RMBS/Spain
Presale Report

Bancaja 7, Fondo de Titulización de Activos

Expected Ratings*

Class	Amount (m)	Final Maturity	Rating	CE (%)
A1	150.0	Nov 2036	AAA	4.92
A2	1,670.2	Nov 2036	AAA	4.92
B	39.9	Nov 2036	A+	2.82
C	23.8	Nov 2036	BBB+	1.57
D	16.1	Nov 2036	BB+	0.72

Analysts
Yohan Assous
+33 1 44 29 91 75
yohan.assous@fitchratings.com

Juan García
+44 20 7417 3498
juan.garcia@fitchratings.com

Performance Analytics
Charlotte Eady
+44 20 7417 3523
sf_surveillance@fitchratings.com

* Expected ratings do not reflect final ratings and are based on information provided by issuer as of 21 June 2004.

Summary

This transaction is a securitisation of residential mortgage loans originated in, and secured on property in, Spain. Fitch Ratings has assigned expected ratings to the notes to be issued by Bancaja 7, Fondo de Titulización de Activos (“Bancaja 7” or “the fund”) as indicated at left.

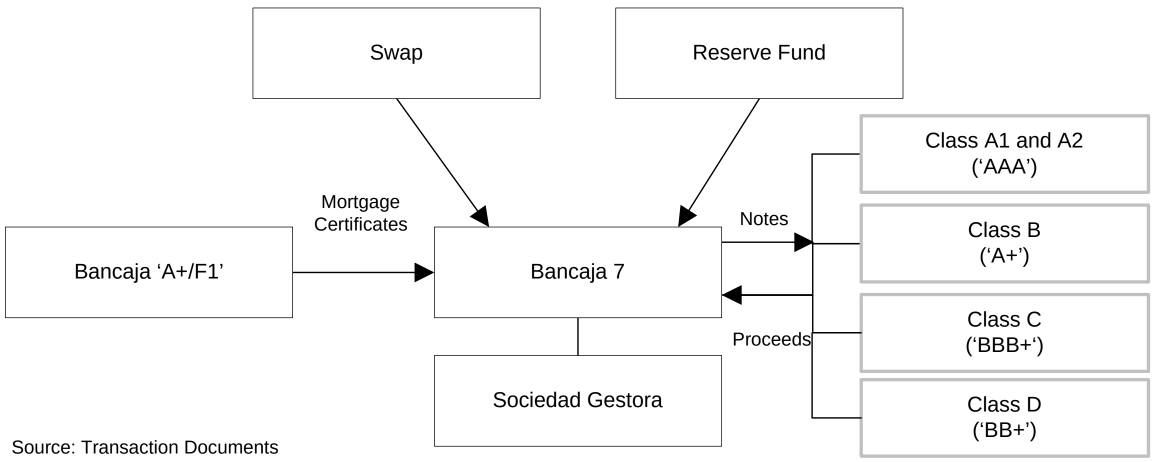
At closing, Bancaja 7 will issue notes backed by a portfolio of residential mortgage loans (“the collateral”) originated by Caja de Ahorros de Valencia, Castellón, y Alicante Bancaja (“Bancaja” or “the seller” rated ‘A+/F1’), which will continue to service the mortgages. Bancaja 7 is regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to convert the mortgage certificates acquired from the seller into fixed-income securities. The certificates will be subscribed by Europea de Titulización S.A., S.G.F.T. (“the Sociedad Gestora”), whose activities are limited to the management of asset-backed notes, on behalf of Bancaja 7.

Bancaja is the parent bank of Spain’s sixth largest banking group and the third largest savings bank (by total assets at end-2003). It holds a 38% controlling stake in Banco de Valencia (rated ‘A/F1’), which is fully consolidated within the Bancaja group. The group’s operations are centred in the region of Valencia, where 73% of its 1,174 branches were located at end-2003. Bancaja closed two RMBS transactions in 1997 and 1998, a SME loan deal in 2002, two RMBS deals in 2002, one in 2003 (Bancaja 6), and one in 2004 so far (MBS Bancaja 1, which closed in May 2004). More information is available to subscribers in specific reports at www.fitchresearch.com.

