Valencia Hipotecario 5, Fondo de Titulización de Activos

RMBS / Spain

Closing Date

22 December 2008

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DEFINITIVE RATINGS

Class	Rating	Amount (million)	% of Pool	Legal Final Maturity	Coupon
A	**Aaa**	€468.0	93.60	Feb. 47	3mE + 0.30%
B	**Aa1**	€5.0	1.00	Feb. 47	3mE + 0.60%
C	**Ba3**	€27.0	5.40	Feb. 47	3mE + 0.90%
Total		€500.0			

The ratings address the expected loss posed to investors by the legal final maturity of each class. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal on Classes A, B and C 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

– No flexible products are being securitised.

– There is an excess spread-trapping mechanism through an 18-month "artificial write-off".

– Mortgage insurance provided by Genworth Mortgage Insurance Corporation for 10.6% of the portfolio.

Weaknesses and Mitigants

- There is geographical concentration in the region of Valencia (65.1%), mitigated by the fact that Banco de Valencia has its origins in this region, where it has its greatest expertise.
- 10.5% of the portfolio corresponds to vacation or second home properties.
- 15.3% of the portfolio corresponds to foreigners resident in Spain.
- The swap that is in place does not completely hedge the interest rate risk.
- The limited amount of spread in the transaction, coupled with the high margin on the notes, limits the excess spread in the deal.
- The pro-rata amortisation of the Class B and C notes leads to reduced credit enhancement for the senior class in absolute terms. This is mitigated by triggers which terminate the pro-rata amortisation of the notes if the transaction's performance deteriorates.
- The deferral of interest payments on each of the Class B and C notes benefits the repayment of the class senior to each of them, but increases the expected loss on Classes B and C themselves. The ratings have assessed taking into account this deterioration on the expected loss for these notes.

STRUCTURE SUMMARY

Issuer:	Valencia Hipotecario 5 Fondo de Titulización de Activos (FTA)
Structure Type:	Senior/Mezzanine/Subordinated/Reserve fund
Seller/Originator:	Banco de Valencia (**A3**/**Prime 2**)
Servicer:	Banco de Valencia (**A3**/**Prime 2**)
Interest and Principal Payments:	Quarterly on 23 February, 23 May, 23 August and 23 November. First payment date 23 February 2009
Credit Enhancement/Reserves:	Reserve fund Subordination Guarantee Investment Contract (GIC) account
Hedging:	Interest rate swap providing partial hedging to cover interest rate risk
Principal Paying Agent:	Bancaja (**A2/Prime-1)**
Management Company:	Europea de Titulización, S.G.F.T., S.A
Arranger:	JPMorgan, Europea de Titulización, S.G.F.T., S.A
Lead Managers:	Bancaja, JPMorgan

COLLATERAL SUMMARY ***(Based on the definitive pool as of 22 December 2008)***

Loan Amount:	€500,055,752.49
Loan Count:	3,728
Borrowers:	3,728
WA Original LTV:	72.33%
WA Current LTV:	70.16%
WA Seasoning:	15.58 months
WA Remaining Term:	27.55 years
Interest Rate:	5.779%
Interest Rate Type:	100% Floating, linked to 12- month EURIBOR/MIBOR
Geographic Diversity:	65.1% Valencia; 13.4% Murcia; Balearic Islands 5.4%
Product types:	Standard mortgage loan products
Arrears as of closing:	93.97% Performing
	6.03% Less than 30 days in arrears
Loan Purpose:	Purchase (91.6%), renovation (3.6%)
Average Loan Size (per borrower):	€134,135
Milan Aaa CE range:	8.60%
Moody's Expected Loss range:	2.75%

TRANSACTION SUMMARY

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

Valencia Hipotecario 5, 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 (**A3**/**Prime 2**), which will continue to service them.

