RMBS/Spain
Presale Report

Hipocat 6, Fondo de Titulización de Activos

Expected Ratings*

Class	Amount (EURm)	Final Maturity	Rating	CE (%)
A	787.6		AAA	9.65
B	15.7		AA	7.80
C	34.0		A	3.80
D	12.7		BBB	2.30

* Expected ratings do not reflect final ratings and are based on information provided by issuer as of 3rd August 2003.

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■ Summary

This EUR850million transaction is a securitisation of Spanish residential *Crédito Total Primera Vivienda* ("CTPV") mortgage loans (see *Collateral* on page 5) originated by Caixa d'Estalvis de Catalunya ("CC" or the "Seller", rated 'A/F1'). Fitch Ratings ("Fitch") has assigned expected ratings to the notes to be issued by Hipocat 6, Fondo de Titulización de Activos ("Hipocat 6" or "the Fund") as indicated at left.

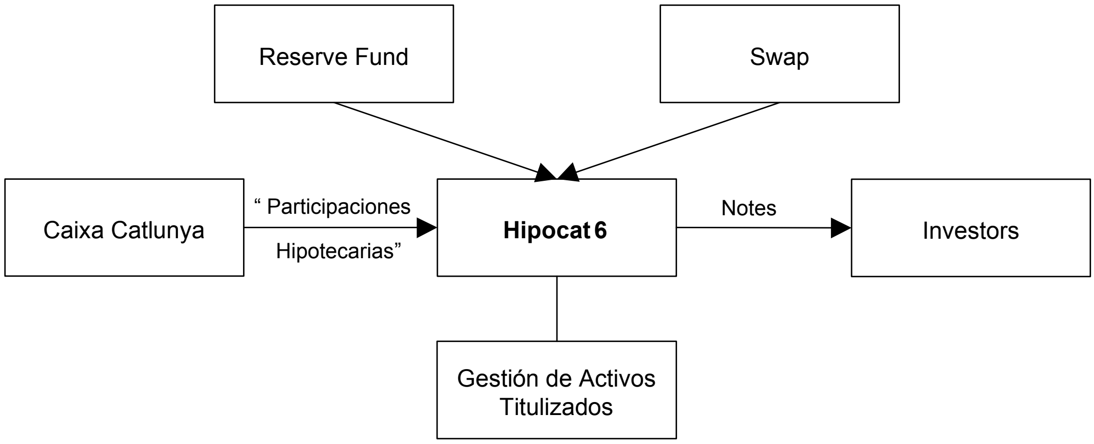
Hipocat 6 is regulated by Spanish Securitisation Law 19/1992 and Royal decree 926/1998. Its sole purpose is to convert the mortgage loan participations and mortgage certificates acquired from the participation issuer, CC, into fixed-income securities. The participations will be subscribed on behalf of Hipocat 6 by Gestión de Activos Titulizados, S.G.F.T., S.A. ("the *Sociedad Gestora*), whose scope of business is restricted to the management of asset-backed funds.

Caixa Catalunya is Spain's third largest savings bank by total assets, and parent of Spain's sixth largest banking group. The majority of its branches are located in Catalunya, where it has traditionally focused its business.

The expected ratings are based on the quality of the collateral, the underwriting and servicing capabilities of Caixa Catalunya, available credit enhancement and a sound legal and financial structure. Initial credit enhancement for the Class A notes, totalling 9.65%, is provided by the Class B, C and D notes and the reserve fund. Initial credit enhancement for the Class B notes, totalling 7.80%, is provided by the Class C and D notes and the reserve fund. Credit enhancement for the Class C notes, totalling 3.80%, is provided by the Class D notes and the reserve fund. Credit enhancement for the Class D notes, totalling 2.30%, is provided by the reserve fund. Subject to certain arrears tests, the reserve fund may increase from 2.30% to 2.50%. In addition, the transaction also benefits from the 0.65% excess margin guaranteed by the swap.

This is the sixth RMBS transaction originated by Caixa Catalunya and the fourth rated by Fitch. The agency affirmed its ratings of Hipocat 3, 4 and 5 on 14 August 2003; details of these transactions are available at www.fitchresearch.com.

