Bancaja 7 Fondo de Titulización de Activos

Bancaja
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
June 2004

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RATINGS

Class	Rating	Amount	% of Total	Legal Final Maturity	Maturity Expected
A1	(P)**Aaa**	€[150,000,000]	7.90	25/11/36	25/11/04
A2	(P)**Aaa**	€[1,670,200,000]	87.90	25/11/36	25/03/34
B	(P)**A2**	€[39,900,000]	2.10	25/11/36	25/03/34
C	(P)**Baa2**	€[23,800,000]	1.25	25/11/36	25/03/34
D	(P)**Ba2**	€[16,100,000]	0.85	25/11/36	25/03/34
Total		€[1,900,000,000]	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. The rating does not address full redemption of the Notes on the expected 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 the excess spread, a reserve fund and the subordination of the notes
- Reserve fund fully funded upfront to cover potential shortfall in interest and principal
- Interest rate swap provided by Bancaja (**A1**/**P-1**) guaranteeing an excess spread of 0.55%
- Excess spread-trapping mechanism through an "18-month artificial write-off" mechanism
- No flexible products being securitised – just plain vanilla mortgage loans
- No second-lien products being included
- 100% of the loans are paid via direct debit
- almost all the loans paid through monthly instalments

Weaknesses and Mitigants

- Geographical concentration in the region of Valencia (49%) mitigated in part by the fact that this is the region of Bancaja's origin, where it has its highest expertise. Additionally Moody's mitigates the potential increase in the volatility of losses due to the highest concentrations requiring additional credit enhancement.
- Pro-rata amortisation of the B, C and D Series of notes leads to reduced credit enhancement of the senior class 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.

STRUCTURE SUMMARY

Issuer:	Bancaja 7, Fondo de Titulización de Activos
Structure Type:	Spanish Fondo de Titulización de Activos *(FTA)*
Borrower:	Bancaja (**A1**/**P-1**)
Seller/Originator:	Bancaja (**A1**/**P-1**)
Servicer:	Bancaja (**A1**/**P-1**)
Interest Payments:	Quarterly on each payment date
Principal Payments:	Pass-through on each payment date
Credit Enhancement/Reserves:	Transaction Spread Reserve fund Subordination of the notes
Liquidity Facility:	N/A
Hedging:	Interest rate swap to cover interest rate risk
Interest Rate Swap Counterparty:	Bancaja (**A1**/**P-1**)
Principal Paying Agent:	Bancaja (**A1**/**P-1**)
Management Company:	Europea de Titulización S.G.F.T, S.A
Arranger/Lead Manager:	Bancaja, BNP Paribas, Deutsche Bank, JP Morga

COLLATERAL SUMMARY

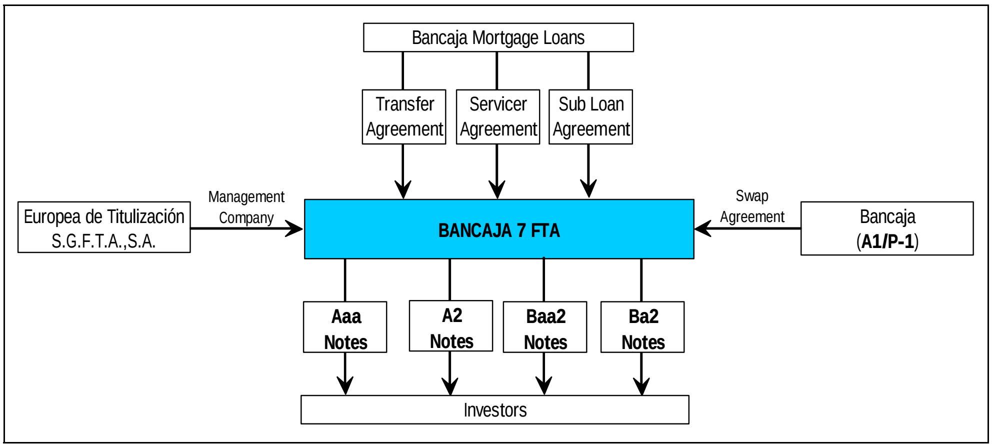
Collateral:	Prime Mortgage Loans
Number of Contracts:	25,225
Number of Borrowers:	25,225
Geographic Diversity:	Valencia (49%), Madrid (16%)
WA LTV:	67.22 %
WA Remaining Term:	22.97 Years
Seasoning:	1.27 Years
Interest Basis:	Floating (100%)
WA Interest Rate:	3.24%
Highest Exposure:	€ 444,744
Average Loan:	€ 81,770
Delinquency Status:	No loans in arrears more than 30 days at closing date