The expected ratings are based on the quality of the collateral, the underwriting and servicing of the mortgage loans, available credit enhancement (“CE”) and the sound legal and financial structures. Initial CE, provided by subordination and a reserve fund, for the class A1 and A2 notes totals 4.92%, class B 2.82%, class C 1.57% and class D 0.72%. In addition to subordination and the reserve fund, the transaction also benefits from the 0.55% excess margin guaranteed by a swap (see below).

To determine CE levels, Fitch analysed the collateral using a loan-by-loan mortgage default model specific to Spain. The agency also modelled the cash flow contribution from excess interest using the stress scenarios determined by its default model. The cash flow test showed that each class of rated notes, taking available credit enhancement into account, could withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

Structure Diagram



Source: Transaction Documents

Credit Committee Highlights

- The structure has the benefit of guaranteed gross excess spread (the difference between the margin on the collateral and that on the notes) of 0.55% per annum provided by an interest rate swap. Fitch took this into consideration when calculating CE levels.

- Bancaja has previously originated mortgages for several RMBS transactions that share similarities with Bancaja 7 (Bancaja 3, 4, 5 and 6). The loan-to-value ("LTV") ratios in Bancaja 7 are below those in Bancaja 5 and 6, as is exposure to the Valencia region.

Bancaja 5, 6 & 7 Comparison Table

	Bancaja 7	Bancaja 6	Bancaja 5
WA Original LTV (%)	71.2	84.4	75.3
WA Current LTV (%)	67.2	78.4	69.9
Guaranteed Excess Spread (bps)	55	55	55
Concentration in Region of Valencia (%)	48.4	59.4	54.6

Source: Fitch

- While exposure to the Valencia region is below that in previous Bancaja RMBS deals, some 48.4% of the Bancaja 7 portfolio is located in the Comunidad of Valencia. To mitigate this concentration risk, Fitch has stressed default probabilities for the loans concerned.

- The interest rate hedging mechanism in place mitigates the risk of any mismatch between the mortgages' indices (i.e. the portion of the pool paying 12-month EURIBOR (European Interbank Offered Rate, 96%), and that portion indexed to another rate, such as *Tipo Medio de los Préstamos Hipotecarios* "TMPH" (2%)) and the notes indexed to three-month EURIBOR.

Financial Structure

All the notes will pay interest quarterly in arrears based on three-month EURIBOR plus a margin. Bancaja will act as the paying agent, servicing the notes.

The mortgages will continue to be serviced by Bancaja in its role as administrator. Amounts received on the mortgages will be transferred by Bancaja into the fund's treasury account seven days after collection, or, if deemed necessary by the Sociedad Gestora, earlier. Amounts standing to the credit of the treasury account will receive a guaranteed interest rate equal to three-month EURIBOR. In the event Bancaja is downgraded below 'F1', the Sociedad Gestora will implement one of the following actions within 10 working days:

1. appoint a counterparty rated at least 'F1' to guarantee Bancaja's obligations under the treasury account agreement;

2. transfer the treasury account to a counterparty rated at least 'F1';

3. if unable to effect either of the above, it will pledge to the fund assets with a rating equal to the Kingdom of Spain ('AAA/F1'); or

4. if none of the previous options were achievable, it will invest the existing funds in the treasury account in fixed rate, EUR-denominated notes rated at least 'F1' and with a maximum maturity of the next payment date on the notes.

The formation and start-up costs of the fund will have been paid upfront at closing by the seller.

