RMBS/Spain
Presale Report

Bancaja 9, Fondo de Titulización de Activos

Expected Ratings*

Class	Amount (EURm)	Final Maturity	Rating	CE[1] (%)
A1	200	Jun 2007	AAA	6.24
A2	1,700	Sep 2043	AAA	6.24
B	52	Sep 2043	A+	3.64
C	25	Sep 2043	BBB+	2.39
D	23	Sep 2043	BB+	1.24
E[1]	20.6/24.8	Sep 2043	CCC-	n.a.

[1] The Class E debt size will be confirmed as of the closing date depending on the margins paid out by Bancaja 9 to the swap counterparty. Credit enhancement information throughout the report assumes that the reserve fund will be funded at 1.24% of the initial Class A to Class D balance, although additional swap margin scenarios that yield the same capital structure indicated above have been analysed (see *Reserve Fund*, *Swap Agreements* and *Credit Enhancement* sections below for further details)

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* Expected ratings do not reflect final ratings and are based on information provided by the issuer as of 31 December 2005.

■ Summary

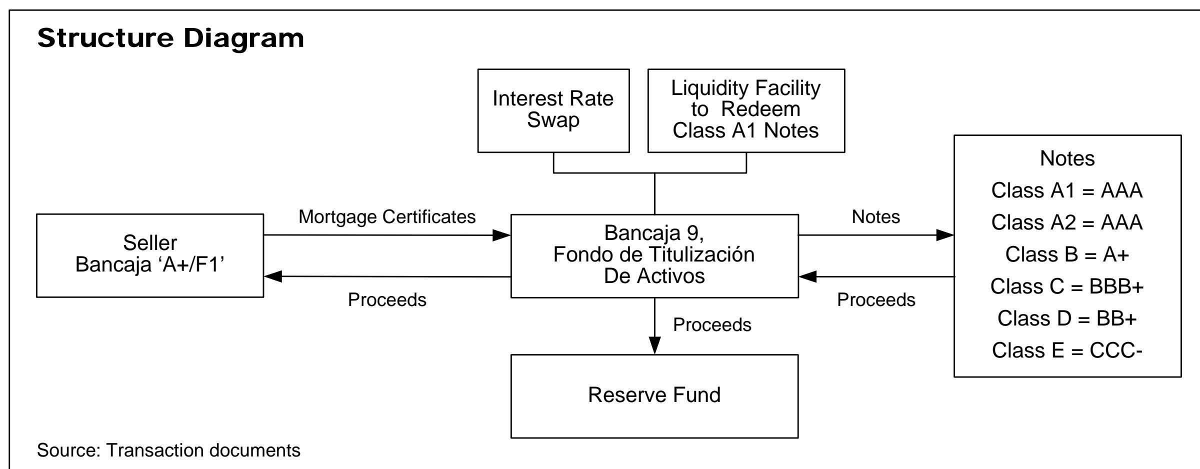
This transaction is a securitisation of first-ranking residential mortgage loans originated in, and secured on property in, Spain. Fitch Ratings has assigned expected ratings to the notes (“the notes”) to be issued by Bancaja 9, Fondo de Titulización de Activos (“Bancaja 9” or “the fund”) as indicated at left.

At closing, Bancaja 9 will issue the notes backed by a EUR2 billion portfolio of residential mortgage loans (“the collateral”) originated by Caja de Ahorros de Valencia, Castellón y Alicante (“Bancaja” or “the seller” rated ‘A+/F1’). Bancaja 9 will be regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to convert the mortgage certificates (“*Certificados de Transmisión de Hipoteca*”, or “CTH”) 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 will be limited to the management of the asset-backed notes, on behalf of Bancaja 9.

To verify credit enhancement (“CE”) for each class of notes, Fitch analysed the collateral using a loan-by-loan mortgage default model specific to Spain (see “Spanish Mortgage Default Model III”, dated 15 September 2005 and available at www.fitchresearch.com). The agency also modelled the cash flow contribution from excess spread using the stress scenarios determined by its default model. The cash flow test showed that each class of notes could withstand loan losses at a level corresponding to the related stress scenario according to the terms and conditions of the transaction .without incurring any temporary or remaining interest or principal shortfall.

The expected ratings on the class A to D notes are based on the quality of the collateral, the underwriting and servicing capabilities of Bancaja, available CE and the sound legal and financial structure of the transaction. Initial CE for the class A notes will be provided by the class B, C and D notes, and the reserve fund. CE for all other classes of notes will be provided by the subordination of the classes junior to them and the reserve fund, with the exception of the class E notes, which are solely collateralised by the reserve fund.