Structural and Legal Aspects

Plain vanilla structure

This transaction marks the seventh time that Bancaja has tapped the RMBS market (it also launched two CLO transactions in 2002/03 and a mix of commercial and residential MBS in 2004).

The products being securitised are first-lien mortgage loans granted to individuals resident in Spain, most of whom will use these loans to acquire or refurbish a primary residence (100% of the loans are financing the purchase of a first home). All of the mortgage loans were originated by Bancaja, which will continue to service them.



The transaction consists of four rated classes – a senior tranche for an amount equal to €[1,820,200,000] composed of two [**Aaa**]-rated Series, A1 and A2 notes, two mezzanine Series B rated [**A2**] and Series C rated [**Baa2**] for an amount equal to €[39,900,000] and €[23,800,000] respectively and a subordinated Series D rated [**Ba2**] for an amount equal to €[16,100,00]. The reserve fund is fully funded by the originator at the closing date. Each series of notes is supported by the series subordinated to itself, a reserve fund and the excess spread guaranteed under the swap agreement with Bancaja.

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 [0.72%] 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, C and D 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) [0.72%] of the initial balance of the notes
2) The higher of the following amounts:
3) [1.20%] of the outstanding notional balance of the notes
   [0.35%] 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 12 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.

Interest rate swap guaranteeing 0.55 bppa of excess spread

According to the swap agreement entered into between the Fondo and Bancaja, on each payment date:

- The Fondo will pay the accrued interest from the loans plus the accrued interest yield from the amortisation account.
- Bancaja will pay the weighted average coupon on the notes plus 55 bppa, over a notional of the outstanding amount of the bonds.

The excess spread thus provided through the swap agreement constitutes the first layer of protection for investors.

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

Treasury Account and Amortisation Account

The treasury account will be held at Bancaja. The proceeds from the loans, any amount received under the swap agreement and the reserve fund will be deposited in the treasury account.

Moody's has set up some triggers in order to protect the treasury account from the possible downgrade of the short-term rating of Bancaja. Should Bancaja's short-term rating fall below **P-1**, it will have to perform any of the following actions in the indicated order of priority within 10 business days:

1) Find a suitably rated guarantor or substitute.
2) Collateralise its payment obligations under the treasury account in an amount sufficient to maintain the then current rating of the notes.
3) Invest the outstanding amount of the treasury account in securities issued by a **P-1** rated entity.

Bancaja guarantees an annual yield of the amounts deposited in the treasury account equal to the index reference rate of the notes.

Until the payment date falling on 25 February 2006, all funds available to the repayment of the notes will be transferred to a special account held at Bancaja (namely, the amortisation account). This account is subject to the same triggers and the same yield as the treasury account, and will be automatically cancelled on 25 February 2006.

Class A amortisation

Until the payment date on which the Series B, C and D notes will start to amortise pro-rata with Class A, the amount retained as principal due will be used for the repayment of Class A in the following order of priority:

1) Amortisation of Series A1 notes
2) The Series A2 notes will start to amortise on whichever of the two following payment dates is latest:
   I. Once the Series A1 notes have been fully amortised, or
   II. 25 February 2006

Nevertheless, the amount retained as principal due will be distributed pro-rata among Series A1 and A2, if the amount of loans more than 3 months and less than 18 months in arrears exceeds [2.00%] of the outstanding balance of the portfolio.

