BZ Hipotecario 1, Fondo de Titulización Hipotecaria, Bonos de Titulización Hipotecaria

Spain

CLOSING DATE:
April 15, 1999

AUTHORS:

London
Dominic Swan
Vice President
Senior Credit Officer
(44-171) 772-5354

Spain
Sandie Fernadez
Sr. Statistical Analyst
(34-91) 310-1454

CONTACTS:

London
Robbin Conner
Managing Director
(0171) 772-5356

Spain
Juan Pablo Soriano
General Manager
(34) 1-310-145

New York
Client Services
(212) 553-7941

TRANSACTION IN BRIEF:

	Senior Series A	**Subordinated Series B**
Rating:	**Aaa**	**A2**
Amount:	€338,600,000	€11,400,000
Coupon:	3 month Euribor + 0.18%	3 month Euribor + 0.50%
Payment dates:	March 17, June 17, September 17 and October 17	
Final Maturity:	March 17, 2024	
Issuer:	BZ Hipotecario 1, Fondo de Titulizacion Hipotecaria	
Originator/Administrator:	Banco Zaragozano	
Management Company (Gestora):	Europea de Titulizacion, S.A., S.G.F.T.	
Depository/Paying Agent:	Banco Zaragozano	
GIC provider:	Banco Zaragozano/Caja Madrid	
Lead Manager:	Banco Zaragozano	

Collateral Characteristics

Type:	Mortgage participation's (Participaciones Hipotecarias: PHs)
Coupon:	Underlying mortgage rate
Count:	8742
Total amount (approx.):	PTAs 58 billion

Provisional Pool of Underlying Mortgage Loans

Type:	Primary residential mortgage loans	
WALTV:	53.03%	Max: 80%
Average Loans:	Ptas 7,474,412	
WAC (current):	5.64%	
Interest Basis:	Variable	
Indices:	MIBOR 12months	
Orig Loan Purpose:	Purchase, Construction and Renovation	
Geog. Concentrations:	Madrid (22.96%), Cataluna (15.66%), Andalucia (12.35%), Comunidad Valenciana (10,74%)	
Structure:	Senior/Mezzanine/Reserve Fund	
Credit Enhancement:	2% Reserve Fund, 3.25% Series B Notes and Spread	
Issue Date:	April 16th, 1999	

OPINION

Moody's ratings of the Series A and Series B bonos de Titulización Hipotecaria (BTH´s, or mortgage securitisation bonds) issued by Banco Zaragozano are based on:

(1) The legal characteristics of the mortgage participation's (participaciones hipotecarias – "PHs") and a loan by loan analysis of the quality of the mortgage loans underlying them; (2) the subordinate position of the Series B Mezzanine bonds with respect to the Series A bonds; (3) the credit enhancement provided by the reserve fund; (4) the strength of the cash flows, including excess spread available to cover losses; (5) the contractual obligations and credit strength of the parties to the transaction, (6) the experience of the Gestora Europea de Titulización S.A, SGFT and the supporting guarantee of the Gestora obligations by all of its shareholders.

Moody's evaluation of the transaction included the legal and regulatory context of the primary and secondary mortgage market and of structured transactions in Spain.

The ratings assigned to the BTHs address the timely payment of interest and payment on principal on or before the final maturity of the transaction in March 2024.

RATING SUMMARY

Structure

The (BTHs) are issued by a mortgage securitisation fund (fondo de titulización hipotecaria) which was created and is managed by Europea de Titulización S.A SGFTH, the management company. The BTH's are secured by PHs.

Under Spanish law, each PH represents a certain percentage of a single mortgage loan for the entirety of its remaining life and grants to its holder the right to undertake executory action against the mortgage debtor and, under certain circumstances, the right to pursue the mortgage originator. As the Fondo does not posses legal personality any such action must be taken on its behalf by the Gestora. In this transaction all of the PH's represent 100% of the underlying mortgage loan and pay interest at the mortgage rate. Payments of interest on PHs purchased by a mortgage securitisation fund are not subject to withholding tax. However, interest payments on the BTHs issued by the fund are taxable.