The class E notes will be issued to finance the cash reserve fund and will be subscribed by Bancaja. The reserve fund will be fully funded at closing. The class E notes are ultimately likely to default and the expected ratings assigned to the class E notes are supported by the expected recovery rate for noteholders, i.e., the amounts investors are expected to receive during the life of the transaction.



Credit Committee Highlights

- **Class A1 Notes:** The class A1 notes have a legal maturity of 17 months, maturing in June 2007 and will be mainly driven by the constant prepayment rate ("CPR") of the collateral. The class A1 notes, rated 'AAA', were sized using conservative CPR scenarios, lower than those observed in the Bancaja loan book and securitisation transactions (see *Cash Flow Analysis*). Additionally, a sole purpose liquidity facility sized at 1.425% of the class A to class D note balance (the "liquidity facility") is in place to retire the class A1 notes at their final legal maturity date in case the cash flow from the collateral is not sufficient to retire the maturing debt.

- **Repeat Issuer and Established Underwriter:** Bancaja is one of the most experienced issuers in Spain.

- **Swap Agreements:** The interest rate hedging mechanisms in place mitigate the risk of any mismatch between the mortgage indices, mostly monthly averages of 12-month Euribor, and the notes, indexed to three-month Euribor (see *Swap Agreements*).

Bancaja 7, 8 and 9 Comparison Table

	Bancaja 9	Bancaja 8*	Bancaja 7*
WA Original LTV (%)	77.05	75.3	73.5
WA Current LTV (%)	74.75	73.6	68.7
Guaranteed Excess Spread (bp)	n.a.	n.a.	55
Concentration in Comunidad Valenciana (%)	37.72	37.6	46.9
WA Seasoning (Months)	11.2	10.9	15.2

* Pool information as of the closing date
Source: Fitch/Europea de Titulización

- **Margin Renegotiations:** Of the collateral, 12.3% is composed of CUSTOM loans, which allow the borrower to reduce the margin of the mortgage loan from 1.00% to 0.70% if the borrower's payroll is paid into the bank and it contracts life insurance and a pension fund with Bancaja. The servicing agreement indicates that, in general, Bancaja may renegotiate the margins on the loans in the portfolio until the weighted average ("WA") margin of the portfolio reaches 0.70%.

- **Lower Geographical Concentration in Comunidad Valenciana and Low Seasoning:** Bancaja has previously originated mortgages for several RMBS transactions that share some similarities with Bancaja 9 (primarily Bancaja 8). The provisional pool by value of Bancaja 9 has a regional concentration in Comunidad Valenciana (around 37.72% versus more than 60% in transactions previous to Bancaja 6 inclusive) and WA seasoning of 11.2 months. This implies that Bancaja is gradually increasing its residential mortgage franchise outside Comunidad Valenciana, and the seasoning in the pool reflects the fact that its is making regular use of securitisation and most of the new mortgage production is being financed through this route.

- **Pool Tape:** The provisional pool consists of 17,239 loans and 17,123 obligors. Bancaja provided good information on a loan-by-loan basis:

  a. **DTI Data:** Debt-to-income ("DTI") information was available on a loan-by-loan basis for 87% of the pool by value. The WA DTI of the pool is 34.1%, according to Fitch calculations (see DTI definitions in *Appendix 1*).

Key Information

Structure

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

Servicer: Bancaja

Lead Managers: Bancaja, Calyon (rated 'AA-/F1+'), Barclays Capital

Fund: Bancaja 9, Fondo de Titulización de Activos ("Bancaja 9")

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

Swap Counterparty: JPMorgan Chase Bank, National Association (rated 'A+/F1+')

Liquidity Facility Provider: JPMorgan Chase Bank, National Association

Final Legal Maturity: September 2043

Provisional Portfolio Characteristics

Total Amount at Closing: 2.209bn

(of which EUR2bn is selected at closing)

WA Original LTV: 77.05%

WA Current LTV: 74.75%

WA Indexed Current LTV: 74.3%

WA Remaining Maturity: 325.9 Months

WA Seasoning: 11.2 Months

Concentration in Valencia: 37.72%

b. **Second Homes/Investment Properties:** Around 10.56% of the loans in the pool by value may finance second homes according to Fitch estimations after comparing postal code information of the location of the collateral and the domicile of the borrower (i.e., in 10.56% of cases the borrower and the collateral were domiciled in a different Spanish province). Fitch has increased the base default probability for such loans by 15%.

c. **Employment Data:** Bancaja provided employment information for 98.32% of the pool by value. According to Fitch calculations, 18.12% of the pool by value includes loans granted to either self-employed obligors or no employment status information was available. For such loans, Fitch increased the base default probabilities by 20%.

d. **Non-Spanish Residents:** The pool's eligibility criteria allow the inclusion in the definitive pool of loans granted to non-Spanish residents. According to Bancaja, 2.77% of the provisional pool by value corresponds to loans granted to non-Spanish residents. Fitch increased the base default probabilities by 20%.

