Valencia Hipotecario 4, Fondo de Titulización de Activos

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 15 November 2007. 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. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

Estimated Closing Date

December 2007

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PROVISIONAL (P) RATINGS

Class	Rating	Amount (million)	% of Notes (*)	Legal Final Maturity	Coupon
A	(P) **Aaa**	€883.4	90.3	April 20 2046	3mE + 0.40%
B	(P) **Aa3**	€42.8	4.37	April 20 2046	3mE + 0.70%
C	(P) **Baa3**	€23.8	2.43	April 20 2046	3mE + 1.10%
D	(P) **C**	€28.5	2.91	April 20 2046	3mE + 4.00%
Total		€978.5			

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 final legal maturity date for series A, B and C, and for ultimate payment of interest and principal at par on or before the rated final legal maturity date for Class D. 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

- All the loans are first-lien mortgages on residential properties located in Spain
- Credit enhancement provided by a reserve fund and subordination of the notes
- Excess spread-trapping mechanism through an "18-month artificial write-off" mechanism
- All of the mortgage credits are paid via direct debit
- Most of the mortgage credits paid through monthly instalments (99.60%), the remaining 0.40% pay either quarterly or semi-annually
- Basis swap provided by Banco de Valencia (**A2**/**Prime 1**)
- Mortgage insurance provided by Genworth (Aa2/Prime 1)included for 10.71% of the mortgages
- No flexible products being securitised
- Reserve fund fully funded upfront to cover potential shortfall in interest and principal

Weaknesses and Mitigants

- 18.42% of the loans have a current LTV above 80%
- 18.66% of the portfolio correspond to vacation or second homes properties
- 13% of the portfolio correspond to non resident loans
- Limited amount of spread in the transaction, coupled with high margin on the notes, makes the excess spread on the deal to be a bit tight
- Pro-rata amortisation of Classes B, and C leads to reduced credit enhancement of the senior class in absolute terms. This is mitigated by strict triggers that terminate the pro-rata amortisation of the notes as the performance of the transaction deteriorates.

– The deferral of interest payments on each of Classes B, and C benefits the repayment of the class senior to each of them, but increases the expected loss on Classes B, and C themselves.
– Strong concentration in the region of Valencia (60.60%) mainly due to the fact that this is the bank's region of expertise. A strong regional concentration makes the transaction more volatile should losses would arise in that particular region's real estate market.

STRUCTURE SUMMARY

Issuer:	Valencia Hipotecario 4 Fondo de Titulización de Activos (FTA)
Structure Type:	Senior/Mezzanine/Subordinated/Reserve Fund
Seller/Originator:	Banco de Valencia (**A2**/**Prime 1**)
Servicer:	Banco de Valencia (**A2**/**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:	First payment date: April 21st 2008
Credit enhancement / Reserves:	Excess spread per annum Reserve Fund Subordination
Liquidity Facility:	N/A
Hedging:	Interest Rate Swap to cover interest rate risk
Paying Agent:	Bancaja (**A1**/**Prime 1**)
Note Trustee (Management Company):	Europea de Titulización, S.G.F.T., S.A
Arranger:	Europea de Titulización, S.G.F.T., S.A
Lead Managers:	Bancaja (**A1**/**Prime 1**) Deutsche Bank (**Aa3**/**Prime 1**)

COLLATERAL SUMMARY

Receivables:	Loans granted to individuals secured by a first-lien residential mortgage guarantee
Loan Amount:	€ 1,106,870,819.66
Number of Loans:	8821
Pool Cut-off Date:	November 2007
WA Original LTV:	70.63 %
WA Current LTV:	68.15 %
WA Seasoning:	16 months
WA Remaining Term:	25.83 years
Interest Rate Type:	Floating
WA Interest Rate:	5.05%
Geographic Diversity:	Valencia 61%, Aragon 6%, Madrid 5%, Murcia 12%
Loan Purpose:	The loans have been granted primarily to acquire a residence located in Spain
Average Loan Size:	€ 125,481.33

TRANSACTION SUMMARY

Securitisation of loans granted to individuals and secured by a first-lien mortgage guarantee

Valencia Hipotecario 4, FTA (the "*Fondo*") is a securitisation fund created with the aim of purchasing a pool of mortgage loans granted to individuals, most of whom will use these loans to acquire or refurbish a primary residence. All of the mortgage loans were originated by Banco de Valencia (**A2**/**Prime 1**), which will continue to service them.

