BANKINTER 18, Fondo de Titulización de Activos

RMBS / Spain

Estimated Closing Date
13 November 2008

Contacts
Alberto Barbáchano
+34 91 702-6601
Alberto.Barbachano@moodys.com
Maria Peña
+33 1 533 010 25
Maria.Pena@moodys.com

Investor Liaison
New York
Brett Hemmerling
Investor Liaison Specialist
+1 212 553-4796
Brett.Hemmerling@moodys.com

Client Service Desk
London: +44 20 7772-5454
clientservices.emea@moodys.com
Madrid: +34 91 414-3161

Monitoring
monitor.rmbs@moodys.com

Website
www.moodys.com

DEFINITIVE RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A	**Aaa**	€ 1,404,7	95.65	Jan. 52	3mE + 0.30%
B	**Aa3**	€ 65.3	4.35	Jan. 52	3mE + 0.50%
C	**A2**	€ 30.0	2.00	Jan. 52	3mE + 0.70%
Total		€ 1,500.0	100.00		

The ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion 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

- Quality and experience of Bankinter as originator of mortgage loans
- Reserve fund fully funded upfront to cover potential shortfall in interest and principal
- Swap securing weighted average interest rate of the notes plus 30 bps
- Excess spread-trapping mechanism through an "18-month artificial write-off" mechanism
- No second lien product being included
- No broker origination
- Moderate WALTV (57.81%) and good seasoning (1.31 years)
- Good historical performance of loans originated by Bankinter

Weaknesses and Mitigants

- 22.18% of the portfolio corresponds to flexible mortgages (line of credit + payment holiday periods). Borrowers are allowed to make further drawings up to a maximum credit limit defined at origination (which cannot exceed 80% of the original appraisal value of the property). Any such further drawings are subject to Bankinter's credit review and approval. Moody's has determined the severity and default probability based on the maximum drawable amount.
- 17.84% of the portfolio there is no data available on loan purpose
- 16.33% of the portfolio correspond to self employed
- 12.08% of the portfolio corresponds to second homes

- 17.83% of the portfolio corresponds to loans backed by two or more properties. These type of loans entail two risk: (1) As the mortgage loans amortise, the debtor may liberate the mortgage over the second property, so the LTV may go back to its original LTV and (2) recourse to each property is limited to a certain percentage; so to calculate the true LTV of the loan, Moody's used the appraisal value of each property weighted by the legal responsibility of each loan. (see example in portfolio characteristics).
- Pro-rata amortisation of the B, and C Series of notes leads to reduced credit enhancement of the senior class in absolute terms. This is mitigated by strict triggers which prevent or terminate the pro-rata amortisation if the performance of the transaction deteriorates.
- The deferral of interest payments on each of Series B and C benefits the repayment of the series senior to each of them, but increases the expected loss on Series B and C themselves. The size of reserve fund and the subordination have been taken into account in the deterioration on the expected loss.

STRUCTURE SUMMARY (*see page 3 for more details*)

Issuer:	BANKINTER 18 Fondo de Titulización de Activos
Structure Type:	Senior / Mezzanine / Subordinated / Reserve Fund
Originator:	Bankinter (**Aa3**/**Prime-1**)
Servicer:	Bankinter (**Aa3**/**Prime-1**)
Back-up Servicer:	N/A
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Pass-through on each payment date
Payment Dates:	23 January, 23 April, 23 July, 23 October
Credit Enhancement/Reserves:	Reserve Fund
	Subordination of the notes
	Guaranteed Investment Contract (GIC) account
Liquidity Facility:	N/A
Hedging:	Interest rate swap provided by Bankinter (**Aa3**/**Prime-1**)
Principal Paying Agent:	Bankinter (**Aa3**/**Prime-1**)
Management Company:	Europea de Titulizacion, S.G.F.T., S.A.
Arranger:	Europea de Titulizacion, S.G.F.T., S.A.
Arranger/Lead Manager:	Bankinter (**Aa3**/**Prime-1**)