Key Information

Provisional Portfolio Characteristics

Total Amount at Closing: EUR2,062million as of 31 May 2004 (of which EUR1,900m is selected at closing)

WA Original LTV: 71.2%

WA Current LTV: 67.2%

WA Indexed Current LTV: 64.0%

WA Remaining Maturity: 23 years

WA Seasoning: 15.2 months

Concentration in Valencia: 48.4%

Structure

Originator and Seller: Caja de Ahorros de Valencia, Castellón, y Alicante, Bancaja ('A+/F1')

Servicer: Bancaja

Fund: Bancaja 7, Fondo de Titulización de Activos (Bancaja 7)

Sociedad Gestora: Europea de Titulización, S.A., S.G.F.T.

Swap Counterparty: Bancaja (rated 'A+/F1')

Final Legal Maturity: 25 November 2036

Guaranteed excess spread of 0.55% will be available to cover regular fund expenses and to provide additional credit enhancement.

Priority of Payments ("Waterfall")

Revenue payments will be allocated on each distribution date as follows:

1. senior fees and expenses;
2. payments due under the interest rate swap agreements;
3. interest due on class A1 and A2 notes;
4. interest due on class B notes, unless deferred;
5. interest due on class C notes, unless deferred;
6. interest due on class D notes, unless deferred;
7. provisioning for principal due on the class A1 and A2 notes;
8. interest due on the class B notes, if deferred;
9. provisioning for principal due on the class B notes;
10. interest due on the class C notes, if deferred;
11. provisioning for principal due on the class C notes;
12. interest due on the class D notes, if deferred;
13. provisioning for principal due on the class D notes;
14. replenishment of the reserve fund;
15. swap adjustment; and
16. subordinated amounts including interest and principal due on the start-up loan and subordinated loan (see below).

Interest due on the class B notes will be deferred if the Amortisation Deficit on the class A1 and A2 notes exceeds zero. Interest due on the Class C notes will be deferred if the Amortisation Deficit on the class A1, A2 and B notes exceeds zero. Interest due on the Class D notes will be deferred if the Amortisation Deficit on the class A1, A2, B and C notes exceeds zero.

The Amortisation Deficit is the difference between:

1. the positive difference between: a) the outstanding balance of the notes; b) the available funds minus senior expenses and interest payments on the respective notes; and c) the balance standing to the amortisation account (see *A1 Note Redemption* below); and

2. the current balance of the loans excluding losses (losses being defined as mortgages more than 18 months in arrears).

Available funds include: i) principal and interest payments received on the collateral since the last note payment date; ii) the balance of the reserve fund; iii) any yield generated by the treasury and amortisation accounts (see below); and iv) any amount received from the swap counterparty.

Principal Redemption

A1 Note Redemption

Until 25 November 2005, no note principal will be repaid. Principal receipts received from debtors will be paid into the amortisation account to be used to redeem the A1 notes on 25 November 2005. Amounts standing to the credit of the amortisation account, which will be held at Bancaja, will receive a guaranteed interest rate equal to three-month EURIBOR.

If principal funds accumulated in the amortisation account are insufficient to repay the A1 notes in full on 25 November 2005, principal receipts collected after this date will be allocated solely to the repayment of these notes. The final maturity date for the A1 notes is 25 November 2036.

Similar to the rating trigger mechanism in place for the treasury account described above, if Bancaja is downgraded below 'F1', the Sociedad Gestora will have 10 working days to effect one of the four options, also defined above, to guarantee Bancaja's obligations under the amortisation account agreement.

A2 Note Redemption

Redemption of the A2 notes is sequential, following the A1 notes, and will start on the later of the following two payment dates:

- that on which the A1 notes are entirely amortised; or
- 25 February 2006.

All principal receipts collected thereafter will be allocated to the redemption of the A2 notes until their final legal maturity on 25 November 2036, subject to the *pro rata* amortisation described below (at which point they will be amortised *pro rata* with the other outstanding notes).

B, C & D Note Redemption

The B, C and D notes will be redeemed sequentially only after class A1 and A2 have been repaid in full, and subject to the redemption rules detailed below. This means that only when the B notes are fully amortised will redemption of the C notes commence. In turn, only when the C notes are fully amortised will redemption of the D notes commence. Final maturity for the B, C and D notes is 25 November 2036.