The *Fondo* will issue four series of notes to finance the purchase of the loans (at par):

– A subordinated Class C, rated (P) **Baa3**.
– A mezzanine Class B, rated (P) **Aa3**.
– A senior tranche composed of one (P)**Aaa** rated series

In addition the *Fondo* will issue a (P) **C**-rated Class D to fund a cash reserve that will be used to cover any potential shortfall on interest or principal payments to the other series

STRUCTURAL AND LEGAL ASPECTS

RESERVE FUND

The reserve fund will be used to protect the 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) [3%] of the initial balance of the notes
2) The higher of the following amounts:

[6%] of the outstanding notional balance of the notes

[1.5%] 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 exceeds 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 pool's margin is less than 0.50%

Additionally the RF will not amortise during the first 3 years of the transaction

PRORATA AMORTISATION

The Class B notes will start amortising pro rata with the Class A notes when they represent 2X% of the outstanding balance under Classes A, B, and C

The Class C notes will start amortising pro rata with the Class A and B notes when they represent 2X% of the outstanding balance under Classes A, B, and C

Table 1:

Series B	**Series C**
The loans more than 90 days in arrears level exceeds 1.00%	The loans more than 90 days in arrears level exceeds 0.75%
The RF is not funded at the required level The loan balance is less than 10% of the initial loan balance	

CLASS D AMORTISATION

The equity tranche (Class D) will amortise by an amount equal to the positive difference between the reserve fund required amount (1) on the previous payment date and (2) following the current payment date.

BASIS SWAP

According to the swap agreement entered into between the Fondo and Banco de Valencia,

– The Fondo will pay the interest due from the non-written-off loans since the previous payment date less the amount of interest corresponding to the margin
– Banco de Valencia will pay the index reference rate on the notes over a notional calculated as the daily average of the outstanding amount of the non-written-off loans since the most recent payment date.

The Pre-enforcement Waterfall

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) 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 D
11) Principal D
12) Termination payments under the swap agreement upon default of Banco de Valencia
13) Junior expenses

In the event of liquidation of the Fondo, the payment structure is modified with the sole aim of ensuring that any amount due to a series is repaid before any payment to a subordinated series is made.

Principal due to the notes incorporates a 18-month "artificial write-off" mechanism which enhances capture of excess spread

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 (Class A to C), and (2) the outstanding amount of the non-written-off loans.

The "artificial write-off" speeds up the off-balance sheet of a non-performing loan (loans equal or over 18 months in arrears); thus the amount of notes collateralised by non-performing loans is minimised, and consequently, the negative carry diminishes. However, the most important benefit for the transaction is that the amount of excess spread trapped in the transaction is larger (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost).

Interest Deferral trigger based on PDL

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

Table 2:

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

Limitations on the renegotiation of the loan

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

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 July 5th 2042
– The frequency of payments cannot be decreased.
– The repayment system cannot be modified

COLLATERAL

Pool of loans granted to individuals and secured by first-lien mortgage loans backed by mostly residential properties

Valencia Hipotecario 4 is a transaction whose mortgage loans are characterised by being prime mortgages, with an average LTV of 68.15%, an average loan size of 125,481, average interest rate of 5.05%, maximum maturity of 25.83 years, and a regional concentration of 61% in the region of Valencia.

All in all, the mortgages are fine mortgages but it is worth mentioning a couple of weaknesses that have been penalised in our methodology– (1) some mortgages are granted to non residents, the percentage of these mortgage loans is 13.66%, (2) some mortgages are granted for the purpose of financing secondary residences 12.27%, and high LTV loans are present in the portfolio (in a percentage which is greater than that seen on the previous deals)

On the other hand, 10.71% of the loans are covered with a mortgage insurance policy (675 loans with high LTVs are covered with this policy) which serves to mitigate the severity of losses within these loans.