COLLATERAL SUMMARY *(see page 7 for more details)*

Total Amount:	€1,655,631,059
Number of Contracts:	11,003
Pool Cut-off Date:	2 October 2008
WA Original LTV:	60.79%
WA Current LTV:	57.81%
WA Seasoning:	1.31 years
WA Remaining Term:	28.25 years
Interest Rate Type:	Euribor (1 year)
Geographic Diversity:	Madrid 17.90%, Cataluña 19.15%, Andalucia 14.45%,
Loan Purpose:	Acquiring a residential property (for 17.84% of the portfolio there is no data available) for individuals resident in Spain
Loan Size:	€150,470
Delinquency Status	No loans more than 30 days in arrears at the time of securitisation
MILAN Aaa CE Range:	4.83% - 5.03% See section Moody's analysis
Moody's EL Range:	0.75% - 0.95% See section Moody's analysis

TRANSACTION SUMMARY

Bankinter 18, FTA (the "*Fondo*") is a securitisation fund created with the aim of purchasing a pool of loans granted by Bankinter, which will continue to service them. The *Fondo* will issue three series of notes to finance the purchase of the loans (at par):

- A subordinated Series C, rated **A2**
- A mezzanine Series B, rated **Aa3**
- A senior Series A, rated **Aaa**

Additionally, the *Fondo* will benefit from a €700,000 subordinated loan provided by the originator to cover the expenses of issuing the notes.

STRUCTURAL AND LEGAL ASPECTS

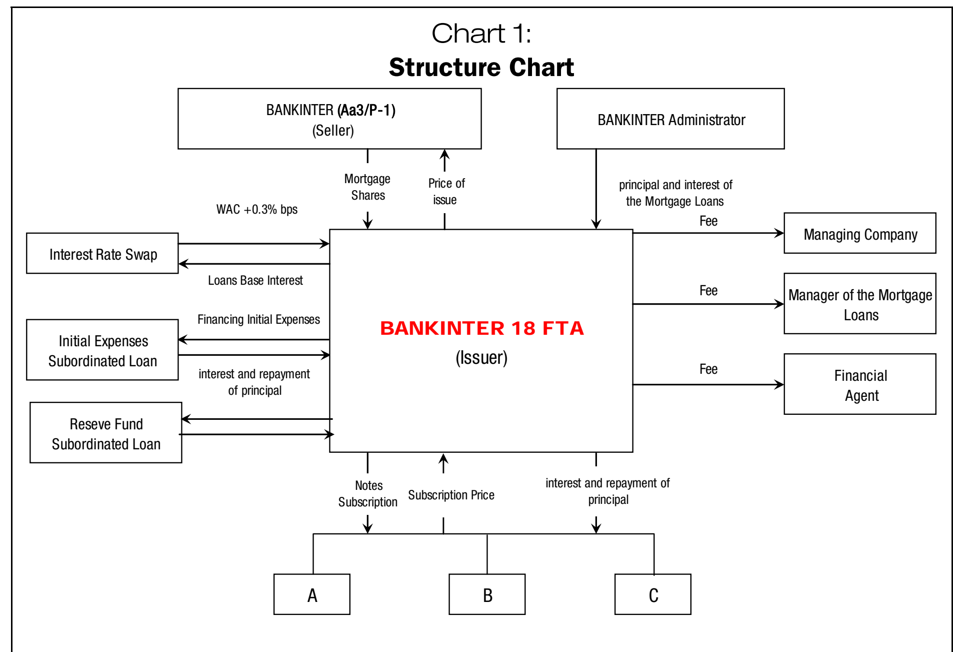


Chart 1:
Structure Chart

The Waterfall

On each quarterly payment date, the *Fondo's* available funds (principal and interest received from the asset pool, the reserve fund, amounts received under the swap agreement, cash deposited in the treasury account and interests earned on such account) will be applied in the following order of priority:

1. Cost and fees, excluding servicing fee (except in the case of Bankinter being replaced as servicer of the loans)
2. Any amount due under the swap agreement and swap termination payment if the *Fondo* is the defaulting or the sole affected party
3. Interest payment to Series A
4. Interest payment to Series B (if not deferred)
5. Interest payment to Series C (if not deferred)
6. Principal payment to A, B ,C
7. Interest payment to Series B notes (if deferred)
8. Interest payment to Series C notes (if deferred)
9. Replenishment of the reserve fund
10. Interest payment to subordinated loan
11. Amortisation of subordination loan
12. Interest payment to initial expenses loan
13. Amortisation of initial expenses loan
14. Termination payment under the swap agreement (except if the *Fondo* is the defaulting or the sole affected party)
15. Junior expenses

The transaction will also have a post-enforcement waterfall and it is clearly stated that upon termination of the deal.

GIC provides an annual interest rate equal to the index reference rate of the notes

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

Some triggers have been put in place to protect the treasury account from a possible downgrade of Bankinter's short-term rating: Should Bankinter's short-term rating fall below Prime-1, it will have to perform one of the following actions in the indicated order of priority within 30 business days:

- Find a suitably rated guarantor or substitute.
- Invest the outstanding amount of the treasury account in cash or securities issued by a Prime-1-rated entity.

The Reserve Fund

The reserve fund is designed to help the *Fondo* meet its payment obligations and will be held at Bankinter. The reserve fund will be used to protect the series A, B, and C Notes against interest and principal shortfall on an ongoing basis.

After the first three years of life, the reserve fund may amortise over the life of the transaction so that it amounts to the lesser of the following amounts:

- 3.00% of the initial balance of the series A, B and C notes
- The higher of:
  - 6.00% of the outstanding balance of the series A, B, and C notes
  - 1.50% of the initial balance of the series A, B and C notes

However, the amount requested under the reserve fund will not be reduced on any payment date on which any of the following scenarios occurs:

- The arrears level (defined as the percentage of non-written-off loans that are more than 90 days in arrears) exceeds 1%.
- The reserve fund is not funded at its required level on the previous payment date.
- The weighted-average margin is equal to or less than 0.30%.

In addition, the reserve fund will not amortise during the first three years of the transaction.

Interest Deferral Trigger

The payment of interest on Series B, and C will be brought to a more junior position if, on any payment date, and for each of these series, the following conditions are met:

Table 1

CLASS B	CLASS C
a) The accumulated amount of written-off loans is higher than 9.77% of the initial amount of the assets pool	a) The accumulated amount of written-off loans is higher than 7.20% of the initial amount of the assets pool
b) Series A are not fully redeemed	b) Series A, and Series B are not fully redeemed

Pro-rata amortisation B-C

Series B and C will start amortising pro-rata with Class A when they represent two times the initial outstanding amount of the series A, B and C. Nevertheless, amortisation of Series B and C will not take place on the payment date on which any of the following events occurs:

- The arrears level exceeds 1.25% and 1.00% for Series B and C, respectively.
- The reserve fund is not funded at the required level.

The outstanding amount of the pool is lower than 10% of its initial amount.

Interest rate swap guaranteeing the interest rate of the notes plus 30 bppa of excess spread

According to the swap agreement entered into between the Fondo and Bankinter, on each payment date:

- The Fondo will pay the amount of interest actually received from the loans; and
- Bankinter will pay the sum of (1) the weighted average coupon on the notes plus 30 bppa, over a notional calculated as the daily average outstanding amount of the loans not more than 90 days in arrears The excess spread thus provided through the swap agreement constitutes the first layer of protection for investors.

In the event of Bankinter's long-term rating being downgraded below A2 or P-1, within 30 days Bankinter will have to (1) collateralise its obligations under the swap in an amount sufficient to maintain the current rating of the notes or (2) find a suitably rated guarantor or substitute.

Principal due to the notes incorporates an 18-month "artificial write-off" mechanism

The transaction's structure benefits from an "artificial write-off" mechanism. This mechanism is implicit in the definition of the principal due under the notes, which is calculated as the difference between (1) the outstanding amount of the notes and (2) the outstanding amount of the non-written-off loans (the "written-off loans" being defined as those loans with any amount due but unpaid for more than 18 months (or earlier, if the debtor is declared bankrupt or the management company considers that there are no reasonable expectations of recovery under each such loan)).