Structure Diagram



Credit Committee Highlights

- Well seasoned pool with a weighted average (“WA”) current loan-to-value (“LTV”) ratio of 87.5%.
- 86.9% of the loans in the portfolio feature average original LTVs of over 80% and some of the highest seen in mortgage portfolios securitised in Spain. Fitch addresses this additional risk by increasing base default assumptions for these loans.
- All mortgages in the portfolio are flexible CTPV loans where the borrower a) has the ability to draw further amounts, subject to a maximum limit of 80% LTV, and b) can defer interest and principal payments for a predetermined period of time. Fitch has addressed these risks in its analysis (see *Credit Analysis* on page 7).
- Gross excess spread guaranteed at 0.65% by the swap arrangement.
- 84.0% of the portfolio is against properties in Catalunya.

Financial Structure

All borrower payments received by CC will be transferred daily to the collections account, held with CC in the name of Hipocat 6, and will receive a guaranteed interest rate of three-month EURIBOR. In the event of a downgrade of CC below ‘F1’, a replacement collection account bank must be appointed by the *Sociedad Gestora* or a guarantee provided within 30 days by a suitably rated counterparty to cover CC’s obligations with respect to the collections account.

Interest and principal available funds will be transferred one business day before the payment date to the paying agent from the collections account. The paying agent is also subject to a minimum rating requirement of ‘F1’. CC, as swap counterparty, will provide a swap that guarantees three-month EURIBOR plus the WA spread on the notes plus a guaranteed excess spread of 65 bps.

Interest and principal payments to the noteholders will be made in arrears quarterly, commencing on 15th December 2003. The notes will receive interest payments based on three-month EURIBOR plus a margin.

The notes are subject to a clean-up call when less than 15% of the mortgage participations remain outstanding. Additional provisions allow for redemption in the event of legal changes affecting the financial equilibrium of Hipocat 6 or adverse regulatory changes under Basle II.

The mortgage loans will be serviced by CC. The *Sociedad Gestora* will administer Hipocat 6. In the event CC is unable to continue performing the mortgage servicing functions adequately, the *Sociedad Gestora* is required to appoint a replacement administration company in accordance with Law 19/1992, subject to rating agency confirmation.

Priority of Payments

On each payment date, the priority of payments will be as follows:

1. Expenses incurred by Hipocat 6, including the Administration fee to the *Sociedad Gestora* and the fee to the Paying Agent;
2. Amounts due to the swap (including swap termination costs);
3. Interest due on the Class A notes;
4. Interest due on the Class B notes, if not deferred;

Key Information

Provisional Portfolio Characteristics
Total Amount of loans at Closing: EUR970.47m (of which EUR850m are selected at closing)
WA Original LTV: 92.4%
WA Current LTV: 87.5%
WA Remaining Maturity: 28.4 years
WA Seasoning: 30.3 months
Concentration in Catalunya: 84.0%

Structure
Originator & Seller: Caixa d'Estalvis de Catalunya ("CC", rated 'A+/F1')
Servicer: CC
Fund: Hipocat 6, Fondo de Titulización de Activos
Sociedad Gestora: Gestión de Activos Titulizados, S.G.F.T., S.A.
Trustee:
Swap Counterparty: CC
Paying Agent & Collection Account Bank: CC
GIC & Liquidity Facility Provider: CC
Subordinated Loan Provider: CC

5. Interest due on the Class C notes, if not deferred;
6. Interest due on the Class D notes, if not deferred;
7. Provisioning to the principal capital repayment fund (see *Principal Repayments* section);
8. Interest due on the Class B notes, if deferred;
9. Provisioning to the second capital repayment fund;
10. Interest due on the Class C notes, if deferred;
11. Provisioning to the third capital repayment fund;
12. Interest due on the Class D notes, if deferred;
13. Provisioning to the fourth capital repayment fund;
14. Replenish the reserve fund to its required balance (see *Credit Enhancement*, page 4);
15. Interest accrued on the subordinated loan (see *Subordinated Loan*, page 4);
16. Amortisation of the Class D Notes;
17. Amortisation of the subordinated loan;
18. Financial intermediation margin to CC (profit remaining to the Fund after payment of all transaction expenses).

Interest due on the Class B notes will become subordinate to principal repayments on the Class A notes if either:

a. The difference between the outstanding balance of the Class A notes and available funds after item '7' in the priority of payments (excluding interest due on the C and D notes) is greater than the outstanding balance of the mortgages, or;
b. The outstanding balance of mortgages in arrears over 90 days exceeds 13.45%

Interest due on the Class C notes will become subordinate to principal repayments on the Class B notes if:

a. Interest due on the Class B notes has been deferred;
b. The difference between the outstanding balance of Class A, B and C notes and available funds after item '8' in the priority of payments (excluding interest on the D notes) is greater than the outstanding balance of the mortgages, or;
c. The outstanding balance of mortgages in arrears over 90 days exceeds 10.2%.