Other Redemption Rules

The following redemption rules also apply:

- If mortgages between three and 18 months past due exceed 2% of the then outstanding mortgage balance, the A1 and A2 notes will be amortised *pro rata*, irrespective of the above clauses. Any principal amounts held in the amortisation account will be paid *pro rata* to redeem the A1 and A2 notes.

- The B, C and D notes will be redeemed *pro rata* with the A1 and A2 notes if: a) the outstanding balances of the B, C and D notes are equal to or greater than 4.2%, 2.5% and 1.7% respectively of the then outstanding balance of all the notes; and b) the outstanding balance of mortgages more than three months in arrears does not exceed 1.5%, 1.0% and 1.0% of the then outstanding balance of the B, C and D notes respectively. Any amortisation of the B, C and D notes will be capped until their balances reach 4.2%, 2.5% and 1.7% of the outstanding balance of the notes.

- The class B, C and D notes can be redeemed *pro rata* only if: a) the reserve fund is at its required level; and b) the outstanding balance of mortgage loans is greater than 10% of the notes issued.

- All the notes are subject to a clean-up call when less than 10% of the initial collateral remains outstanding.

Interest Rate Risk

The fund will enter into an interest rate hedging agreement with Bancaja to cover the basis risk. The swap, as described below, will guarantee a 0.55% excess margin. The fund will pay Bancaja interest received on the mortgages and in return will receive three-month EURIBOR plus the margin on the notes, and 0.55% calculated on the performing balance of the mortgages.

If Bancaja is downgraded below ‘F1’, it will, within 10 days, effect one of the following:

- find an entity rated at least ‘F1’ to guarantee its obligations under the swap agreement;
- find a replacement counterparty with a Short–term rating of at least ‘F1’; or
- cash- or security-collateralise its obligations in an amount satisfactory to the rating agencies.

Credit Enhancement

Initial CE, provided by subordination and the reserve fund, for the class A1 and A2 notes totals 4.92%, the class B 2.82%, the class C 1.57% and the class D 0.72%.

Reserve Fund

A reserve fund will be provided at closing through a subordinated loan granted by Bancaja, equivalent to 0.72% of the original note balance. Subject to the following conditions, the reserve fund will be permitted to amortise to the lesser of: a) 0.72% of the initial note balance; or b) the greater of i) 1.20% of the then-outstanding note balance and ii) 0.35% of the initial note balance:

- the balance of loans more than 90 days in arrears remains below 1.0% of the outstanding mortgage balance;
- on the previous payment date, the reserve fund was replenished to its required amount; and
- the closing date of the transaction was more than three years earlier.

Representations and Warranties

The seller will provide representations and warranties in relation to the collateral, among which:

- each mortgage loan is registered in the relevant property registry and represents a first-ranking claim on the corresponding property;
- the seller has full right and title to, and the power to sell and transfer, the mortgages;

- the seller is unaware that any of the underlying properties have been subject to a reduction in value of more than a 20% since acquisition;
- Current LTVs do not exceed 95%;
- all properties are located in Spain;
- none of the mortgage loans were more than 30 days delinquent at closing; and
- all properties have undergone a valuation process, as required by law.

No search of title will be conducted by the fund or other transaction parties; rather, they will rely on the representations and warranties mentioned above provided by Bancaja in relation to the collateral. Following an irremediable breach of any of the representations or warranties, Bancaja will replace or repurchase the loan(s) in question.

■ Legal Structure

At closing, the mortgage loans will be transferred by the seller to the Sociedad Gestora on behalf of the fund. The Sociedad Gestora is a special-purpose company with limited liability incorporated under the laws of Spain. Its activities are limited to the management of asset-backed notes.