COLLATERAL

Relatively good portfolio in terms of LTV

The portfolio comprises 11,003 loans and 10,947 borrowers, representing a provisional portfolio of 1,655,631,059. The loans are originated between 2003 and 2008 with a weighted average seasoning approximately 1.31 years. The original WALTV is 60.79%. The current weighted average LTV is 57.81%. The pool is well diversified across Spain.

- 22.18% of the portfolio corresponds to flexible mortgages. (Debtors can make additional drawdowns and enjoy holiday payments.)
- 17.83% of the portfolio corresponds to loans backed by two or more properties.
- 2.80% of the portfolio is in grace periods.
- 12.08% of the portfolio corresponds to second homes, for 3.43% there is no data.
- 2.43% of the portfolio corresponds to commercial properties.
- 16.33% of the loans were granted to self-employed debtors, for 14.40% there is no data
- 2.97% of the portfolio corresponds to foreign debtors but residents in Spain.
- All loans are floating rate and are linked to Euribor 12 months. The weighted average interest rate is 5.28%.
- All the loans are payable via direct debit and pay through monthly instalments.
- All the properties on which the mortgage security has been granted are covered by property damage insurance and fire insurance according to Bankinter's lending criteria.

At the closing date there will be no loans with more than 30 days in arrears.

The "Hipoteca Sin", Bankinter's flexible product

22.18% of the securitised mortgage loans have been granted as part of Bankinter's *Hipoteca Sin* flexible product, which comprises a traditional mortgage product with several additional characteristics embedded into it that aid in the payment flexibility. These include: (1) successive redraws on the portion of the mortgage that has been amortised, (2) extension of credit payment terms, and (3) grace periods (both interest and principal grace periods).

Only the first drawdowns of the line of credit will be securitised.

Regarding more specific characteristics of the product:

- First drawdown: up to 80% LTV.
- Successive drawdowns: up to the level of the initial drawdown.
- Maturity of successive drawdowns: up to 10 years (with a maximum level equal to the initial maturity).
- Loan Extension: The debtor has the option of extending the mortgage loan to up to 40 years. No such extensions are possible during the first two years but after this period, the debtor can extend the mortgage loan by six months for each full year that has already been amortised.