Once Series B, C and D start to be amortised, the amount retained as principal due will be distributed pro-rata between the Class A, Series B, C and D notes.

Series A1 soft bullet amortisation

Until the payment date falling on 25 November 2005, all funds available to the repayment of this series will be transferred to the amortisation account, creating an amortisation fund for the Series A1 notes. Funds available under the amortisation account will be used for the repayment of the Series A1 notes on the payment date falling on 25 November 2005. Should the amount available on this account not be sufficient to fully redeem the notes, the outstanding principal remaining after such partial repayment will be repaid on a pass-through basis on the subsequent payment dates.

The negative carry created by the fund of the amortisation fund for the Series A1 notes is compensated by (1) the annual yield of the amortisation account, which equals the index reference rate of the notes and (2) Bancaja payments under the swap agreement, which covers the margin of the Series A1 notes.

Moody's 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 (November 2036). The rating does not address full redemption of the Notes on the expected maturity date.

Payment structure allocation

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 in the case of Bancaja being replaced as servicer of the loans)
2) Any amount due under the swap agreement
3) Interest payment to Series A
4) Interest payment to Series B (if not deferred)
5) Interest payment to Series C (if not deferred)
6) Interest payment to Series D (if not deferred)
7) First amortisation fund
8) Interest payment to Series B notes (if deferred)
9) Second amortisation fund
10) Interest payment to Series C notes (if deferred)
11) Third amortisation fund
12) Interest payment to Series D notes (if deferred)
13) Fourth amortisation fund
14) Replenishment of the reserve fund
15) Termination payment under the swap agreement (except if the Fondo is the defaulting or the sole affected party)
16) Junior expenses

18-month "artificial write-off" mechanism

For each subpool, the transaction structure for Classes A, B, C and D 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).

Principal due retention

The principal due will be retained through four amortisation funds. This mechanism only makes sense when any of the interest deferral triggers is hit, and ensures that, once Series A notes are sufficiently collateralised by loans less than 18 months in arrears, the deferred interest on Series B is repaid before a further amortisation of the notes. An analogous reasoning applies to the payment of deferred interest on Series C and D

Principal due allocation mechanism

As in the most recent Bancaja transactions, this transaction also includes pro-rata amortisation. Pro-rata amortisation entails risk as opposed to fully sequential transactions, given that the credit enhancement decreases in absolute terms.

Until the payment date on which the outstanding amount of Series B, C and D notes exceeds 4.20%, 2.50% and 1.70% of the outstanding amount under all series, respectively, the amount retained as principal due will be used for the repayment of Series A. Once Series B, C and D start to be amortised, the amount retained as principal due will be pro-rata distributed among the four series, so that the percentages indicated above are kept at any payment date thereafter. Nevertheless, amortisation of Series B, C or D will not take place on the payment date on which any of the following events occur:

Series B	Series C	Series D
• The arrears level exceeds 1.5%	• The arrears level exceeds 1 %	• The arrears level exceeds 1%
• The cash reserve is not going to be funded at its required level		
• The loan balance is less than 10% of the initial loan balance		

Interest deferral mechanism

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

Series B:	The difference between (1) the outstanding amount of series A and (2) the sum of (i) the outstanding amount of the amortisation account, (ii) the Fondo's available funds after the repayment of the four items of the payment structure, and (iii) the outstanding amount of the assets pool, is greater than zero
Series C:	The difference between (1) the outstanding amount of series A and B and (2) the sum of (i) the outstanding amount of the amortisation account, (ii) the Fondo's available funds after the repayment of the first five items of the payment structure, and (iii) the outstanding amount of the assets pool, is greater than zero
Series D:	The difference between (1) the outstanding amount of series A, B and C and (2) the sum of (i) the outstanding amount of the amortisation account, (ii) the Fondo's available funds after the repayment of the first six items of the payment structure, and (iii) the outstanding amount of the assets pool, is greater than zero