Provisional Collateral

As of 31st May 2004, the reference portfolio consisted of 25,225 mortgage loans originated by Bancaja in the normal course of its business. All were first-ranking and secured by residential properties in Spain. Security for the loans took the form of mortgages registered in the *Registro de la Propiedad* (the official register).

The portfolio's original weighted average ("WA") LTV is calculated at 71.2%, with a WA current LTV of 67.2%. In its recovery calculations, Fitch used an indexed valuation of the underlying properties using regional residential indices and giving 50% credit to increases in property prices; the WA indexed current LTV of the pool is 64.0%. LTVs in this portfolio are lower than in the previous two RMBS transactions issued by Bancaja. The percentage of loans concentrated in the above-90% original LTV bucket is 6.21% of the pool, while in Bancaja 6 and 5 the proportion exceeded 47.5% and 11.5% respectively.

The oldest loan in this portfolio was originated in July 1991 and the most recent in February of this year. Average seasoning is 15.2 months and the WA current remaining maturity 23 years. 98.4% of the pool pays on a monthly basis, and 100% of the loans are against primary residential properties. All pay a floating rate; the majority are linked to 12-month EURIBOR (96%), and the bulk of the remainder are linked to three-month EURIBOR and TMPH. At closing, none of the mortgage loans will be in arrears by more than one month.

■ Origination and Servicing

As part of its analysis, Fitch has reviewed and analysed Bancaja's origination and servicing guidelines. It visited Bancaja's premises and met the originator and servicer managers responsible for the mortgage loan department.

Bancaja is the parent bank of Spain's sixth largest banking group and the third largest savings bank (by total assets at end-2003), and it is rated 'A+/F1'. For historical reasons, a large proportion of Bancaja's business is generated in the Valencia region, which is reflected in the entity's mortgage portfolio.

Until March 2001, credit approval was carried out at office level, since when it has been provided by CAT (*Centro de Autorizaciones Telefónicas*), a centralised department. Credit analysis is based on a credit scoring system Bancaja began developing 10 years ago, which yields a positive, negative or doubtful score. In the latter case, a loan may still be approved if additional guarantees are provided and/or various conditions complied with. At least two analysts approve each loan request. Although branch directors have a right of veto in such conditions, this remains relatively uncommon.

Information analysed includes debt-to-income ratios ("DTI" — a maximum of 40% is allowed), data from CIRBE (a Bank of Spain database that gathers information on borrower exposure and non-payments from all Spanish entities and individuals) or RAI (*Registro Aceptación Impagados*) in addition to other credit parameters on the applicant's financial stability. The credit scoring focuses on the ability of the borrower to honour their debt payments in a timely fashion. The majority of the properties are valued by TINSA, Tasaciones Inmobiliarias S.A., Spain's largest valuation company, which is registered with and regulated by the Bank of Spain.

Mortgages in arrears are managed by the branches for the first 90 days, and subsequently the risk department. A number of letters, automatically originated by the bank's system, and calls (through an external call centre) are made, their frequency and content depending on the level of exposure to the borrower. Documentation and procedures required for the foreclosure process are prepared as soon as is deemed necessary (even before 90 days of delinquency) to enable lawyers to start proceedings within 24 hours of a decision do so. On average, such court proceedings tend to begin after four to six months and take around a year-and-a-half, although the time to recovery has fallen in recent years.

Bancaja does not favour negotiating over refinancing the repayment of amounts in arrears, and such arrangements remain negligible.

Credit Analysis

Fitch analysed the collateral for the Bancaja 7 transaction by subjecting the mortgage loans to stresses resulting from its assessments of historical home price movements and defaults in Spain. The analysis is based on the probability of default and expected recoveries based on the portfolio's individual loans *(see Appendix 1)*.

Default Probability

Generally, the two key determinants of default probability are the willingness and ability of a borrower to make their mortgage payments. The willingness of a borrower to pay is usually measured by LTV. Fitch assumed higher default probabilities for high-LTV loans and lower default probabilities for low-LTV loans. The main reason for this is that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low-LTV loans) have an incentive to sell and maintain/protect their equity, thereby eliminating the need for the lender to repossess the property.

Ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. As is the case with many Spanish originators, this information was not available on a loan-by-loan basis for Bancaja 7. However, it has a strong focus on a borrower's ability to pay, has comparatively strict origination guidelines in this direction and allows a maximum DTI of 40%. Therefore, Fitch assumed that borrowers generally have an average ability to pay.

Fitch takes into consideration the specific characteristics of the product in the default probability analysis of the portfolio. The LTV based on the original balance of the initial drawdown is used as the main measure of a borrower's willingness to pay.

The securitised pool has a geographical concentration in the Comunidad of Valencia, with over 48.4% of mortgages located in this region. Fitch increased the default probabilities for these loans by 10% to reflect the risk implicit in this concentration.

Recovery Proceeds

To estimate recoveries on mortgage loans in Spain, Fitch examined house price movements in Spain on a regional basis from 1987-2001. The agency found significant differences, most notably between Madrid, Cataluña and País Vasco, and the other regions in Spain. Cities in these three regions have experienced higher price increases than regions elsewhere in Spain. Based on its analysis of the real estate market, Fitch assumed slightly larger market value declines ("MVDs") for certain regions as well as for some large urban areas.

Provisional Portfolio Summary

Pool Characteristics	
Current Principal Balance (EURm)	2,062
Average Current Loan per Borrower (EUR)	81,770
Average Original Loan per Borrower (EUR)	89,287
Oldest Loan in Portfolio	Jul 1991
Most Recent Loan in Portfolio	Feb 2004
Interest Rate Type	
Floating Rate Loans (%)	100
WA Interest (%)	3.3
Interest Index	EURIBOR, CECA, TMPH
Payments	
Payment Frequency (%)	Monthly: 98.4 Quarterly: 1.2
Payment Method	Direct Debit
Loans <30 Days in Arrears (%)	100
Regional Concentration (%)	
Madrid	15.7
Comunidad de Valencia	48.4
Cataluña	9.1
Lien Position (%)	
First-Ranking	100.0

Source: Fitch

To derive MVDs for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with those of markets in other European countries. As with its other European mortgage default models, the agency has increased MVDs for higher-value properties. These are generally subject to higher declines in a deteriorating market than homes with average or below-average market values because of limited demand for them. Approximately 29% of the reference pool is considered by Fitch to be secured on high-value ('jumbo') properties.

When calculating recovery value, the agency's model reduces each property's worth by the MVD, external foreclosure expenses and the cost to the servicer of carrying the loan from delinquency through to default. This cost depends on the time to foreclosure as well as the applied interest rate, which Fitch assumes to be 10%. Although Bancaja currently reports a recovery period of a year-and-a-half, Fitch assumes a time to foreclosure of three years.

Cash Flow Analysis

To evaluate the contribution of structural elements such as excess spread, the reserve fund and other factors, Fitch modelled the cash flows from the mortgages based on the WA recovery rate and WA frequency of foreclosure provided by the loan-by-loan collateral analysis. Recoveries included both interest and principal.

The cash flow model assumes that defaults are spread over the first five years of origination, starting straight after closing. The analysis simulates the cost of carrying defaulted loans as the difference between the performing balance of the mortgages and the notional note balance. Excess spread, the reserve fund and principal must be sufficient to cover the cost of carry until recoveries are received after 36 months. Variable interest rates are stressed upwards over time; however, the effect of the latter is limited because of the swap.

The cash flow analysis assumes a high level of annual prepayments on the mortgages, being of 25%, 22%, 19% and 17% under ‘AAA’, ‘A+’, ‘BBB+’ and ‘BB+’ scenarios respectively.

The credit enhancement levels reflect the severest stress assumptions, under which there is no interest shortfall during the life of the transaction or principal shortfall at final maturity. The reserve fund has been sized in order that all note interest payments are made on a timely basis under the relevant stress assumptions

■ Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance surveillance team ensures that the assigned ratings remain, in the agency’s view, an appropriate reflection of the issued notes’ credit risk.