- **Reserve Fund Amount:** The reserve fund amount will be confirmed as of the closing date depending on the margins paid out by Bancaja 9 to the swap counterparty (see *Reserve Fund* and *Swap Agreements* for further details).

- **Class E Notes:** The amortisation of the class E notes mirrors the amortisation profile of the reserve fund. Principal funds available to amortise the class E notes will be limited to the cash released from the reserve fund. No additional funds are available to amortise the class E notes, as any remaining excess spread will flow back to the originator. Furthermore, as typically seen in other RMBS deals, the reserve fund is subject to a floor (0.62% of the initial class A to class D note balance)[1], and will be released to the class E noteholders on the legal final maturity date.

- The expected ratings on the class A to D notes address the likelihood that interest on the notes will be paid according to the terms and conditions of the documentation, which include: (i) interest deferral mechanisms of the class B to D notes and (ii) interest accrual of overdue interest.

- Based on Fitch's scenario analysis, default is probable for the class E notes. The expected rating on the class E notes is supported by the expected recovery rate of outstanding principal and accrued interest, i.e., the amounts noteholders are expected to receive during the life of the transaction.

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, and servicer of the collateral.

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

[1] Please see *Reserve Fund* section below for further details about the potential size as of the closing date of the transaction.

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 assets with a rating equal to the Kingdom of Spain ('AAA/F1+'); or
4. if none of the previous options is achievable, it will invest the existing funds in the treasury account in fixed rate, euro-denominated notes rated at least 'F1' for 30 days or 'F1+' if the maximum maturity is the next payment date on the notes.

Servicing of the Securitised Portfolio

The mortgages will continue to be serviced by Bancaja in its role as servicer.

Royal Decree 685/82, which governs the issuance of the CTH that will be subscribed by Bancaja 9, indicates that the issuer of the mortgage certificates must service the mortgage loans (which in turn back the notes), and does not envisage the possibility of replacing the CTH's issuer as the servicer of such loans. However, the servicing agreement has certain mechanisms in place whereby the *Sociedad Gestora* may replace the servicer, if this is legally possible under current legislation.

Priority of Payments

Prior to enforcement, revenue payments will be allocated according to the following priority of payments on each distribution date:

1. senior fees and expenses;
2. payments due under the interest rate swap agreements (see *Swap Agreements*);
3. interest due on (i) the class A1 notes until they are fully amortised, (ii) the class A2 notes and (iii) disbursed amounts under the liquidity facility (if any) ;
4. interest due on the class B notes, unless deferred;
5. interest due on the class C notes, unless deferred;
6. interest due on the class D notes, unless deferred;
7. principal on the class A notes, disbursed amounts under the liquidity facility, class B notes, class C and D notes in order of seniority (see *Principal Redemption)*;
8. interest due on the class B notes, if deferred;
9. interest due on the class C notes, if deferred;
10. interest due on the class D notes, if deferred;
11. replenishment of the reserve fund up to its required amount (see *Reserve Fund*);
12. interest due on the class E notes;
13. principal due on the class E notes in an amount equivalent to funds released from the reserve fund on such payment date;
14. swap termination payments;
15. subordinated amounts, including interest and principal due on the start-up loan granted by the seller to the fund at closing; and
16. Deferred consideration to the originator.

Interest due on the class B notes will be deferred if the amortisation deficit (see below) exceeds the sum of: i) 85% of the outstanding balance of the B notes; plus ii) 100% of the outstanding balance of the C notes; plus iii) 100% of the initial balance of the D notes. Similarly, interest due on the class C notes will be deferred if the amortisation deficit exceeds the sum of: i) 85% of the outstanding balance of the C notes; plus ii) 100% of the outstanding balance of the D notes. Interest due on the D notes will be deferred if: the amortisation deficit exceeds the sum of 85% of the outstanding balance of the D notes.

The amortisation deficit is the difference between the scheduled amortisation funds, defined as the difference between the outstanding balance of the A, B , C, and D notes and non-defaulted collateral (i.e., performing loans and those that are up to 18 months delinquent) and funds available for amortisation. This includes the sum of principal and interest payments received on the collateral since the last note payment date, the balance of the reserve fund, any yield generated by the treasury account and any amount received from the swap counterparty, if applicable.

Class A1 Principal Redemption

As opposed to previous Spanish RMBS transactions that included tranches with a short-term expected maturity but the same legal maturity as the rest of the notes, the class A1 notes to be issued by Bancaja 9 have a legal maturity of 17 months, maturing in June 2007. The scheduled amortisation funds will be solely allocated to redeem the class A1 notes until fully amortised.