All of the mortgage loan securing the PH's were originated by Banco Zaragozano which will continue to service the loans and will substitute or repurchase any PH that is found to be backed by a loan that fails to meet various criteria.

Collateral

Moody's believes that the provisional pool of mortgage loans underlying the PHs has several strong characteristics. The mortgages consist of first charges on residential properties that are all believed to be owner occupied. Geographic diversification is strong with high concentrations in Madrid, Cataluna and Andalucia. The average current loan to original valuation ratio of 53.,03% is considered low. The pool benefits from average seasoning of approximately 2.21 years while the short average life remaining on the mortgages loans allows equity to build up in the property relatively quickly.

Basis and Liquidity Risk

The structure is exposed to a degree of interest rate risks. The interest payable on the Series A and B BTH's pay 3 month Euribor, while the PHs are mostly linked to 12 month Mibor. This transaction is not protected by a swap.

The reserve fund and the size of the class B notes provide protection against the risk that the average interest reset on 3 month Euribor might exceed that of 12 month Mibor over the life of the deal.

Although Moody's believes that any substantial interest rate mismatches between Euribor and Mibor are likely to be short- lived, they could expose the structure to substantial liquidity risks.

This risk, however, is mitigated by the size of the reserve fund in the transactions and by provisions that subordinate the amortization of the B bonds to the full or partial replenishment of the reserve fund; this increases the possibility that sufficient liquid funds will be available to meet any mismatches in cashflows.

Credit Enhancement

Moody´s compared the expected performance of the mortgage pool in a variety of severe economic scenarios to determine the necessary credit protections to cover losses and arrears at a level consistent with the ratings assigned.

The first layer of protection is spread in the transaction, which is the difference between (1) the interest earned on the PH's (Mibor + 135bp approximately) (2) and the coupons paid on the BTH's and other obligations plus the Gestora fee. The value of the ongoing spread was assessed under a variety of adverse conditions which would minimise its availability, including high prepayment speeds, various loss distributions, and high arrears levels. Spread that is not used to cover shortfalls of interest or principal or to replenish one of the reserve funds within each interest period is not trapped within the structure.

The second layer of protection for investors is the reserve fund which is equal to 2% of the outstanding PH nominal balance to begin amortizing when it reaches the lower of the following levelsminimum of the following quantities: (1) 5% of the bonds' outstanding principal balance, or (2) 4% of the bonds outstanding principal balance + the balance of the loans 12 months in arrears.

Notwithstanding the above, in the event that on a Payment Date, the delinquency level, as defined below, is above 3%, or that the reserve fund reaches 0.40% of the initial PH balance, the maximum credit amount will remain at the level established in the previous payment date, regardless of the reduction in the outstanding nominal balance of the mortgage share certificates.

The Maximum amount of the reserve fund in any case, will be until the liquidation of the fund, at least equal to 4% of the bonds outstanding principal balance or 1,010,000 Euros.

Delinquency level is defined as the amount of principal of the mortgage share certificates declared in default during the period of time comprised between the second and the ninth month immediately prior to the corresponding payment date in relation to the outstanding balance of the mortgage share certificates.

The third layer of protection is the Series B bonos which initially amount to 3.25% of the PH original balance. Amortisation of the Series B Bonos will take place when the A Bonds are fully amortized.

Start-up expenses are paid through a subordinated loan from the originators, which is repaid with excess spread.

Origination/Servicing

Moody's reviewed the facilities, underwriting and collections procedures, and servicing systems of Banco Zaragozano and compared them with the overall lending practices of banks and mortgage lenders in Spain. Moody´s believes that Bbanco Zaragozano is capable of fulfilling its servicing obligations in the transaction.

Management Company (Gestora)

The management company (Sociedad Gestora) has broad powers under the Spanish securitisation law.

Europea de Titulización, has experience on Spanish mortgage securitization structures.

The obligations of the Gestora within the structure are guaranteed by its shareholders in proportion to their holdings. Argentaria accounts or 83% of the Gestora's capital. The remainder is owned by 15 Institutions including JP Morgan 4%, Abbey National Bank S.A.E. 1.54%, Bankinter 1.53%, Barclays Bank 1.53%, Citibank España 1.53%, Deutsche Bank 1.53%.