current overleveraging of the Spanish personal sector.

We have a revised our forecast for GDP growth in Spain this year to 1.9% from 2.3% (3.8% in 2007). The most recent data from the Spanish statistical office show that in 2007, 61,500 jobs were lost in the construction sector and 46,400 in the service sector—the two main pillars of the Spanish economy. As a result, the unemployment rate surged to 8.6%. We expect housing starts to drop to about 400,000 this year from 600,000 in 2007, a trend that is likely to cause more job losses. With general elections less than two months away, however, the temptation to use part of the fiscal surplus (about 2.3% of GDP) will be strong and could provide a temporary boost aimed at avoiding a rise in unemployment on the back of a stumbling construction sector. The government just announced that 35,895 new jobs would be created in the public sector this year, an 8% increase over 2007.

Surveillance

In table 6, we can see the main characteristics of the two last Bankinter transactions, which show similar characteristics.

Table 6: Transaction Key Features		
	Bankinter 16	Bankinter 15
Pool features		
Principal outstanding (€)	2,207,285,247.45	1,970,168,421
Weighted-average seasoning (months)	22.2	20.5
Weighted-average LTV ratio (%)	62.09	58.04
Percentage with LTV ratios below 50%	27.68	29.66
Percentage with LTV ratios above 80%	13.01	0
Number of loans	16,036	9,148
Largest (€)	4,500,000	395,095
Average (€)	137,645	55,778
Weighted-average margin on the floating portfolio* (bps)	47	54
Percentage of commercial loans	0	0
Percentage of residential loans	100	100
Percentage of jumbo loans	10.17	9.97
Percentage of floating-rate loan	100	100
Percentage of fixed-rate loans	0	0
Weighted-average foreclosure period (months)	30	30
Geographic distribution (%)		
Andalucia	15.61	15.46
Aragon	2.09	1.45
Asturias	1.51	1.59
Balearic Islands	4.69	3.06
Basque Country	4.24	8.00
Canary Islands	4.65	4.65
Cantabria	1.38	1.98
Castilla-La Mancha	4.02	2.63
Castilla-Leon	2.84	3.56
Catalonia	17.21	15.53
Extremadura	0.95	0.51
Galicia	2.31	2.18
La Rioja	0.25	0.41
Madrid	23.47	21.19
Murcia	1.84	1.75
Navarra	0.88	0.17
Valencia	12.05	15.87
Others	0.00	0.01
Structural features (%)		
AAA	94.10	96.90
AA	2.30	1.05
A	—	—
A-	—	1.05
BBB	1.90	—
BB	1.70	—
BB-	—	1.00
Cash reserve (%)	2.15	1.70
Commingling sized as liquidity loss	YES	YES
**Includes the optional loans that currently pay floating interest rates.*		

Criteria Referenced

- "*Revised Framework For Applying Counterparty And Supporting Party Criteria*" (published on May 8, 2007).
- "*Cash Flow Criteria for European RMBS Transactions*" (published on Nov. 20, 2003).
- "*Methodology Behind European RMBS Indices*" (published on Nov. 8, 2004).
- "*European Legal Criteria for Structured Finance Transactions*" (published on March 23, 2005).
- "*Rating Affirmations And Their Impact On Investors*" (published on April 20, 2005).

Related Articles

- " *European RMBS Outlook 2008—Market Disruptions May Overshadow Collateral Performance* " (published on Jan. 31, 2008).
- "*Assessment Of The Basel II Framework: Residential Mortgages*"(published on Sept. 28, 2006).
- "*European Banks Manage Capital Through Recent Mortgage Risk Transfers*" (published on Dec. 9, 2005).
- "*U.K. Home Repossessions Rise, But Remain Well Below 1990s Peak And Do Not Yet Threaten RMBS*" (published on Nov. 10, 2005).
- "*Sophistication Of Mortgage Credit Pricing To Benefit European RMBS*" (published on Oct. 10, 2005).
- "*Spanish RMBS Index Report*" (published quarterly).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for our credit ratings, research, and risk analysis, at www.ratingsdirect.com. The criteria can also be found on our Web site at www.standardandpoors.com.

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