Liquidity Facility

A sole purpose 364-day renewable liquidity facility sized at 1.425% of the class A to D note balance (the "liquidity facility") is in place to retire the class A1 notes at their final legal maturity date in case the cash flow from the collateral is not sufficient to retire the maturing debt in June 2007.

Should the liquidity facility provider's short-term rating falls below 'F1', within 15 days, the Sociedad Gestora, will take one of the first to steps, also

described in the *Swap Agreement* section below, or draw down the amount outstanding depositing the proceeds in the treasury account. Also, the Sociedad Gestora will draw down the full amount outstanding under the liquidity facility if the liquidity facility provider does not renew the facility in the renewable date (i.e., 12 months after the closing date).

The liquidity facility commitment/standby fee is "0". If disbursed to retire the class A1 notes, draw-down amounts will accrue an interest rate equivalent to 3 Months EURIBOR + 0.08%.

Class A2 to D Principal Redemption

After June 2007, the scheduled amortisation funds will initially be allocated to redeem the class A2 notes until fully amortised, subject to the *pro rata* amortisation rules described below. Repayments on the disbursed amounts under the liquidity facility will rank *pari passu* with the class A2 notes.

The class B, C, and D notes will be redeemed sequentially only after the class A2 notes have been repaid in full, subject to the redemption rules detailed below. Likewise, all remaining classes of notes will begin to amortise only when the class immediately senior to them is fully amortised. Legal final maturity for the notes will be in September 2043, which is three years after the final scheduled maturity date of any loan in the collateral, to ensure that collections on the mortgages will be sufficient to redeem the obligations of the fund in respect of any defaulted loans.

Other Redemption Rules

The following redemption rules also apply:

- The class B, C and D notes will be redeemed *pro rata* with the class A notes if: a) the principal outstanding balances on the B, C, and D notes are equal to or more than 5.2%, 2.5%, and 2.3%, respectively, of the aggregate principal amount outstanding on the notes, (double the level at closing); and b) the outstanding balance of mortgages more than three months in arrears is less than 1.25% (for class A and B to amortise *pro rata*) 1.0%, (for class A, B and C to amortise *pro rata*) and 0.75% (for class A, B, C and D to amortise *pro rata*).

- Any amortisation of the B, C, and D notes will be capped until their balances reach 5.2%, 2.50% and 2.3%, respectively, of the outstanding balance of the notes excluding the class E notes.

- The class B, C and D notes may 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 (excluding the class E notes) are subject to a clean-up call when less than 10% of the initial collateral remains outstanding.

Swap Agreements

The fund will enter into two interest rate hedging agreements with ("the swap counterparty", rated 'A+/F1+') to hedge the basis risks arising from the mismatch between the reference indices for the collateral (i.e. mostly averages of 12-month Euribor) and the three-month Euribor payable on the notes.

Under the swap agreements, the fund will pay the swap counterparty WA 12-month Euribor taking into account the distribution of annual and semi-annual reset dates on the collateral as of the closing date. In return, it will receive three-month Euribor (plus a positive or negative margin that will be decided at closing) over a notional defined as the balance of the performing and delinquent collateral that is less than 18 months in arrears.

Although the swap agreements will mitigate the basis risk on the collateral, they will not guarantee minimum excess spread to the fund during the life of the transaction. Therefore, any risk of margin compression on the collateral will be assumed by the fund. If the swap counterparty is downgraded below 'A/F1', it will, within 30 days, take one of the following steps:

- find a replacement counterparty with a rating of at least 'A/F1';
- find an entity rated at least 'A/F1' to guarantee its obligations under the swap agreements; or
- cash- or security-collateralise its obligations in an amount satisfactory to existing Fitch criteria.

Reserve Fund

A reserve fund will be funded using the proceeds of the class E note issuance. The initial reserve fund amount will be decided on the closing date, based on the gross margin to be paid in by the swap counterparty.

The potential amounts of the reserve fund is summarised in the table below.

Swap Margins Paid in by the Swap Counterparty

	--0.13% / -0.08%	-0.08% / -0.03%	-0.03% / +0.02%
Initial Reserve Fund Amount	24.8MM	22.6MM	20.6MM
Thereafter, the Higher of a Multiple of the Class A to Class D Outstanding Note Balance (%)	2.48	2.26	2.06
or			
Reserve Fund Floor	13.0MM	12.0MM	11.0MM

Source: Transaction documents

However, the required amount will remain the same as on the previous payment date if the outstanding balance of mortgages more than three months in arrears exceeds 1.0% of the outstanding mortgage balance.

Credit Enhancement

Initial CE for the class A notes, totalling 6.24%, will be provided by the class B, C, D and E notes and the reserve fund. Initial CE for all other classes of notes will be provided by the subordination of the classes junior to them plus the reserve fund.

