# Valencia Hipotecario 1 Fondo de Titulización de Activos

## Banco de Valencia RMBS Spain

***PLEASE NOTE:*** *This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of April 2004. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information, as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The* ***definitive*** *ratings may differ from the* ***provisional*** *ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk.*

**CLOSING DATE**
April - 2004


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**RATINGS**

| Class | Rating | Amount | % of Total | Legal Final Maturity | Maturity Expected |
|---|---|---|---|---|---|
| A | (P)**Aaa** | €[454,300,000] | 96.25 | 24/02/36 | 26/02/34 |
| B | (P)**A2** | €[11,800,000] | 2.50 | 24/02/36 | 26/02/34 |
| C | (P)**Baa3** | €[5,900,000] | 1.25 | 24/02/36 | 26/02/34 |
| Total | | €[472,000,000] | 100 | | |

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

## OPINION

### Strengths of the Transaction

- Credit enhancement provided by a reserve fund and the subordination of the notes
- Reserve fund fully funded upfront available to cover potential shortfall in interest and in principal
- Basis swap provided by Banco de Valencia
- The irrevocable and unconditional guarantee of Bancaja (**A1/P-1**) as swap guarantor
- Excess spread-trapping mechanism through an 18 month "artificial write-off" mechanism
- Proven experience of Europea de Titulización as *gestora.*

### Weaknesses of the Transaction

- Geographical concentration in the region of Valencia (62%), mitigated in part by the fact that this is the region of Banco de Valencia origin, where it has its highest expertise. Additionally, Moody's points out the potential increase in the volatility of losses due to the highest concentrations requiring additional credit enhancement.
- Pro rata amortisation of the B and C Series of notes leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which terminate the pro rata amortisation of the notes as the performance of the transaction deteriorates.
- Lack of information (Property usage, DTI Ratio); however a penalty was accordingly applied when calculating the credit enhancement.

### STRUCTURE SUMMARY

| | |
|---|---|
| Issuer: | Valencia Hipotecario 1 Fondo de Titulización de Activos |
| Structure Type: | Spanish Fondo de Titulización de Activos *(FTA)* |
| Seller/Originator: | Banco de Valencia |
| Servicer: | Banco de Valencia |
| Interest Payments: | Quarterly on February 24th, May 24th, August 24th, and November 24th |
| Principal Payments: | Pass-through on a quarterly basis |
| Credit Enhancement/Reserves: | Transaction spread |
| | Reserve fund |
| | Subordination of the notes |
| Hedging: | Basis Swap |
| Swap Guarantor: | Bancaja (**A1**/**P-1**) |
| Interest Rate Swap Counterparty: | Banco de Valencia |
| Swap Guarantor: | Bancaja (**A1**/**P-1**) |
| Principal Paying Agent: | Bancaja (**A1**/**P-1**) |
| Management Company: | Europea de Titulización S.G.F.T |

### COLLATERAL SUMMARY

| | |
|---|---|
| Receivables: | First-lien mortgages on residential properties |
| Total Amount: | €502,057,203 |
| Highest Exposure: | €294,866 |
| Average Loan: | €52,102 |
| Number of Contracts: | 9,636 |
| Number of Borrowers: | 9,636 |
| Geographic Diversity: | Valencia (62%), Murcia (21%) |
| WALTV: | 59.19% |
| WA Remaining Term: | 200.15 Months |
| WA Seasoning: | 37.51 Years |
| Delinquency Status: | No loans in arrears at closing |