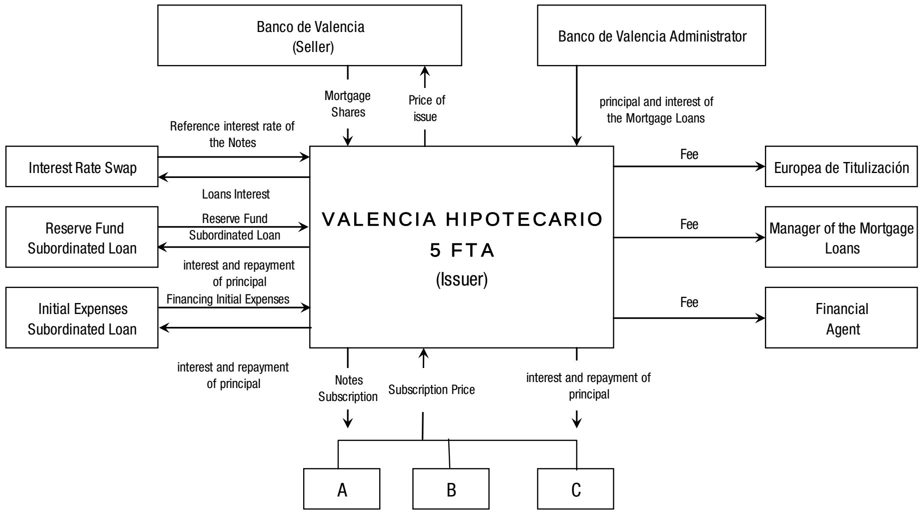
The *Fondo* issued three series of notes to finance the purchase of the loans (at par):

– A subordinated Class C, rated **Ba3**.

– A mezzanine Class B, rated **Aa1**.

– A senior Class A, rated **Aaa**

Chart 1:
Structure Diagram



The SPV will use the proceeds from the issuance of the notes to purchase the portfolio of mortgage loans. The reserve fund will be funded with the proceeds from a subordinated loan granted by the originator.

In addition, the *Fondo* will benefit from a €18.5 million subordinated loan provided by the originator to fund the Reserve Fund, and another €1.9 million subordinated loan to fund up-front expenses and the costs of issuing the notes.

The Spanish Government announced on 4 November 2008 a package of aid to assist unemployed, self-employed and pensioner borrowers through a form of mortgage subsidy aid. It is unclear how this package will be implemented, and also if it is implemented, how this transaction would be affected, although both liquidity and credit implications are possible on this portfolio. However, any implications on the ratings will ultimately depend on the actual financial aid conditions which are approved.

STRUCTURAL AND LEGAL ASPECTS

Reserve fund fully funded at closing from the proceeds of a subordinated loan granted by Banco de Valencia

The reserve fund will initially be funded with a subordinated loan. It will be used to cover any potential shortfall in either interest or principal during the life of the transaction.

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

1) 3.7% of the initial balance of the Class A, B and C Notes
2) The higher of the following amounts:
   - 7.40% of the outstanding notional balance of the Class A, B and C Notes
   - 1.85% of the initial balance of the Class A, B and C Notes

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

– The amount of loans in arrears – by more than three months and by less than 18 months – 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 margin of the portfolio is below 0.50%.

Pro-rata amortisation

The Class B notes will start amortising pro rata with the Class A notes when they represent 2.00% 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 10.80% of the outstanding balance under Classes A, B, and C.

Amortisation of Classes B and C will not take place on the payment date on which any of the following events occurs:

Table 1:

Series B	**Series C**
The level of loans more than 90 days in arrears exceeds 1.50%	The level of loans more than 90 days in arrears exceeds 0.75%
The reserve fund is not funded at the required level	
The loan balance is less than 10% of the initial loan balance	

Interest rates swap providing partial hedging against interest risk

According to the two swap agreements entered into between the *Fondo* and JP Morgan Chase Bank, over a specific notional equal to the outstanding amount of non-written-off loans, resetting annually and semi-annually respectively, at the beginning of each calculation period, on each payment date:

- JP Morgan Chase Bank will pay the index reference rate of the notes plus a spread equal to 0.121% (for the annual resetting swap) and 0.117% (for the semi-annual resetting swap).
- The *Fondo* will pay the weighted-average of 12-month EURIBOR over the past 12 months (for the swap for loans resetting annually) or six months (for the swap for loans resetting semi-annually), where the weights are fixed for each month on the closing date.

The aim of this payment is to replicate the amount of interest corresponding to the index reference rates that the *Fondo* receives for each of the groups between payment dates.

This type of swap does not fully hedge the transaction against the interest rate risk as **the weighted-average 12-month EURIBOR that the *Fondo* is committed to pay is not an exact replica of the index reference rates of the pool.** Moody's has considered this partial hedging in its analysis by assuming that part of the transaction spread will be used to hedge the transaction against the interest rate risk not covered through the swap agreement.

If JP Morgan Chase Bank's long-term rating is downgraded below **A2** (or the short-term rating below **Prime-1**), within 30 days it will have to (i) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the notes; or (ii) find a suitably rated guarantor or substitute.