CE will be decided on the closing date. The following table shows a sensitivity analysis of the CE levels depending on the size of the reserve fund.

'AAA' CE Levels Sensitivity

Margin paid by the swap	-0.13% / -0.08%	-0.08% / -0.03%	-0.03% / +0.02%
Initial Reserve Fund Amount (EURm)	24.8MM	22.6MM	20.6MM
'AAA' CE Levels (%)	6.24	6.13	6.03

Source: Transaction documents

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 an economic 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 20% since acquisition;
- all properties are located in Spain;
- none of the mortgage loans will be more than 30 days delinquent at closing;
- all properties have undergone a valuation process, as required by law;
- The mortgage loans to be included in the pool have been granted for the purpose of acquiring, refurbishing or building a residential property (although properties will be fully completed as of the closing date), and
- No "*Viviendas de Protección Oficial"* ("VPOs") or subsidised properties are backing the loans..

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. 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. The Sociedad Gestora is owned by 16 entities, including:

- Banco Bilbao Vizcaya Argentaria, S.A. (83%, 'AA-(AA minus)/F1+');
- JP Morgan España, S.A. (4%);
- Caja de Ahorros del Mediterráneo (1.5%, 'A+/F1');
- Bankinter, S.A. (1.5%);
- Barclays Bank S.A. (1.5%); and
- Citibank España, S.A. (1.5%)

The mortgages will be transferred to the fund as certificates of mortgage transfer (*Certificados de Transmisión Hipotecaria*).

Origination and Servicing

As part of its analysis, Fitch has reviewed and analysed Bancaja's origination and servicing guidelines. Fitch visits the bank's premises on an annual basis, meeting the originator and servicer managers responsible for the mortgage loan department. Fitch visited Bancaja in March 2005 and has not been made aware of any change in its origination and servicing guidelines.

Bancaja is the parent bank of Spain's sixth-largest banking group and the third-largest savings bank (by total assets at end-2004). It holds a controlling 38% stake in Banco de Valencia (rated 'A/F1'). The group's operations are centred in the region of Valencia, where it had a market share of 25.05% on credit products and 32.69% for deposit products as of June 2005. As of September 2005, 61.1% of its 1,408 branches were located in *Comunidad Valenciana*. The group is increasingly diversifying

its operations outside its home region and refinancing new mortgage loan production through securitisation.

Irrespective of the purpose of the loan, the bank's credit analysis for mortgage loans to individuals is based on reactive and (for existing clients only) behavioural credit-scoring systems (*Posicionamiento Clientes Particulares or "PCP"*) that Bancaja began developing 10 years ago.

The analysis focuses on the borrower's ability to honour their debt payments in a timely fashion based on stresses of monthly instalments. The information analysed includes DTI ratios (with a maximum allowable level of 45%), data from CIRBE (a Bank of Spain database that gathers information on borrower exposure and non-payments from all Spanish entities and individuals) and Experian or RAI (the *Registro de Aceptación de Impagados*), in addition to other credit parameters that evidence the applicant's financial stability. The credit limit for self-employed individuals is based on the tax declaration presented to the tax authority. The scoring assigns a minimal weighting to other sources of income declared by the applicant.

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.

Arrears Management

Mortgages in arrears are managed by the branches for the first 30 days, and thereafter by ACINSA, a dedicated primary servicing company subsidiary of Bancaja. Several letters, automatically originated by the bank's system, are sent and calls made. Their frequency and content depends on the level of exposure to the borrower. After 75 days, ACINSA, together with the branch office and the credit risk department, decide whether to take the case to court or start a friendly recovery process. The documentation and procedures required for the foreclosure process are prepared as soon as is deemed necessary (even before 75 days of delinquency) to enable the lawyers to start proceedings within 24 hours of a decision to do so. In the event it is decided to take the case to court, during the next 30 days, ACINSA will continue the out-of-court recovery procedure. According to Bancaja, the foreclosure process will take 12 months.

■ Credit Analysis

Fitch analysed the collateral for the Bancaja 9 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. Willingness 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 basis 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 mortgage payment to the borrower's net income. Not all this information was available on a loan-by-loan basis for Bancaja 9 (around 87% of the pool). However, ability to pay is a strong focus for Bancaja, which has comparatively strict origination guidelines that cap DTIs at a maximum of 45%. The WA calculated DTI for the Bancaja 9 pool falls within Fitch's class 3 (around 34.1%)

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

Provisional Portfolio Summary

Pool Characteristics	
Current Principal Balance (EUR)	2,209,852,815.09
Average Current Loan per Borrower (EUR)	128,189.15
Average Original Loan per Borrower (EUR)	133,945.94
Oldest Loan in Portfolio	May 1996
Most Recent Loan in Portfolio	August 2005
Interest Rate Type	
Floating Rate Loans (%)	100
WA Interest (%)	3.21
Interest Index	12-month Euribor – three-month Euribor
Payments	
Payment Method	Direct Debit
Loans >30 Days in Arrears (%)	1.60
Regional Concentration (%)	
Region of Valencia	37.72
Region of Catalunya	13.85
Madrid	11.13
Lien Position (%)	
First-Ranking	100

Source: Fitch

The securitised pool has a geographical concentration in the Comunidad of Valencia, with over 37.72% of mortgages originated in this region.