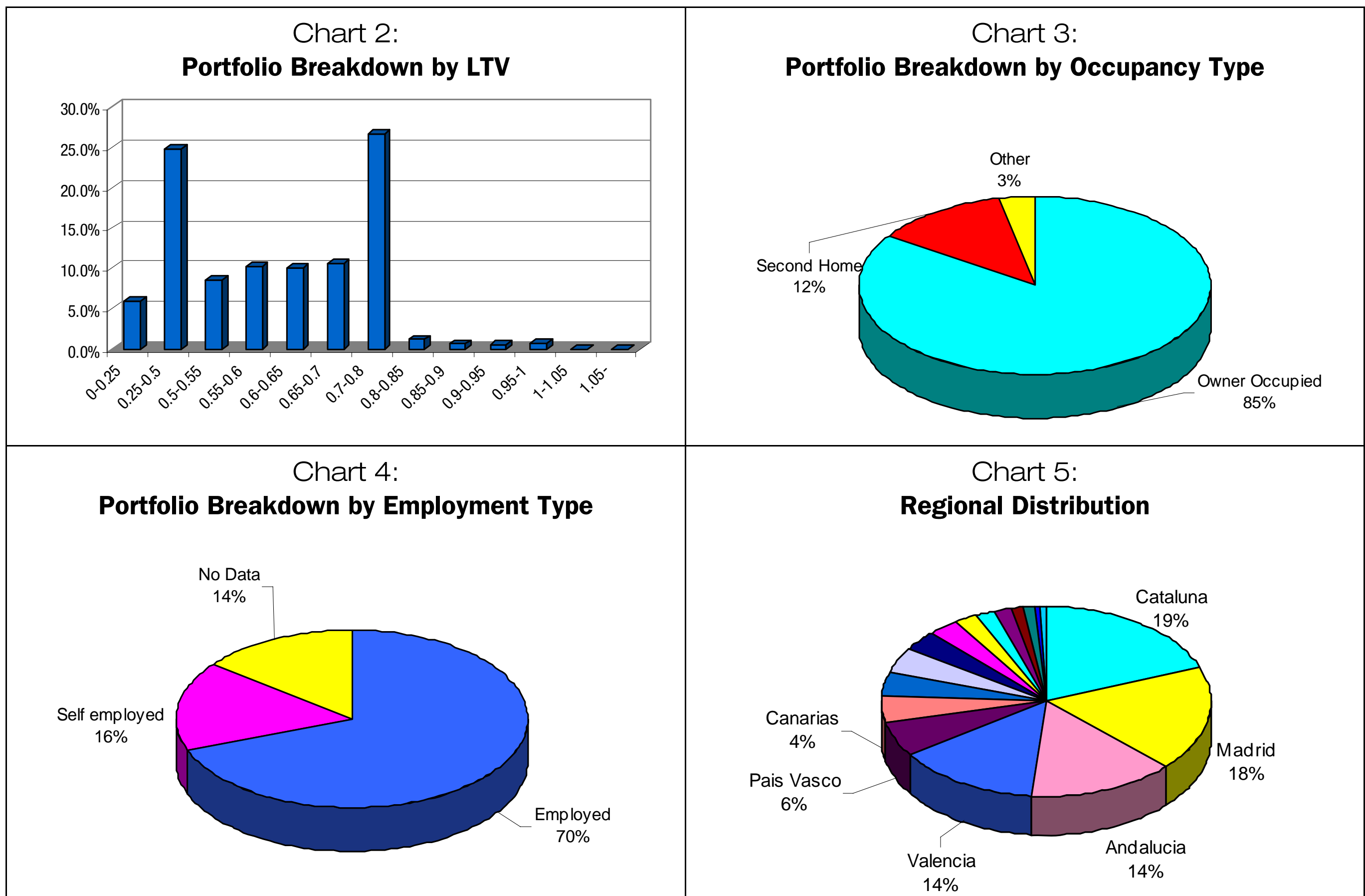
Grace Periods (excluding the first drawdown): These are valid from Year 3 onwards, with a maximum of three consecutive instalments per year and no more than 12 grace periods in a 10-year period. Any unpaid interest will be paid in a single instalment as soon as payments are resumed.

Moody's identifies two risk associated to these loans:

Risk associated to loans backed by more than one property

– The recourse to each property is limited to a certain percentage (the legal responsibility of each loan). Assume a mortgage loan of €100 (legal responsibilities). This loan is backed by a first property with an appraisal value of €100, the legal responsibility over this property is 80% and for a second property with an appraisal land value of €100 the legal responsibility is 20%. After the auction, the bank recovers €60 in the first property and €40 in the second property. The total recovery is a 60 + 20 cap with the legal responsibilities. The rest of the money belongs to the debtor, therefore the bank will have to pursue the debtor for the rest of the debt (in Spain the banks have full recourse against the debtors). To mitigate this problem, Moody's calculates the appraisal value weighted by the legal responsibility of each property. Therefore the appraisal value introduced in the Moody's Individual Loan Analysis (MILAN) model is €100 * 80% + €100 * 20% = €100. Instead of €200 (the sum of each appraisal value)

– In addition as the mortgage loans amortise, the debtor may liberate the mortgage over the second home, therefore the LTV may revert its initial level. However, the cancellation of the second property is not automatic; the debtors have to ask for the cancellation of the additional legal responsibility.



Renegotiation limits

Any renegotiation of the terms and conditions of the loans is subject to the *Gestora's* approval. In exceptional circumstances, the *Gestora* may authorise Bankinter to renegotiate the interest rate or maturity of the loans without requiring its approval. Moreover, the renegotiation of the maturity of the loans is subject to the following conditions:

1. The maturity of any loan cannot be extended beyond 15 July 2048
2. 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.