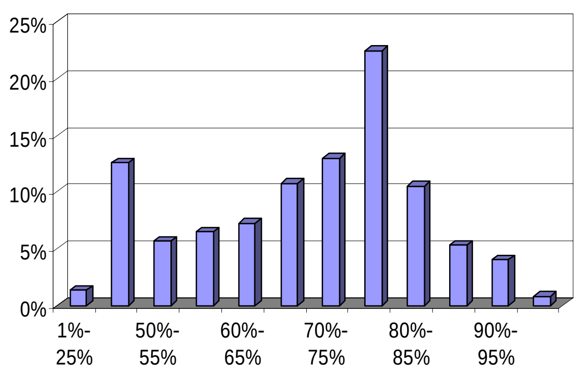
COLLATERAL – REFERENCE PORTFOLIOS

As of May 2004, the portfolio comprised 25,225 loans, representing a provisional portfolio of €2,062,656,163. The loans have been granted to finance the purchase, building and renovation of residential homes located in Spain.

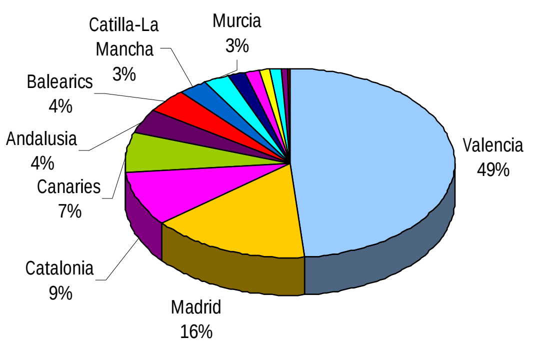
The loans consist of first-lien mortgages on residential properties that are all believed to be owner-occupied. All the properties on which the mortgage security has been granted are covered by property damage and fire insurance. At closing all the loans will have accrued at least two instalments and there will be no loans more than 30 days in arrears.

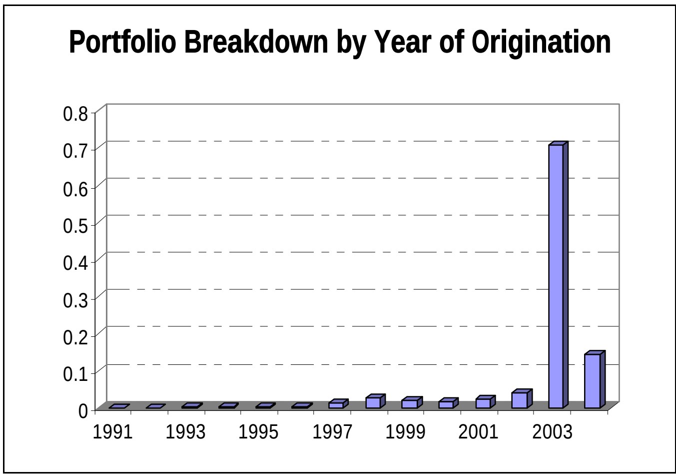
The original weighted average LTV (WALTV) is 71.29%. The current WALTV is 67.22%. The average loan size is €81,770 and the largest loan is €444,744. The loans are originated between 1991 and 2004 with a weighted average seasoning of 1.26 years. Almost all the loans are paid through monthly instalments, which are debited to accounts held by the debtors at Bancaja.