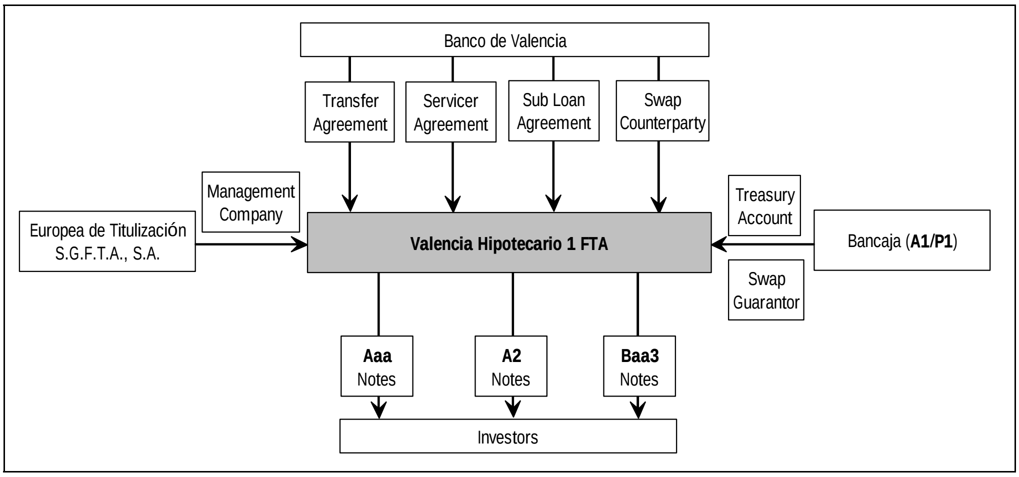
## Structural and Legal Aspects

***1st Securitisation by Banco de Valencia***

Valencia Hipotecario 1 Fondo de Titulización de Activos (hereafter referred to as "Fondo") is the first securitisation by Banco de Valencia.

The purpose of the transaction is to obtain liquidity and remove the credit risk linked to mortgages on Banco de Valencia's balance sheet. In this transaction, Banco de Valencia will sell a portfolio of mortgage loans to the Fondo, a special purpose vehicle (SPV). The Fondo will in turn issue three Series of notes to fund the purchase of the mortgage loan portfolio. The product being securitised consists of traditional 1st lien mortgage loans.

The transaction consists of three rated tranches: a senior tranche for an amount equal to €454,300,000, a mezzanine tranche for an amount equal to €11,800,000 and a subordinated tranche for an amount equal to €5,900,000.




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

The reserve fund is designed to help the fund meet its payment obligations. Initially funded by a subordinated loan granted by the originator for an amount of 1.35% of the initial balance of the notes, it will be held at Bancaja. The reserve fund will be used to protect the Series A, B, and C notes against interest and principal shortfall on an ongoing basis. It may be amortised over the life of the transaction so that it amounts to the lesser of the following amounts:

1) 1.35% of the initial balance of the notes
2) The higher of the following amounts:
   - 2.70% of the outstanding notional balance of the notes
   - 1.00% of the initial balance of the notes

However, amortisation of the reserve fund will cease if any of the following scenarios occur:

- The amount of loans more than 3 months and less than 18 months in arrears exceed 1.00% of the outstanding balance of the portfolio
- The available amount under the reserve fund is not equal to the then required amount
- The weighted average interest rate under the loans is lower than 0.50%

***Basis Swap to cover interest rate risk***

According to the swap agreement entered into between the Fondo and Banco de Valencia, the index reference rates on the assets are exchanged against the index reference rate on the notes.

***Bancaja (A1/P-1) swap Guarantor***

Bancaja (rated **A1**/**P-1**) irrevocably and unconditionally guarantees to Counterparty, with effect from the date of the agreement, the due and punctual payment of all amounts owed by Banco de Valencia under the agreement to Counterparty, with effect from the date of the agreement.

In the event of Bancaja's long-term rating being downgraded below **A1**, Banco de Valencia within 10 days it will have to (1) find a suitably rated guarantor, (2) to find a swap substitute (3) or, collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the notes.

***Borrower payments swept into Bancaja GIC account every week***

Bancaja will hold the Guaranteed Interest Contract Account (GIC account). All of the payments under the loans in the mortgage portfolio are collected by Banco de Valencia under a direct debit scheme and are paid directly into the collection account, which is held at Banco de Valencia. Cash in the collection account must be transferred by the originator to the Banacja GIC account on a Weekly basis.

Moody's has set up some triggers in order to protect the GIC account from the possible loss of the treasury holder's short-term **P-1** rating. Therefore, if Bancaja is downgraded below **P-1**, the management company will have the following alternatives:

- To transfer the fund's treasury account to an institution whose rating is **P-1**.
- To obtain a **P-1** rated entity to guarantee the fund

***Payment Structure Allocation***

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

1) Cost and fees, excluding servicing fee
2) Any amount due under the swap agreement (except termination payments if Banco de Valencia defaults under the swap agreement)
3) Interest payment to Series A notes
4) Interest payment to Series B notes (if not deferred)
5) Interest payment to Series C notes (if not deferred)
6) Retention of an amount equal to the principal due under the notes
7) Replenishment of the reserve fund
8) Interest payment to Series B notes (if deferred)
9) Interest payment to Series C notes (if deferred)
10) Termination payments under the swap agreement upon default of Banco de Valencia
11) Junior expenses

