Valencia Hipotecario 2 Fondo de Titulización Hipotecario

RMBS / Spain

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 17 November 2005. 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.*

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Estimated Closing Date

December 2005

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PROVISIONAL (P) RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A	(P)**Aaa**	€[909.5]	95.74	Jan. 43	3mE + [•]%
B	(P)**A1**	€[21.2]	2.23	Jan. 43	3mE + [•]%
C	(P)**Baa3**	€[9.4]	0.99	Jan. 43	3mE + [•]%
D	(P) **Ca**	€[9.9]	1.04	Jan. 43	3mE + [•]%
Total		€[950]	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

– Good quality collateral in terms of LTVs and seasoning (no loans with LTVs over 80%)
– Good performance on the previous 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
– 100% of the portfolio is paid via direct debit
– All loans to be transferred at closing date will be fully performing

Weaknesses and Mitigants

– Geographical concentration in the region of Valencia (65.34%), mitigated in part by the fact that this is Banco de Valencia's region of 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 (Employment); however a penalty was accordingly applied when calculating the credit enhancement.
– The deferral of interest payments on both classes B and C benefits the repayment of the series senior to each of them, but increases the expected loss on class B and C themselves. The reserve fund and the subordination have been sized accordingly to account for this deterioration on the expected loss.

STRUCTURE SUMMARY

Issuer:	Valencia Hipotecario 2 Fondo de Titulización Hipotecario (FTH)
Structure Type:	Senior / Mezzanine / Subordinated / Reserve fund
Seller/Originator:	Banco de Valencia (Not Rated)
Servicer:	Banco de Valencia (Not Rated)
Back-up Servicer:	N.A.
Interest Payments:	Quarterly on 24th January, April, July and October – first payment date 24 April 2006
Principal Payments:	Pass-through on each payment date
Credit Enhancement/Reserves:	Excess spread per annum Reserve fund Subordination
Liquidity Facility:	N.A.
Hedging:	Interest rate swap to cover interest rate risk
Swap Guarantor:	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja, **A1**/**P-1**)
Principal Paying Agent:	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja, **A1**/**P-1**)
Management Company:	Europea de Titulización S.F.G.T.; S.A
Arranger/Lead Manager:	Bancaja, Deutsche Bank AG

COLLATERAL SUMMARY (Provisional pool as of 17 November 2005)

Loan Amount:	974,030,963
Loans Count:	12,794
Pool Cut-off Date:	17-November-2005
WA Original LTV:	67.27%
WA Current LTV:	60.94%
WA Seasoning:	2.14 Years
WA Remaining Term:	20.01 Years
Interest Rate Type:	3.11%
Geographic Diversity:	65.34% Valencia
Loan Purpose:	Primarily to acquire or refurbish a residence located in Spain
WA Loan Size:	76,131

TRANSACTION SUMMARY

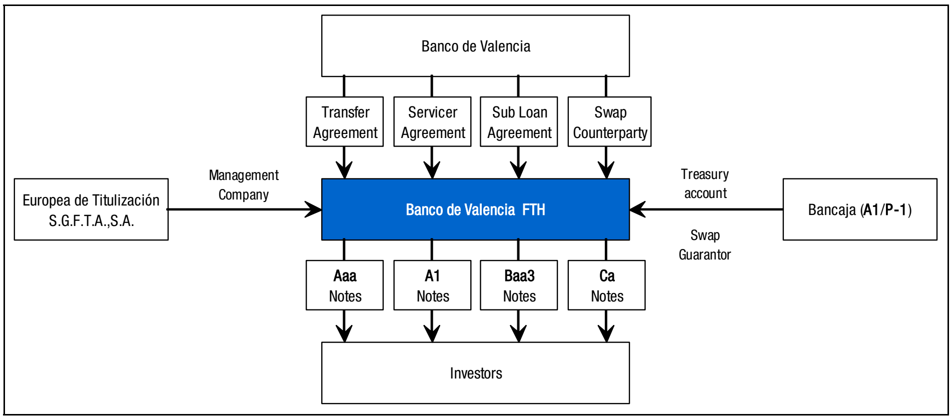
Second Securitisation by Banco de Valencia

Valencia Hipotecario 2 Fondo de Titulización de Activos (hereafter referred to as the *"Fondo"*) is the second 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 first-lien mortgage loans.