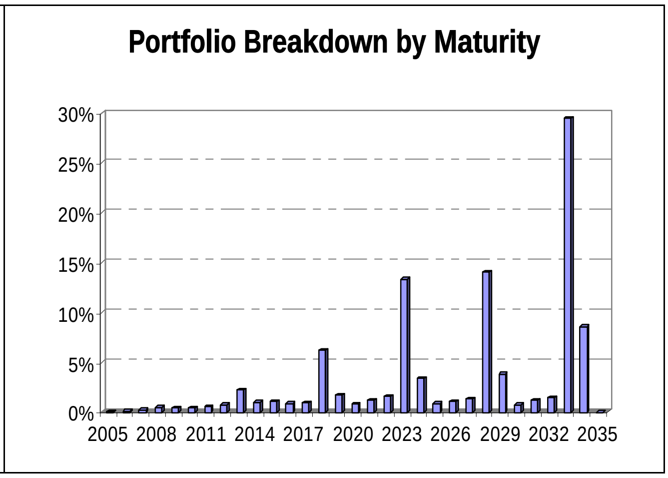
LTV Distribution



Portfolio Breakdown by Geographical Distribution





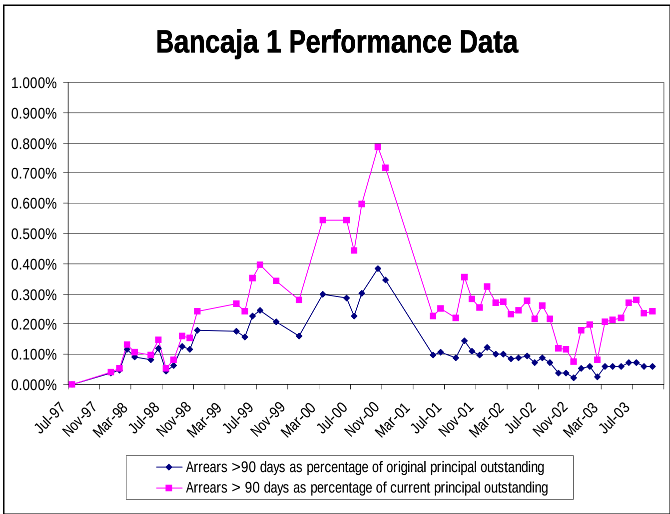


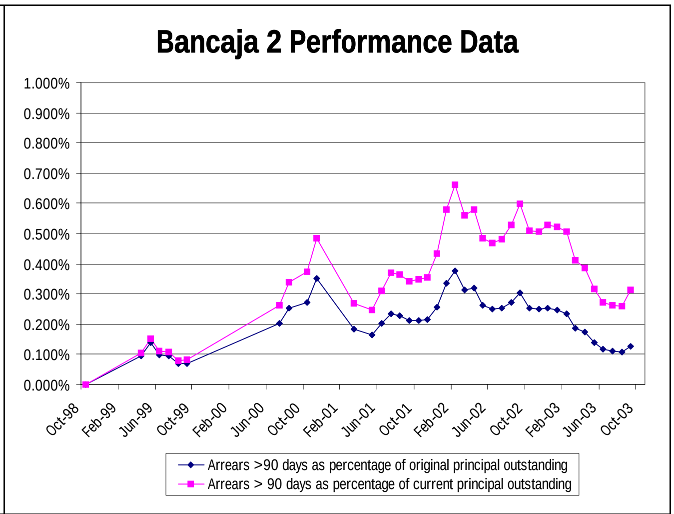
Renegotiations

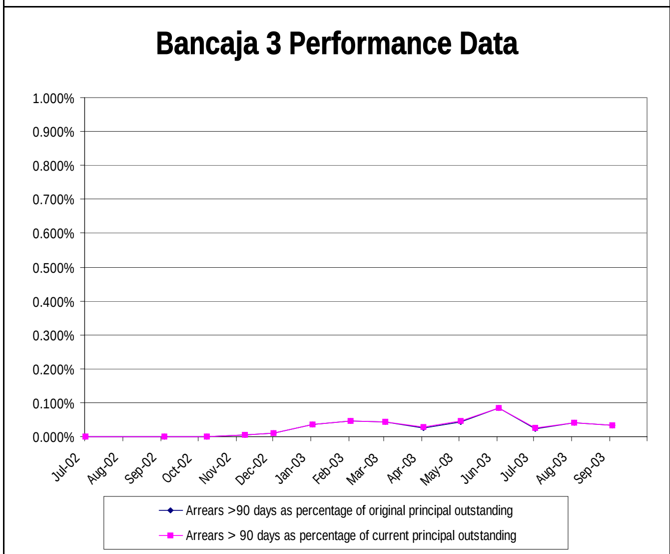
Any renegotiation of the terms and conditions of the loans is subject to the *gestora*'s approval. Exceptionally, the *gestora* may authorise Bancaja to renegotiate the interest rate or maturity of the loans without requiring its approval. However, Bancaja will not be able to extend the maturity of any loan later than 25 March 2034. Moreover, the renegotiation of the maturity of the loans is subject to the following conditions:

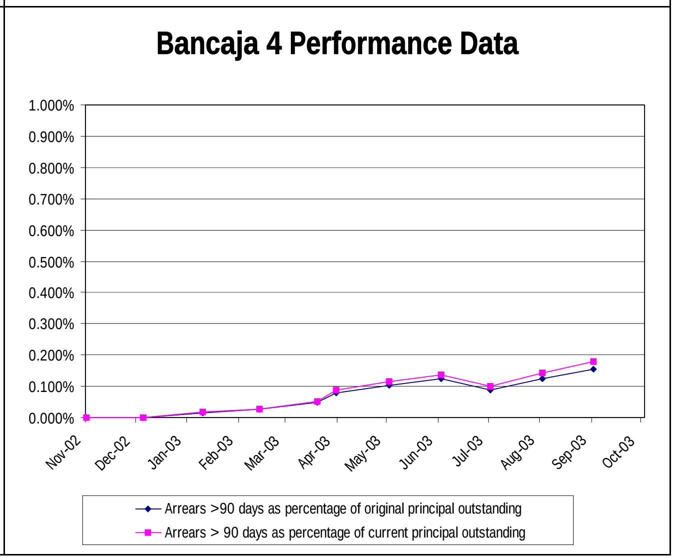
1) The global initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the pool.
2) The frequency of payments cannot be decreased.
3) The repayment system cannot be modified.

Performance Data on Previous Bancaja transactions









ORIGINATORS, SERVICERS

Moody's **A1/P-1/B-** ratings for Bancaja reflects the bank's strong retail franchise in the region of Valencia and its sound financial fundamentals, which include good profitability, solid asset quality and strong operating efficiency. The ratings also take into account Bancaja's efforts to diversify its revenue sources as well as its low risk profile, but recognise the possibility that this risk profile could be raised as a result of the bank's expansion into higher-risk activities. The current ratings are well positioned with a stable outlook.

With total assets of €35.4 billion at the end of 2003, Bancaja is the sixth-largest financial institution and the third-largest savings bank in Spain by assets. Bancaja's financial profile is typical of those savings banks that have focused on their core business within their local region (approximately 74% of its branch network is based in its home market, the relatively prosperous autonomous region of Valencia). Bancaja is not aiming for a nation-wide presence and is focusing its expansion efforts in Catalonia, Madrid and the Balearic Islands.

Bancaja runs a traditional low-risk franchise with a focus on mortgage lending and local SMEs. Asset quality has improved to very good levels during the past few years on the back of a favourable economic environment with low interest rates. Bancaja's conservative credit standards and its traditional low-risk credit portfolio have also played a role in this turnaround. At the end of 2003, non-performing loans as a percentage of total loans improved to 0.6% from 0.75% in 2002.

The bank's loan portfolio shows a good level of diversification, although with large exposures concentrated in the real estate and tourism sectors. Moody's recognises the risk of real estate development (especially due to exposure to the hotel and tourism industries in the region of Valencia), but views Bancaja's conservative underwriting standards as reassuring.

Management Company

The management company (*gestora*), Europea de Titulización, is an experienced company in the Spanish securitisation market. Its obligations within the structure are guaranteed by its shareholders in proportion of their holding. BBVA accounts for 83% of the *gestora's* capital. The remainder is owned by 15 institutions including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.53%), Barclays Bank (1.53%) and Citibank España (1.53%).

MOODY'S 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:

The Aaa credit enhancement number is determined using a loan-by-loan 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
- BANCAJA 1 Pre-sale report + Performance Overview
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- BANCAJA 3 Pre-sale report + Performance Overview
- BANCAJA 4 Pre-sale report + Performance Overview
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- FTPYME BANCAJA 1 Pre-sale report + Performance Overview
- FTPYME BANCAJA 2 Pre-sale report + Performance Overview

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