Details of the transaction's performance are available to subscribers at www.fitchresearch.com. Further information on this service is accessible at www.fitchratings.com.

Appendix I: Rating Methodology

To determine appropriate levels of credit enhancement, Fitch analyses the collateral for Spanish residential transactions using a loan-by-loan mortgage default model. The model subjects the mortgage loans to stresses resulting from its assessments of historical house price movements and defaults. Fitch's study showed that the LTV, reflecting the size of the borrower's down payment, and the borrower's income multiple (original loan advanced divided by income) are the primary indicators of default risk in Spain. Fitch also modelled the cash flow contribution from excess interest using stress scenarios determined by its default model. The cash flow test showed that each class of rated notes, taking available credit enhancement into account, can withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make the mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch's model assumes higher default probabilities for high LTV loans and lower default probabilities for low LTV loans. The main reason is that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property.

The ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. Historical data available for Spain show low levels of default. Base default probabilities are determined using a matrix which considers each loan's affordability factor and LTV. The matrix classifies affordability into five classes, the lowest of which (Class 1) encompasses loans with debt-to-income ratios (DTI) of less than 20% and the highest of which (Class 5) encompasses all loans with DTIs exceeding 50%. The average DTI for the mortgage market in Spain is c. 27%-33%.

Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for individual loan characteristics of the collateral across all rating levels.

- **Product Type:** Fitch increases default probability assumptions by 0%-10% for the index volatility experienced by variable-rate mortgage holders.
- **Repayment Type:** Fitch will increase base default rates by 5%-10% for loans to be paid by *cuota creciente*, whereby the amortisation of capital is always the same and the interest payment is increasing.
- **Loan Purpose:** Fitch believes that a financially distressed borrower is more likely to default on a second home or investment property than on a primary residence. Accordingly, Fitch will double the base default rates in both cases. If the purpose of the loan is not to acquire a property in Spain, Fitch will increase the default probability by 50%-100%.
- **Borrower Profile:** Fitch increases default probability on loans to self-employed borrowers by 33%-50% to account for their lack of fixed annual salary.
- **Arrears Status:** when rating portfolios combining current and arrears mortgages, Fitch increases base default rates for mortgages in arrears by 1-30, 31-60, and 61-90 days by 10%, 35% and 70% respectively, and mortgages over 91 days in arrears (non-performing status) by 100%.
- **Underwriting Quality:** Fitch's review and analysis of the origination process determines whether Fitch decreases default rates by up to 25% or increases them by 0%-200%.

Loss Severity

To estimate loss severity on the mortgage loans in Spain, Fitch examined house price movements in Spain on a regional basis from 1987–2001. Fitch found significant differences in price development among the regions, mainly between the regions of Madrid, Catalonia, the Basque Country, and the rest of the regions in Spain. The cities of these regions have experienced higher price increases than other cities in Spain. As in most other countries, rural areas tend to develop on a more stable basis. Based on its analysis of the real estate market, Fitch assumed slightly higher market value declines for certain regions and for some large urban areas.

To derive market value declines for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with markets in other European countries. As with its other European mortgage default models, Fitch has increased market value declines for higher value properties. These properties are generally subject to larger market value declines in a deteriorating market than homes with average or below-average market values due to limited demand for such properties.

When calculating recovery value, Fitch’s model reduces each property value by the market value decline, external foreclosure expenses, and the cost to the servicer of carrying the loan from delinquency through default. For Spain, Fitch assumes external foreclosure costs represent 10% of the loan’s balance at the time of default. Loss severity also incorporates the fact that the length of time of the foreclosure process might be longer than the actual one in a recession period. To calculate carrying costs, Fitch uses a worst-case scenario analysis, one that assumes the borrower does not pay any interest and the collateral is not realised for a period of three years.