Mortgage Insurance covering 10.71% of high LTV loans

A portion of the mortgage loans within the portfolio are covered by a mortgage insurance policy provided by GENWORTH. By means of this policy the loans are covered down to an 80% LTV level (i.e. the portion of 80% - 100%) is covered by Genworth. This insurance policy serves to reduce the severity of risk assumption for these types of loans. For analysis purposes, we have taken into consideration the current rating of Genworth. This means that any type of rating action on the current rating of Genworth could have an impact in the overall credit enhancement of this deal. However, and since the percentage of insured loans is no very large, the actual impact on the overall enhancement levels will not be very significant.

Chart 1:
Portfolio Breakdown by LTV
LtMV for total portfolio

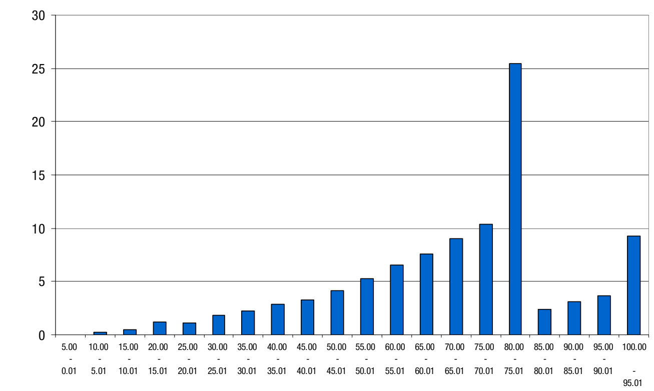


Chart 2:
Portfolio Breakdown by Region

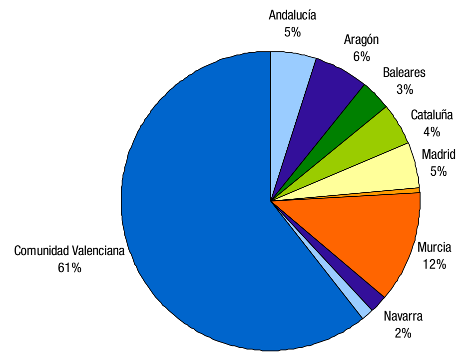


Chart 3:
Portfolio Breakdown by Occupancy Type

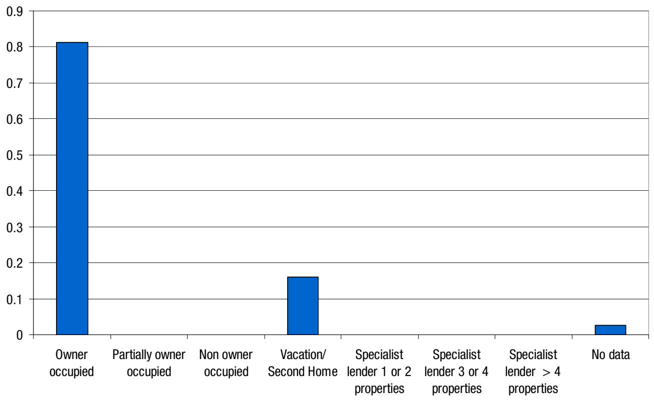


Chart 4:
Portfolio Breakdown by Employment Data

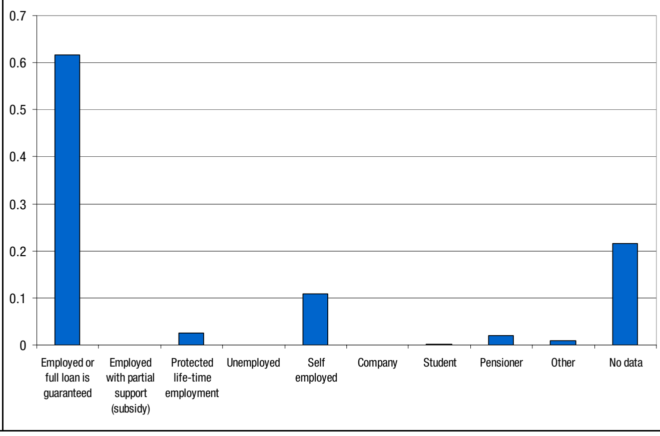
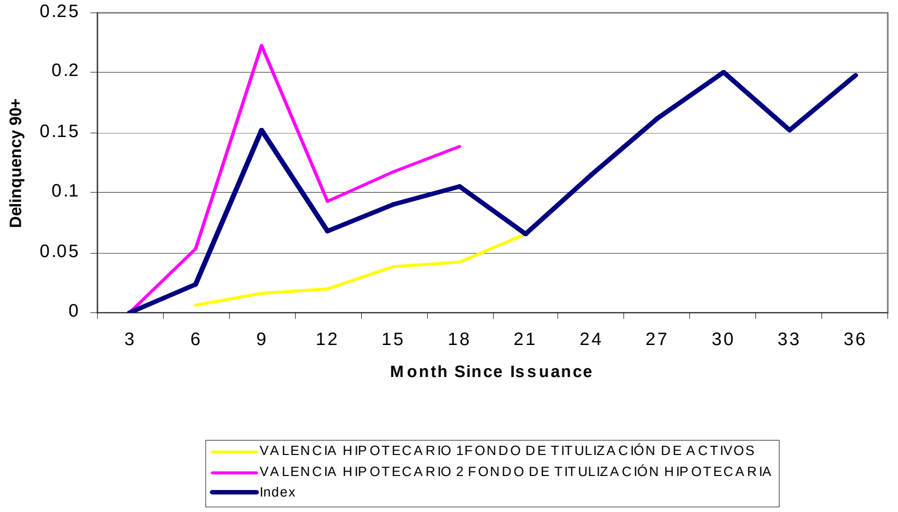


Chart 5:
Valencia Hipotecario 4
Deals performance: arrears of more than 90 days – by months since closing



ORIGINATOR, SERVICER AND OPERATIONS REVIEW

CAM (A1/PRIME 1), the fifth-largest Spanish savings bank

Moody's assigns a bank financial strength rating (BFSR) of C to Banco de Valencia, which translates into a Baseline Credit Assessment of A3. The rating derives from Banco de Valencia's adequate franchise in the Autonomous Region of Valencia and its good financial fundamentals. However, the rating also takes into account (i) the strong loan growth rate observed in the past few years, which has led to a high loan-to-total assets ratio, resulting in some pressure on the bank's liquidity and capitalisation levels; (ii) competitive challenges within the Region of Valencia, where the bank is the third-largest player behind Bancaja (rated A1/Prime 1/C+) and Caja de Ahorros del Mediterráneo (rated A1/Prime 1/C+); (iii) the aggressive branch opening plan proposed in the bank's 2005-2008 strategic plan; (iv) improvements in the bank's liquidity management; (v) strong efficiency ratio and asset quality indicators and (vi) relatively high exposure to the Spanish real estate sector