The swap agreement will be governed by ISDA.

Priority of payment

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 and interest earned on the transaction accounts) will be applied in the following simplified order of priority:

1) Cost and fees, excluding servicing fee (except if Banco de Valencia is replaced as servicer of the loans)
2) Servicing fee
3) Any amount due under the swap agreement (other than swap termination payments due to a default or breach of contract by the swap counterparty)
4) Interest payment to Class A
5) Interest payment to Class B (if not deferred)
6) Interest payment to Class C (if not deferred)
7) Retention of an amount equal to the principal due under the notes to amortise Classes A, B and C
8) Interest payment to Class B notes (if deferred)
9) Interest payment to Class C notes (if deferred)
10) Replenishment of the reserve fund
11) Termination payment under the swap agreement (except if the *Fondo* is the defaulting or the only affected party)

12) Repayment of subordinated loans

13) Originator considerations

Interest deferral trigger based on defaults

The payment of interest on the Class B and 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 accumulated amount of written-off loans is higher than 16% of the initial amount of the asset pool	a) The accumulated amount of written-off loans is higher than 14% of the initial amount of the asset pool
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'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 (i) the outstanding amount of the notes; and (ii) the outstanding amount of the non-written-off loans.

The "written-off loans" are defined as those loans with any amount due but unpaid for more than 18 months (or earlier, if the management company considers that there are no reasonable expectations of recovery under any such loan).

The "artificial write-off" speeds up the transaction provisioning of a non-performing loan; thus, the amount of notes collateralised by non-performing loans is minimised, and, consequently, the negative carry. However, the most significant benefit for the transaction is that the amount of excess spread trapped in the structure is larger (the excess spread between the "artificial write-off" time and the "natural write-off" time, if longer, would otherwise be lost). Therefore, the transaction makes better use of the excess spread, allowing for lower levels of other credit enhancement figures.

A principal deficiency will occur, on any payment date, if the issuer's available funds are not sufficient to reimburse the principal due under the notes, according to the cash flow rules stated above (the difference between these two amounts being the principal deficiency).

Principal due allocation mechanism

Until the payment date on which the initial amount of Classes B and C exceeds 2.00% and 10.80%, respectively, of the outstanding amount of Classes A, B and C, the amount retained as principal due will be used for the repayment of the following items in the indicated order of priority:

1) Amortisation of Class A
2) Amortisation of Class B
3) Amortisation of Class C

Pro rata amortisation of Classes B and C will not take place on the payment date on which any of the following events occur:

- The arrears level exceeds 1.50% and 0.75% for Classes B and C, respectively
- The reserve fund is not funded at the required level
- The outstanding amount of the non-written-off loans is lower than 10% of the initial amount of the pool

COLLATERAL

Valencia Hipotecario 5 is a transaction with mortgage loans characterised by being prime mortgages, with an average LTV of 70.16%, an average interest rate of 5.78%, a maximum maturity of 35 years, and a geographic concentration of 65.1% in the Valencia region.

The definitive portfolio comprised 3,728 loans for a total of €500,055,752.49. The original WA LTV was 72.33%. The current WA LTV is 70.16%. The average loan size is approximately €134,000. The loans were originated between 2003 and June 2008, with a weighted-average seasoning of 1.30 years. The ten highest exposures represent 0.89% of the definitive pool. 99.9% of the pool pays through monthly instalments. 4.4% of the definitive pool is loans with three or more debtors.

The loan purpose for 91.6% of the definitive pool is to purchase a residential property.

Employed borrowers represent 77% of the definitive pool.

All the definitive pool is linked to 12-month EURIBOR/MIBOR.

See the charts in the Appendix for more detailed information on the collateral.

Mortgage insurance covering 10.6% of high LTV loans

A portion of the mortgage loans within the definitive portfolio (10.6%) are covered by a mortgage insurance policy provided by Genworth. This policy means the loans are covered down to an 80% LTV level (i.e. the portion of 80% - 100%) by Genworth Mortgage Insurance Corporation. This insurance policy serves to reduce the severity of risk assumption for these types of loans.

Foreign Residents in Spain

15.3% of the portfolio is loans granted to foreign residents in Spain. There is no data available on years of residency.