3. The frequency of payments cannot be decreased.
4. The repayment system cannot be modified.

Bankinter will not be able to renegotiate the interest rate of any loan if the weighted average interest rate of the pool falls below the index reference rate of the notes plus 0.30%. Moody's has taken into consideration this limit in the margin compression assumption within its cash flow analysis.

Performance data on previous Bankinter transactions

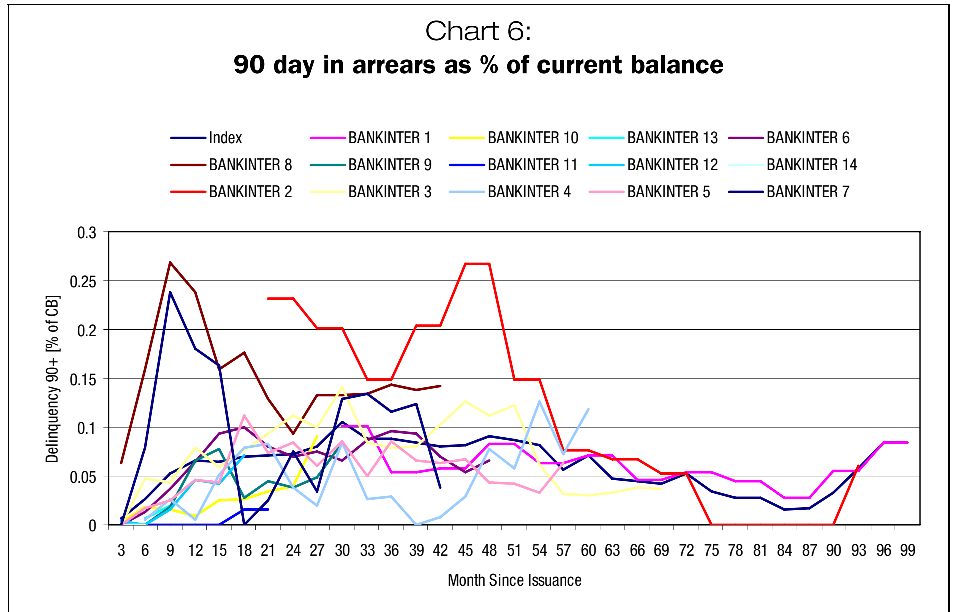


Chart 6:
90 day in arrears as % of current balance

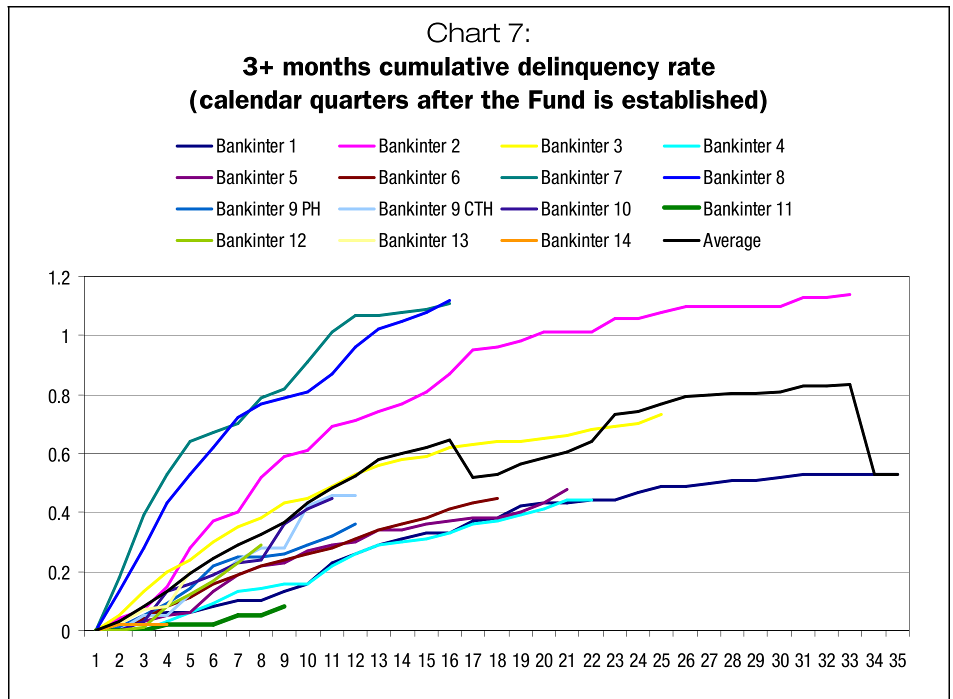
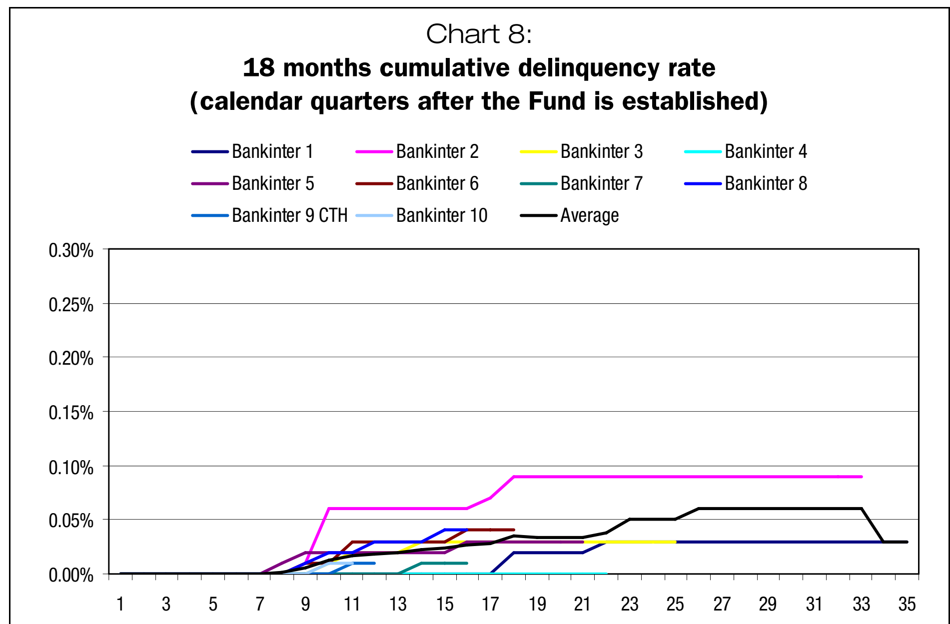


Chart 7:
3+ months cumulative delinquency rate (calendar quarters after the Fund is established)



ORIGINATOR, SERVICER AND OPERATIONS REVIEW

Bankinter is a very strong originator and with a proven track record

Bankinter is Spain's fifth-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 the advanced use of technology. Therefore, with less than a 1% share of domestic branches, Bankinter holds a share of around 2.3% of loans and of customer funds among banks and savings banks, and 3.56% of mutual funds. We believe that behind Bankinter's successful customer-driven business model – as demonstrated by its sound financial fundamentals and consistently solid performance across client segments and distribution channels – lies a flexible and responsive commercial strategy that is the result of (1) the bank's leading role in the use of technology, and (2) a powerful customer relationship management (CRM) model integrating all of its distribution channels. These characteristics allow it to react rapidly to market changes in a highly competitive environment. In addition, Bankinter discloses on a quarterly basis a quality-of-service index that measures the performance of the bank against the sector – highlighting Bankinter's consistently outstanding performance in this area. Bankinter has a solid nationwide franchise, good geographical diversification and high earnings stability.

MOODY'S ANALYSIS

Analysis has been made based on the MILAN and MARCO methodologies

The prime determinant of the relative probability of default within a portfolio of mortgages is the level of borrowers' equity in their properties. A borrower is more likely to default on a property if the option to sell it and retain some profit diminishes. Therefore, given the possibility of these mortgage credits enjoying an additional drawdown, the severity of the loans has been stressed in order to account for the possible additional redraw.