Banco de Valencia's long-term global local currency (GLC) deposit rating is at the A2 level based on moderate probability of support from its parent, Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja; rated A1/Prime 1/C+). Bancaja fully consolidates Banco de Valencia in its accounts via the 70% owned Bancaja Inversiones, the holding company which gathers Bancaja shareholdings in listed companies including that of Banco de Valencia. Additionally, Moody's assigns a moderate probability of systemic support for the bank in the event of a stress situation. This results in a one-notch uplift for Banco de Valencia's long-term GLC deposit and debt ratings to A2/Prime-1 from the A3 Baseline Credit Assessment.

Paying Agent

Bancaja will act as paying agent of the *Fondo*. In the event of Bancaja's short-term rating falling below **Prime-1**, it will within 30 days have to be replaced or guaranteed in its role of paying agent by a suitably rated institution.

MOODY'S ANALYSIS

Moody's used a lognormal approach

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 series 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

Europea de Titulizacion 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.

RELATED RESEARCH

Special Reports

- Structural Features in the Spanish RMBS Market Artificial Write-Off Mechanisms: Trapping the Spread, January 2004 (SF29881)
- 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 (SF21607)

Performance Review

- Spanish RMBS Q3 2006 Performance Review, February 2007 (SF91595)

Rating Methodologies

- Moody's Approach to Rating Spanish RMBS: The "MILAN" Model, March 2005 (SF49068)

Pre-Sale Reports

- Valencia Hipotecario 1, Fondo de Titulización de Activos (SF 35750)
- Valencia Hipotecario 2, Fondo de Titulización de Activos (SF 65627)
- Valencia Hipotecario 3, Fondo de Titulización de Activos (SF 85542)

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