Recovery Proceeds

To estimate recoveries on the mortgage loans, Fitch examined house price movements in Spain on a regional basis from 1987-2004 and found significant differences – most notably between Madrid, Catalunya and País Vasco and the other regions. Cities in these three regions have experienced higher price increases than elsewhere in Spain. Based on its analysis of the real estate market, Fitch assumed marginally larger market value declines ("MVDs") for certain regions and for some large urban areas. Although price growth was stable in the period examined, it has recently increased in the regions of Valencia, Andalucia and Murcia.

Fitch has increased MVDs for higher-value properties. These are generally subject to greater MVDs in a deteriorating market than homes with average or below-average market values for reasons of limited demand. Approximately 4.68% of the provisional pool is considered by Fitch to be secured on high-value ("jumbo") properties.

When calculating recovery values, Fitch'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. The carrying cost will depend on the time to foreclosure as well as the interest rate applied, which Fitch assumes to be the current interest rate on the loan. Although Bancaja currently reports a recovery period of 18 months, 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 foreclosure frequency 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 seven years following 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 swaps.

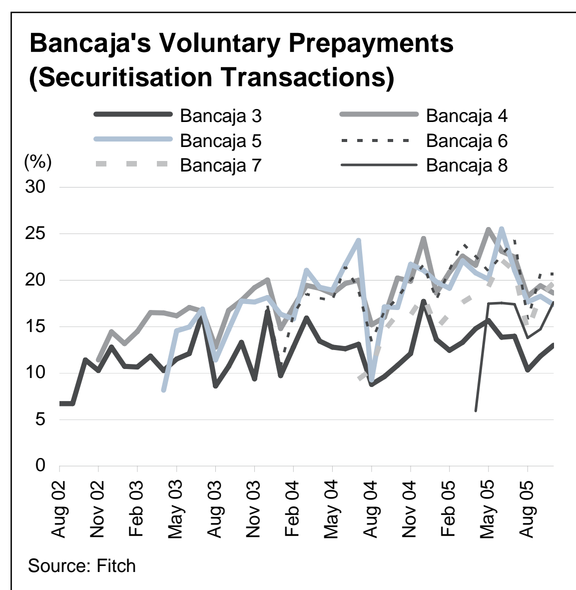
The CE levels reflect the severest stress assumptions under the terms and conditions of the transaction.

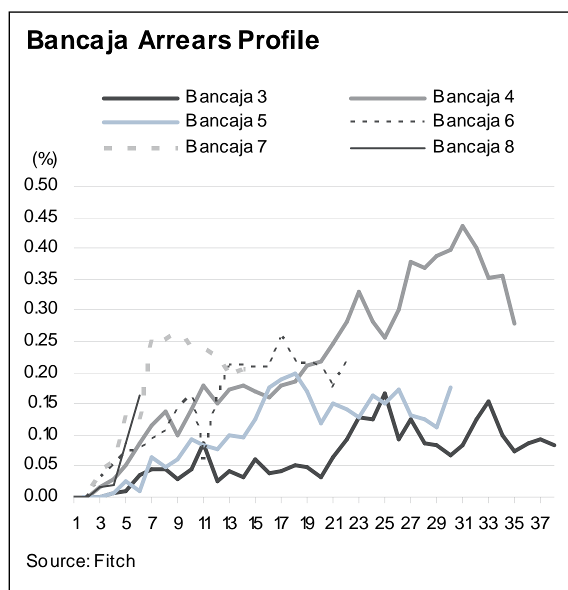
Prepayments

The cash flow analysis assumes a high level of annual conditional prepayments on the mortgages, being 25%, 21%, 19% and 16% under 'AAA', 'A+', 'BBB+' and 'BB+' scenarios, respectively.

Class A1 Notes

The class A1 note amortisation will be mainly driven by the CPR of the collateral. A high level of prepayments reflects strong competition and dynamism in the mortgage market. The observed CPRs in Bancaja's residential mortgage loan book are around 12% and as well as in certain seasoned





RMBS transactions (i.e. Bancaja 3). Furthermore, reported CPRs in certain Bancaja securitisations are around 17%-20%. The difference between the mentioned CPR rates may be because Bancaja has more flexibility to renegotiate the terms of non-securitised loans to avoid a prepayment.