The first step in the analysis is to determine a loss distribution for the pool of mortgages to be securitised. Due to the high volume of mortgage credits and supporting historical data, Moody's uses a continuous distribution model – lognormal distribution – to approximate the loss distribution.

In order to determine the shape of the curve, two parameters are needed: the expected loss and the volatility associated with this expected loss. These parameters are derived from the Moody's Individual Loan Analysis ("MILAN") model.

In order to extrapolate expected losses for the loan pool, Moody's has compared the underwriting criteria of the originators with those of other mortgage originators in Spain.

Moody's thus determines a number representing the enhancement that would be required for a pool of mortgages to obtain a Aaa rating under highly stressed conditions. This enhancement number (the "Aaa CE number") is obtained by means of a loan-by-loan model.

The MILAN model looks at each loan in the pool individually and, based on its individual characteristics such as LTV or other identified drivers of risk, computes a benchmark CE number. This number assumes stressed recovery rates (through house price decline), interest rates and costs of foreclosure, as well as a stressed recovery time. The weighted-average benchmark CE number is then adjusted according to the positive and negative characteristics of each loan and to those of the pool as a whole in order to produce the Aaa CE number.

The Aaa CE number and the Expected Loss Number form the basis of Rating Committee discussions and are used to derive the lognormal distribution of the pool losses.

The standard deviation of the distribution is found by setting the probability of a loss greater than the expected loss that is consistent with the Idealised Expected Loss target of the Aaa CE number.

Modelling assumptions for the transaction

The key parameters used to calibrate the loss distribution curve for this portfolio include:

– Milan Aaa CE range of 4.83% - 5.03% and
– an expected loss range of 0.75% - 0.95%

"MARCO", Moody's cash-flow model, is used to assess the impact of structural features of RMBS transactions

Once the loss distribution of the pool under consideration has been computed, a cash-flow model, Moody's Analyzer of Residential Cash-Flows ("MARCO"), is used to assess the impact of structural features of the transaction, such as the priorities of interest and principal and the related triggers, swap features and excess margins, liquidity mechanisms and the value of excess spread.

The sum of the loss experienced per note class in each scenario, weighted by the probability of such loss scenarios, will then determine the expected loss on each tranche and hence the rating, in line with Moody's target losses for each rating category.

RATING SENSITIVITIES AND MONITORING

The rating of the notes depends on the portfolio performance and the counterparty ratings

Europea de Titulizacion S.G.F.T; S.A (EdT) will, in its capacity as management company, prepare quarterly monitoring reports on 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 the transaction on an ongoing basis to ensure that its transaction continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk. For updated monitoring information, please contact monitor.rbms@moodys.com

RELATED RESEARCH

Visit moodys.com for further information

For a more detailed explanation of Moody's rating approach to this type of transaction, similar transactions and performance data, please refer to the following reports:

Special Reports:

– Cash Flow Analysis in EMEA RMBS: Testing Structural Features with the MARCO Model (Moody's Analyser of Residential Cash Flows), January 2006 (SF58290)
– Moody's Approach to Rating Spanish RMBS: The "MILAN" Model, March 2005 (SF49068)
– Spanish RMBS Q3 2007 Performance Review, February 2008
– Structural Features in the Spanish RMBS Market Artificial Write-Off Mechanisms: Trapping the Spread, January 2004 (SF29881)
– Introducing Moody's Arrears Index for Spanish Mortgage-Backed Securities, March 2002 (SF12700)

Pre-Sale Reports:

– BANKINTER 14 Fondo de Titulización Hipotecaria, March 2007 (SF94370)
– BANKINTER 13 Fondo de Titulización de Activos, November 2006 (SF86262)
– BANKINTER 12 Fondo de Titulización de Activos, March 2006 (SF70460)
– BANKINTER 10 Fondo de Titulización de Activos, June 2005 (SF57792)

Performance Overview:

– All previous BANKINTER transactions

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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