Excess Spread

Excess spread represents the monetary difference between the income received by the issuer from the borrowers and the interest on the notes and other expenses paid by the issuer. Any reserve fund will be replenished from available excess spread, if it is drawn. The actual value of excess spread depends on levels of delinquencies, defaults, and prepayments, as well as the weighted average interest rate of the reference mortgage portfolio throughout the life of a transaction. The Threshold Rate calculation is designed to guarantee the issuer a minimum level of excess spread.

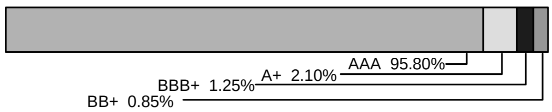
Appendix II: Summary

Bancaja 7, Fondo de Titulización de Activos RMBS/Spain

Capital Structure

Class	Rating	Size (%)	Size (EURm)	Credit Enhancement (%)	Spread (expected)	I/P PMT Freq	Maturity	Coupon
A1	AAA	7.89	150.0	4.92	Between 3bps and 10bps until Nov/2005, and 18bps and 25bps onwards	Quarterly	Nov. 2036	3 month EURIBOR + spread
A2	AAA	87.91	1,670.2	4.92	Between 13bps and 20bps	Quarterly	Nov. 2036	3 month EURIBOR + spread
B	A+	2.10	39.9	2.82	Between 30bps and 50bps	Quarterly	Nov. 2036	3 month EURIBOR + spread
C	BBB+	1.25	23.8	1.57	Between 70bps and 100bps	Quarterly	Nov. 2036	3 month EURIBOR + spread
D	BB+	0.85	16.1	0.72	Between 150bps and 300bps	Quarterly	Nov. 2036	3 month EURIBOR + spread

	Size (%)	Size (EURm)
Initial Reserve Fund	0.72	13.68



Key Information

Expected Closing Date	7 July 2004
Country of Assets	Spain
Structure	Sequential with a soft bullet for A1 notes in Nov/2005, then pass through; pro rata under certain conditions.
Type of assets	Residential mortgages
Currency of assets	EUR
Currency of notes	EUR
Primary Analyst	yohan.assous@fitchratings.com
Secondary Analyst	juan.garcia@fitchratings.com
Performance Analyst	sf_surveillance@fitchratings.com

Role	Party (trigger)
Seller/Originator	Bancaja
Structurer	Europea de Titulización S.A., S.G.F.T.
Issuer	Bancaja 7, FTA
Lead Manager	Not applicable
Trustee	Europea de Titulización SA, SGFT
Swap provider	Bancaja (F1)
Financial agent	Bancaja (F1)

Fitch Default Model Outputs

Rating Level	AAA	A	BBB	BB
WAFF (%)	13.01	7.80	5.20	2.60
WARR (%)	74.84	86.22	90.04	93.69
WALS (%)	40.16	28.78	24.96	21.31
WAMVD (%)	42.32	33.45	30.23	27.02

Collateral

Pool Characteristics

Current Principal Balance (EUR)	2,062,656,163
Average Current Loan per Borrower (EUR)	81,770
Average Original Loan per Borrower (EUR)	89.287
Number of Loans	25,225
WA Seasoning (Months)	15.2
Oldest Loan in Portfolio	Jul 1991
Most Recent Loan in Portfolio	Feb 2004
< 30 Days in Arrears (%)	100.0
Interest Rate Type (%)	
Variable	100.0
Fixed	0.0
WA Interest	3.3
Interest Index	EURIBOR, CECA, TMPH
Principal Payment Frequency (%)	
Monthly	98.4
Quarterly	1.2
Semi annual	0.4

Regional Concentration (%)	
Valencia	48.4
Madrid	15.7
Cataluña	9.1
Mortgage Characteristics (%)	
First Ranking	100.0
Second homes	0.0
Loan to Value (LTV) (%)	
WA Original LTV	71.2
WA Indexed Current LTV	64.0
WA Current LTV	67.2

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