ORIGINATOR, SERVICER AND OPERATIONS REVIEW

Banco de Valencia's rating has been downgraded from A2 to A3

Moody's downgraded Banco de Valencia's long-term bank deposit and senior debt ratings to A3 from A2 on 4 November 2008. The short-term debt and deposit ratings were also downgraded to Prime-2 from Prime-1. The outlook on the BFSR is now stable. The outlook on the long-term debt and deposit ratings is negative.

The downgrades of Banco de Valencia's ratings were prompted by the combination of the following factors:

1. Ongoing liquidity constraints as the disruption in access to wholesale funding continues to put pressure on the bank's liquidity position in the form of an increased reliance on short-term funding, namely on the more volatile interbank market.
2. Its high exposure to the real estate and construction sectors, and large concentration per borrower, with the majority of the largest exposures being to real estate developers or construction companies.
3. The rapid deterioration in the bank's asset quality indicators, in terms of its exposures not only to real estate developers but also to households on the back of both the weakening operating environment and rising unemployment.

Banco de Valencia's non-performing loan ratio stood at 1.85% in September 2008 and the coverage ratio was 120.13%, compared to 0.6% and 317.5% respectively in December 2007. Although its asset quality indicators compare favourably with those of similarly rated peers, Moody's views the rapid increase in problem loans registered during the first three quarters of the year with concern and cautions that a further deterioration could have a negative impact on Banco de Valencia's risk absorption capacity, chiefly in terms of profitability and capitalisation ratios.

The negative outlook on the debt and deposit ratings reflects Moody's concerns that Banco de Valencia's liquidity position will continue to be under pressure – with a strong bias on short-term funding – as long as access to long-term wholesale funding remains closed and that its asset quality is likely to deteriorate further given the weakening operating environment and negative economic prospects in Spain.

In addition, Banco de Valencia appears more vulnerable than other Spanish rated banks to a sharper downturn than anticipated to date in the real estate market. According to Moody's assessment of the bank's various risk drivers of its loan portfolio, the bank has a high credit risk profile, deriving from its exposure to non-mortgage guaranteed loans to real estate developers, high borrower concentration and exposure to geographical areas with a greater expected deterioration in asset quality, namely the Mediterranean region.

Paying Agent

Bancaja will act as paying agent of the *Fondo*. If Bancaja's short-term rating falls 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

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.

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 "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 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.

Modelling assumptions for the transaction

– The key parameters used to calculate the loss distribution curve for this portfolio include a MILAN **Aaa CE** of 8.60%, and an **Expected Loss** of 2.75%

RATING SENSITIVITIES AND MONITORING

The management company, Europea de Titulización, has committed to provide Moody's with access to a website from which a report containing at least quarterly pool-level performance and payments to the notes data can be obtained. Moody's considers the amount of data currently available on the website to be acceptable for monitoring collateral performance, although further improvements will be encouraged. If Moody's access to the website is curtailed or adequate performance information is not otherwise made available to Moody's, Moody's ability to monitor the ratings may be impaired. This could negatively impact the ratings or, in some cases, Moody's ability to continue to rate the notes.

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.rmbs@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:

Special Reports

- Spanish RMBS Q1 2008 Indices, May 2008 (SF133019)
- 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)
- Introducing Moody's Arrears Index for Spanish Mortgage-Backed Securities, March 2002 (SF12700)

Rating Methodologies

- 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)

Pre-Sale and New Issue Reports

- Valencia Hipotecario 1, Fondo de Titulización de Activos, April 2004 (SF35750)
- Valencia Hipotecario 2, Fondo de Titulización de Activos, November 2005 (SF65627)
- Valencia Hipotecario 3, Fondo de Titulización de Activos, November 2006 (SF85542)

Performance Overviews

- Valencia Hipotecario 4 Fondo de Titulización de Activos, January 2009 (SF152994)
- Valencia Hipotecario 3 Fondo de Titulización de Activos, January 2009 (SF152991)
- Valencia Hipotecario 2 Fondo de Titulización de Activos, January 2009 (SF152990)
- Valencia Hipotecario 1 Fondo de Titulización de Activos, January 2009 (SF152983)

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.