***Interest Deferral Mechanism***

The payment of interest on the Series B and C notes will be brought to a more junior position if, on any payment date, the following criteria are met:

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

***18 months "artificial write-off" mechanism***

The transaction structure for series A, B and C benefits from an "artificial write-off" which traps available excess spread to cover losses (if any). This type of "artificial write-off" is hidden in the definition of principal due, which is the difference between the notes outstanding and the outstanding principal balance of the loans (performing loans plus loans less than 18 months in arrears).

***Pro rata amortisation***

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

- Series B Notes will start amortising pro rata with the Series A notes when they represent 5.00% of the outstanding balance under the Series A, B and C notes, and when Series C represents 2.50% of the outstanding balance under the Series A, B and C notes
- Series C Notes will start amortising pro rata with the Series A and B notes when they represent 2.50% of the outstanding balance under Series A, B and C notes, and when Series B represents 5.00% of the Series A, B and C notes.

However, the pro rata amortisation will cease if:

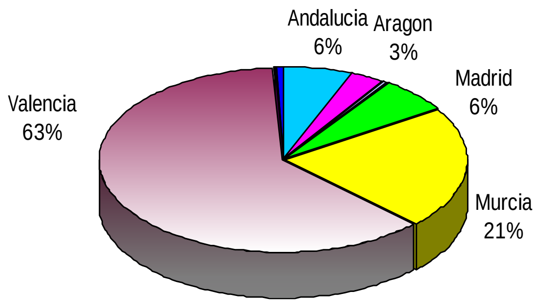
- The outstanding amount of loans more than 90 days but less than 18 months past due is higher than 1.50% of the outstanding amount of the asset pool (current loans less the loans that are less than 18 months in arrears)
- The amount under the reserve fund is not equal to the then current required amount

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

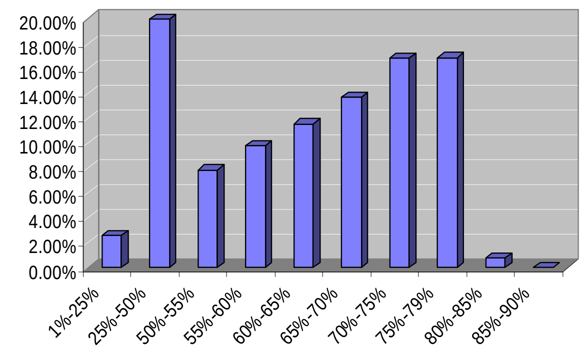
## COLLATERAL – REFERENCE PORTFOLIO

As of April 2004, the portfolio comprised 9,636 loans, representing a provisional portfolio of €502,057,203. The loans have been granted in order to finance the purchase, building and renovation of residential homes located in Spain. The loans consist of first-lien mortgages on residential properties. All the properties on which the mortgage security has been granted are covered by property damage and fire insurance. At closing date there will be no loans in arrears. The average loan is €52,102 and the largest loan is €294,866. The loans were originated between 1992 and 2003, with a weighted average seasoning of 37.51 months and a weighted average remaining maturity of 200.15 months. Almost all the loans are paid through monthly instalments. Instalments are debited to accounts which are held by the debtors at Banco de Valencia. Moody's views this feature as a positive characteristic since delinquencies are likely to be tracked more easily.

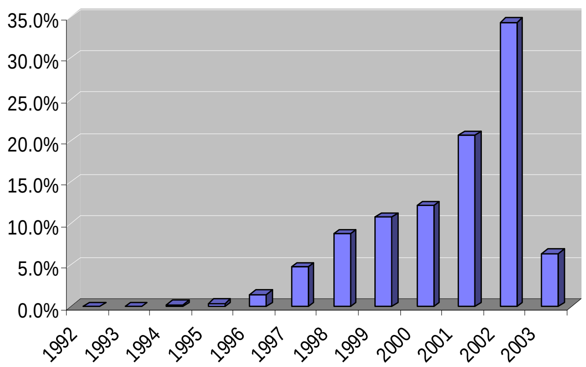
**Portfolio Breakdown by Geographical Diversification**