The class A1 notes, rated 'AAA', were sized using several conservative CPR scenarios, lower than those observed in the Bancaja loan book and securitisation transactions, which simulate the entry of a 'AAA' scenario during the life of the class A1 notes.

Class E Notes

The class E notes will be issued to finance the reserve fund, which will be fully funded at closing.

The amortisation of the class E notes mirrors the amortisation profile of the reserve fund. Principal funds available to amortise the class E notes will be limited to the cash released from the reserve fund. Furthermore, as typically seen in other RMBS deals, the reserve fund is subject to a floor (0.62% of the initial class A to D note balance), and will be released to the class E noteholders on the legal final maturity date, and such amount will be used to service accrued and unpaid interest, which will rank senior to principal of the class E notes.

The class E notes' performance relies on very favourable conditions with regard to the collateral backing the class A to D notes. Fitch calculated an expected recovery rate after testing several cash flow scenarios commensurate with speculative grade rating levels. The sensitivity analysis performed consisted of testing several variables that affect the release of the reserve fund and consequently the availability of interest and principal payments on the class E notes. Fitch ran multiple stress scenario assumptions including:

- alternative timing of default assumptions – back-loaded, front-loaded as well as evenly spread defaults;
- alternative interest rates – increasing, low and constant interest rate scenarios;
- prepayment speeds – high, low and average historical prepayment rates;
- different WA margin compression rates on the mortgage loans – the agency modelled high and low margin compression rates assuming the percentage of prepayments are allocated to the higher margin loans in the portfolio; and
- exercise of the clean-up call by the originator.

The 'CCC-(CCC minus)' expected rating on the class E notes is supported by the expected recovery rates. As default on the class E notes appears probable, a distribution of possible recovery rates was obtained. The recovery rate has been calculated as the present value of the class E notes' expected interest and principal payouts. None of the simulations produced an expected recovery rate below 30% of the initial class A to D note balance.

■ Performance Analytics

Although the structure and portfolios are similar, Bancaja 4 has displayed the highest delinquency levels, peaking at 43bp in May 2005. However, a comparison of Bancaja 4's delinquency levels with those of the later Bancaja deals at the same point in time shows that Bancaja 7 has the highest level. This is attributable to the original LTVs, which have been increasing with each new securitised pool. There was a low of 68% in Bancaja 3 to a high of 84.4% in Bancaja 6. Bancaja 7's arrears increased quite rapidly after closing in July 2004 but have since stabilised.

The ratings of the notes in Bancaja 3 and Bancaja 7 were affirmed in September 2005. Bancaja 3 has a substitution period until June 2009 whereby the notes will not receive any principal payments until then. This limits the scope for potential upgrades. Bancaja 4, 5 and 6 had their junior tranches upgraded. Bancaja 6 and 7 have a structure that means no principal receipts will be paid to the class A notes until a certain date. Until this date, all principal receipts are paid into an amortisation fund. As a result, credit enhancement levels will remain static. However, the upgrades of Bancaja 6 take this fund into account.

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 transactions' 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 home 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 shows low levels of default. Base default probabilities are determined using a matrix that 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-incomes ("DTIs") 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 circa 33%-37%.

Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for the individual loan characteristics of the collateral across all rating levels. In the absence of case-by-case specific mitigants, Fitch conducts the following adjustments:

- **Product Type:** Fitch may increase default probability assumptions by 0%-20% for loans that have riskier profile (i.e., flexible products) *vis-a-vis* standard variable rate amortising loans.

- **Repayment Type:** Mortgage payments by Spanish borrowers are generally made monthly by direct debit. Fitch will increase base default rates by 5% for quarterly payments and 10% for biannual or annual payment frequencies. Interest-only mortgages may be included in Spanish transactions at some point in the future. Fitch increases the default assumptions for these loans by up to 25% to take into account the balloon risk to the borrower and the strong reliance on the borrower's equity in the property.

- **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 increase by 15% to 50%. If the purpose of the loan is not the acquisition of a property in Spain, Fitch will increase the default probability by 50%-100%.

- **Borrower Profile:** Fitch increases the default probability on loans to self-employed borrowers by 20%-50% to account for their lack of a fixed annual salary and for non-Spanish residents as presumably such borrowers may have less incentive to repay a mortgage loan in periods of stress.

- **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 25%, 50% and 70%, respectively. Fitch assumes that mortgages over 91 days in arrears (non-performing status) will have an 100% probability of default.

- **Underwriting Quality:** Fitch's review and analysis of the origination process determines whether the agency decreases default rates by up to 25% or increases them by 0%-200%.