Chart 2:
Portfolio Breakdown by Loan Purpose

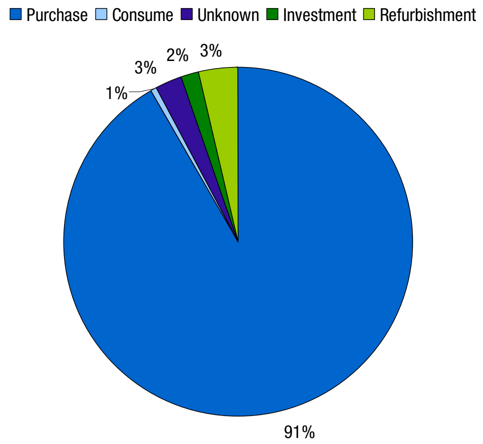


Chart 3:
Portfolio Breakdown by LTV

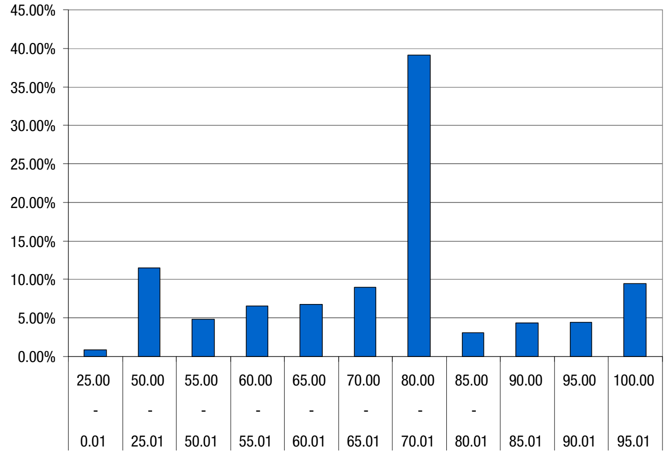


Chart 4:
Portfolio Breakdown by Region

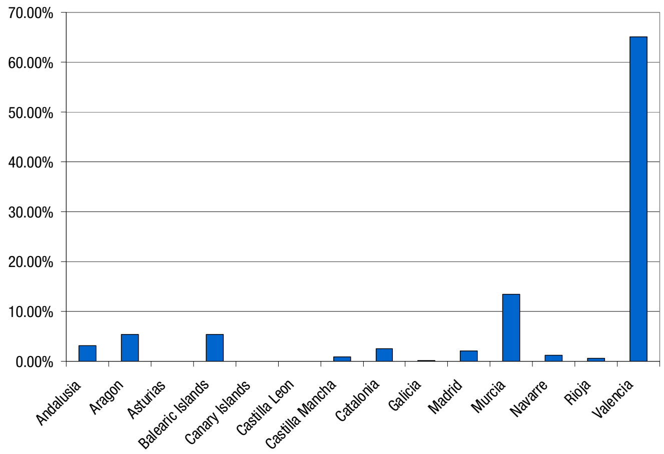


Chart 5:
Portfolio Breakdown by Origination Date

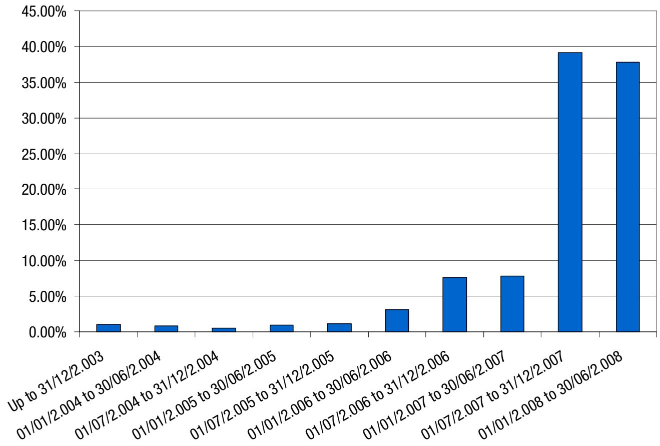
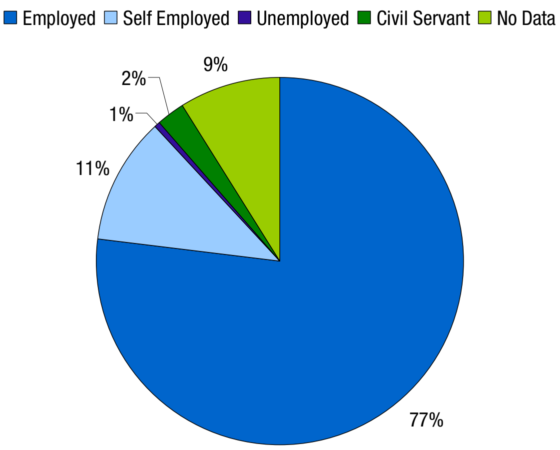


Chart 6:
Portfolio Breakdown by Employment Type



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