The transaction consists of three rated tranches: a senior tranche for an amount equal to €909,500,000, a mezzanine tranche for an amount equal to €21,200,000 and a subordinated tranche for an amount equal to €9,400,000.

Plain Vanilla Transaction



STRUCTURAL AND LEGAL ASPECTS

Borrower payments swept into Bancaja GIC account every week

Bancaja will hold the Guaranteed Interest Contract (GIC) account All payments under the loans in the mortgage portfolio are collected by Banco de Valencia via 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 **P-1** short-term rating. Therefore, if Bancaja is downgraded below

P-1, the management company will have the following options:

– 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's Security

Reserve fund fully funded at closing from the proceeds of the issue of the class D Notes

The reserve fund is designed to help the fund meet its payment obligations. 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) 1.05% of the initial balance of the notes
2) The higher of the following amounts:
   – 2.10% of the outstanding notional balance of the notes
   – €5 million

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

– The amount of loans more than three 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

Caja de Ahorros de Valencia, Castellón y Alicante (**Bancaja, rated A1/P-1**) irrevocably and unconditionally guarantees to the Counterparty, 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 must within 10 days adopt one of the following: (1) find a suitably rated guarantor, (2) find a swap substitute or (3) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the notes.

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. Interest payment to Series D notes
11. Principal payment to series D notes
12. Termination payments under the swap agreement upon default of Banco de Valencia
13. 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 two consecutive payments dates, 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-month "artificial write-off" mechanism

The transaction structure for classes 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 A, B, C and D notes outstanding and the outstanding performing loans (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 4.50% 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 2.00% of the outstanding balance under Series A, B and C notes

However, the pro rata amortisation will cease if:

Class B	Class C
The loans more than 90 days in arrears and less than 18 months exceed 1.25%	The loans more than 90 days in arrears and less than 18 months exceed1.00%
The cash reserve is not funded at the required level	
The loan balance is less than 10% of the initial loan balance	

Class D amortisation

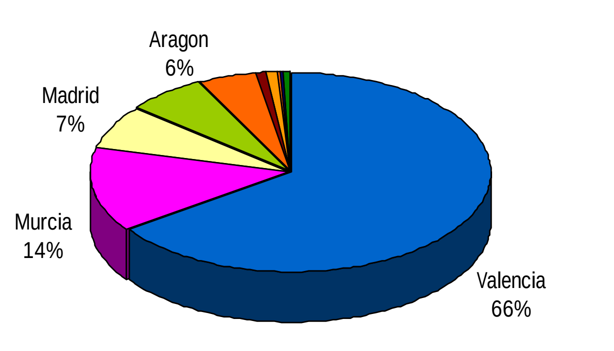
The Series D notes will amortise, on each payment date, for an amount equal to the difference between the outstanding amount of the Series D notes and the reserve fund's required amount on the current payment date.

COLLATERAL

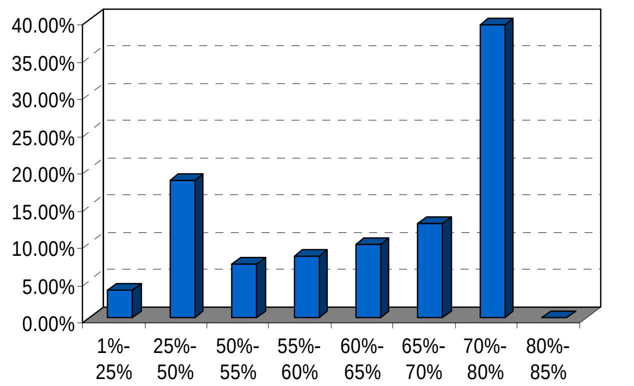
Good quality collateral in terms of LTV and seasoning

As of November 2005, the portfolio comprised 12.794 loans, representing a provisional portfolio of €974,030,963. The loans have been contracted to individuals 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 are no loans in arrears. The average loan is €76,131 and the largest loan is €497,646.