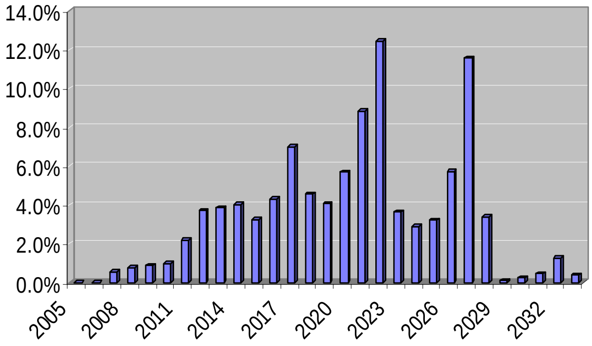

**Portfolio Breakdown by LTVs**




**Portfolio Breakdown by Year of Origination**




**Portfolio Breakdown by Maturity**



***Renegotiations***

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

- If the weighted average margin of the loans is less than 0.60%, the originator has agreed to pay the fund, for each revised participated loan, the modified margin until the loan is repaid. However, no additional renegotiations are allowed once the weighted average margin on the loans falls below 0.50%.
- 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. In any case, the extension of any loan's maturity profile must comply with the following standards:
  - The maturity of any loan cannot be postponed later than February 26th, 2034.
  - The frequency of payments cannot be decreased.
  - The repayment system cannot be modified.

## ORIGINATOR, SERVICER AND DUE DILIGENCE

Banco de Valencia is a long established entity in the region of Valencia. Its current structure arises from several acquisitions, including the 1929 acquisition of Banco de Castellón, and the 1997 acquisition of Banco de Murcia, (whose operational merger took place in 2002).

As of today, 38.21% of Banco de Valencia's equity belongs to Grupo Financiero de Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja, rated **A1**/**P-1**).

Currently Banco de Valencia has 348 retail branches, mainly positioned in Comunidad Valenciana (245), Murcia (64), Andalucía (17) and Madrid (11).

Moody's has performed both a due diligence and an internal servicer assessment on Banco de Valencia. The main areas of review have been: Management, Staff Training and Compensation, Loan Administration, Arrears Management, Loss Mitigation, Asset Management, IT systems, Reporting, Financial Stability and General Quality.

Following the feedback from these areas, Moody's has assigned a shadow servicer rating to Banco de Valencia. This servicer rating, also called Servicer Quality (SQ) rating is an opinion of the ability of a loan servicer to effectively prevent or mitigate losses in a securitisation.

A Moody's SQ rating represents Moody's assessment of a servicer's ability to control and manage the extent of possible losses based on the factors under its control. The SQ approach works by separating a servicer's performance from the credit quality of the loans being serviced. This is accomplished by measuring actual performance against expected results, based on the credit quality of the portfolio being serviced. The servicing measures evaluate how effective a servicer is at either preventing defaults in the first place or maximising the recoveries to a transaction when defaults do occur.

The SQ rating also considers the operational and financial stability of a servicer, as well as its ability to respond to changing market conditions. This assessment is based on the company's organisational structure and management characteristics, its financial profile, operational controls and procedures, as well as its strategic goals.

Moody's SQ ratings are different from traditional debt ratings, which are opinions as to the credit quality of a specific instrument. SQ ratings do not apply to a company's ability to repay a fixed financial obligation or satisfy contractual financial obligations other than, in limited circumstances, the obligation to advance on delinquent loans it services, when such amounts are believed to be recoverable.

## MOODY'S ANALYSIS

***The Aaa credit enhancement number is determined using a loan-by-loan analysis***

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

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

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

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

***Cash flow modelling used to assess impact of structural features***

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

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

***Moody's rating process also involves structural and legal analysis***

**Structural Analysis**: This considers how the cash flows generated by the mortgage collateral are allocated to the parties within the transaction, and the extent to which various structural features of the transaction may provide additional protection to investors, or act as a source of risk themselves.

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

For more information regarding Moody's Spanish MBS rating methodology, please refer to the document entitled "Spanish Residential Mortgage-Backed Securities, An Introduction to Moody's Rating Approach", available on www.moodys.com.

## RATING SENSITIVITIES AND MONITORING

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

## RELATED RESEARCH

***Visit moodys.com for more details***

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

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

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