Loss Severity

To estimate loss severity on mortgage loans in Spain, Fitch examined house price movements in Spain on a regional basis from 1987–2004. The agency found significant differences in price development among the regions – mainly between the regions of Madrid, Catalunya, País Vasco and the rest of the regions in Spain. More recently, prices have increased significantly in certain coastal areas (including Cantabria, Valencia, Andalucia and Murcia). 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 MVDs for certain regions and for some large urban areas.

To derive MVDs 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 MVDs for lower and higher-value properties. These properties are generally subject to larger MVDs in a deteriorating market than homes with average market values owing to limited demand for such properties.

When calculating recovery value, Fitch's model reduces each property value by the MVD, external foreclosure expenses, and the cost to the servicer of carrying the loan from delinquency through to default. For Spain, Fitch assumes that external foreclosure costs represent €6,500 plus 4% of the realised value of the collateral at the time of default. Loss severity also incorporates the fact that in a recession period, the length of time to foreclosure may be longer than is currently the case. To calculate carrying costs, Fitch uses a worst-case scenario analysis which assumes that the borrower does not pay any interest and the collateral is not realised for a period of three years.

Additional stresses to property values may be conducted *vis-a-vis* residential properties, on a case-by-case basis, if the mortgage loans are backed by commercial properties or subsidised properties (i.e., *Viviendas de Proteccion Oficial*) or in transactions where relatively strong geographical concentration and a large proportion of second home properties are observed.

Appendix II: Summary

Bancaja 9, 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	10.00	200	6.24	TBD	Quarterly	Jun 2007	3 month EURIBOR + spread
A2	AAA	85.00	1,700	6.24	TBD	Quarterly	Sep 2043	3 month EURIBOR + spread
B	A+	2.60	52	3.64	TBD	Quarterly	Sep. 2043	3 month EURIBOR + spread
C	BBB+	1.25	25	2.39	TBD	Quarterly	Sep. 2043	3 month EURIBOR + spread
D	BB+	1.15	23	1.24	TBD	Quarterly	Sep. 2043	3 month EURIBOR + spread
E	CCC-	1.24/1.03	20.6/24.8	N/A	TBD	Quarterly	Sep. 2043	3 month EURIBOR + spread

	Size (%)	Size (EURm)
Initial Reserve Fund	1.24/1.03	20.6/24.8

AAA 95.00%
A+ 2.60%
BBB+ 1.25%
BB+ 1.15%
CCC- 1.24%

Key Information

		Role	Party (Trigger)
Expected Closing Date	30 January 2006	**Seller/Originator**	Bancaja
Country of Assets	Spain	**Structurer**	Europea de Titulización SA, S.G.F.T.
Structure	Sequential/pass through; pro rata under certain conditions	**Issuer**	Bancaja 9, FTA
Type of Assets	Residential mortgages	**Lead Manager**	Bancaja, Calyon (rated 'AA-/F1+'), Barclays Capital
Currency of Assets	EUR	**Trustee**	Europea de Titulización SA, S.G.F.T.
Currency of Notes	EUR	**Swap Provider**	JPMorgan Chase Bank, National Association ('A/F1')
Primary Analyst	gustavo.celi@fitchratings.com	**Financial Agent**	Bancaja ('F1')
Secondary Analyst	pablo.perez@fitchratings.com	**Liquidity Facility Provider**	JPMorgan Chase Bank, National Association ('F1')
Performance Analyst	sf_surveillance@fitchratings.com		

Fitch Default Model Outputs

Rating Level (%)	AAA	A	BBB	BB
WAFF	11.6	6.9	4.6	2.3
WARR	61.0	72.1	76.2	80.3
WALS	54.0	42.9	38.8	34.7
WAMVD	45.6	40.7	32.2	28.5

Collateral

Pool Characteristics

Current Principal Balance (EUR)	2,209,285,815.09	**Regional Concentration (%)**	
Average Current Loan per Borrower (EUR)	128,189.15	Comunidad Valenciana	37.72
Average Original Loan per Borrower (EUR)	133,945.94	Catalunya	13.85
Number of Loans	17,239	Madrid	11.13
WA Seasoning (Months)	11.2		
Oldest Loan in Portfolio	March 1996	**Mortgage Characteristics (%)**	
Most Recent Loan in Portfolio	August 2005	First Ranking	100
> 30 Days in Arrears (%)	1.60%	Second homes/Investment Properties	10.56 (assumed)
Interest Rate Type (%)		**Loan to Value (LTV) (%)**	
Variable	100	WA Original LTV	77.05
Fixed	0	WA Indexed Current LTV	74.30
WA Interest	3.21%	WA Current LTV	74.75
Interest Index			

Source: Bancaja

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