Portfolio Breakdown by Geographical Diversification

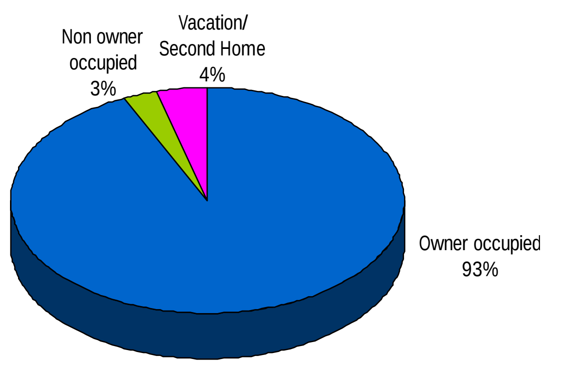


Portfolio Breakdown by LTVs



The loans were originated between 1992 and 2005, with a weighted average seasoning of 2.14 years and a weighted average remaining maturity of 20.01 Years. Almost all the loans paid via monthly instalments, which are debited to accounts 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 Occupancy Type

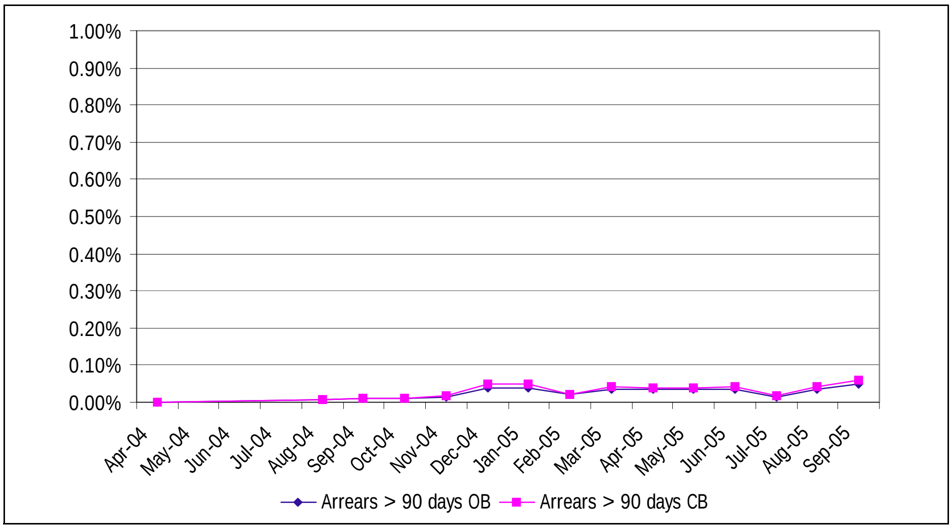


Renegotiations

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 the modified margin, for each revised participated loan, 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 January 2040.
  - The frequency of payments cannot be decreased.
  - The repayment system cannot be modified.

Valencia Hipotecario 1 performance data



ORIGINATOR, SERVICER AND OPERATIONS REVIEW

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 effect in 2002).

Currently, 38.21% of Banco de Valencia's equity is owned by 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 located in Comunidad Valenciana (245), Murcia (64), Andalucía (17) and Madrid (11).

MOODY'S ANALYSIS

Determination of lognormal loss distribution.

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 loans and supporting historical data, Moody's uses a continuous distribution model to approximate the loss distribution: lognormal 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 credit enhancement number (the "Aaa CE" number) is obtained by means of a loan-by-loan model.

The "Aaa CE" number is determined by using "MILAN", Moody's loan-by-loan model for rating RMBS transactions

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.

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

Once the loss distribution of the pool under consideration has been computed, a cash flow model, Moody's Analyser 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

In its capacity as management company, Europea de Titulización S.G.F.T, S.A 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

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:

1. SPECIAL REPORT: Moody's Approach to Rating Spanish RMBS: The "MILAN" model, March 2005
2. SPECIAL REPORT: Introducing Moody's Arrears Index for Spanish Mortgage-Backed Securities, March 2002.
3. 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.
4. SPECIAL REPORT: Structural Features in the Spanish RMBS Market Artificial Write-Off Mechanisms: Trapping the Spread, January 2004.
5. SPECIAL REPORT: Spanish RMBS Q3 2004 Performance Review, February 2005
6. Valencia Hipotecario 2 Pre-sale report + Performance Overview

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