Interest due on the Class D notes will become subordinate to principal repayments on the Class C notes if either:

a. Interest due on the Class C notes has been deferred;
b. The difference between the sum of the outstanding balance of the Class A, B and C notes and the available funds after item '8' in the priority of payments is greater than the outstanding balance of the mortgages, or;
c. The outstanding balance of mortgages in arrears over 90 days exceeds 6.8%.

These triggers will switch the priority of payments to paying interest and principal to the senior notes before paying any interest to the junior notes in the event senior notes are no longer fully collateralised by mortgage loans or if arrears have reached a certain threshold.

Any available excess spread at item '16' will be used for the turbo amortisation of the Class D notes until paid in full. Consequently the Class D notes may amortise earlier than other notes.

In the event that CC is replaced as servicer to the transaction, the servicing fee included in item '18' will be paid as item '7', with all subsequent items adjusted accordingly.

Principal Repayments

On each payment date, the provisioning for the principal capital repayment fund will be equal to the positive difference between a) the outstanding balance of Class A notes plus amounts used for the amortisation of the Class D notes and b) the mortgage pool. The provisioning for the secondary capital fund will equal the lower of (i) the outstanding balance of the Class B notes and (ii) the positive difference between the outstanding balance of the Class A and B notes plus amounts used for the amortisation of the Class D notes and the mortgage pool. The provisioning for the tertiary capital fund will be equal to the lower of (i) the outstanding balance of the Class C notes plus amounts used for the amortisation of the Class D notes and (ii) the positive difference between the outstanding balance of the Class A, B and C notes and the mortgage pool. The provisioning for the fourth capital fund will be equal to the lower of (i) the outstanding balance of the Class D notes and (ii) the positive difference between the outstanding balance of the Class A, B, C and D notes plus amounts used for the amortisation of the Class D notes and the mortgage pool.

At closing, principal payments will be made sequentially in order of seniority, starting with the Class A notes. However, to the extent the following conditions are met, principal will switch to *pro rata* payments between the note classes:

- Subordination of the Class B, C and D notes represents 14.7%, twice the initial amount;
- The reserve account is fully funded at its target level;
- The difference between (i) the outstanding note principal balance and the outstanding balance of the mortgage pool and (ii) the provisioned available capital repayment funds is zero (i.e. no principal deficiency);
- On the payment date the balance of outstanding loans over 90 days in arrears is less than 4.0% of the outstanding mortgage pool balance;
- On the preceding payment date, the outstanding note balance of the Class B, C and D notes was at least 1.0% of the issue amount at closing;
- On the preceding payment date, the outstanding note balance of the Class C and D notes was at least 11.0% of the total outstanding note balance, including the Class A and B notes.

Credit Enhancement

Initial credit enhancement for the Class A notes, totalling 9.65%, will be provided by the subordination of the Class B (1.85%), C (4.00%) and D (1.50%) notes and the reserve fund (2.30%). Credit enhancement for the Class B notes, totalling 7.80%, will be provided by the subordination of the Class C (4.00%) and D (1.50%) notes and the reserve fund. Credit enhancement for the Class C notes totalling 3.80% will be provided by the subordination of the Class D notes (1.50%) and the reserve fund. Credit enhancement for the Class D notes totalling 2.3% will be provided by the reserve fund. In addition, the notes will benefit from 0.65% excess spread provided by the swap arrangement.

As available excess spread is used to amortise the Class D notes, credit enhancement provided by the subordination of the Class D notes will be replaced by overcollateralisation.

Reserve Account

The reserve fund, funded by a subordinated loan provided by CC, will initially equate to 2.30% of the original note balance at closing.

If the three-month average of mortgage loans outstanding over 90 days in arrears is below 3%, the reserve fund will be the lower of (a) the initial reserve fund, and (b) the higher of (i) 5.75% of the current note balance outstanding and (ii) 1.4% of the original note issue at closing.

In the event the three-month average of mortgage loans over 90 days in arrears exceeds 3% of the then current balance, the reserve fund will increase to the lesser of (a) the maximum reserve level of 2.50% of the initial note balance or (b) the higher of (i) 6.25% of the then current note balance outstanding and (ii) 1.6% of the original issue at closing.

However, if mortgage loans outstanding over 90 days in arrears are below 2.2% for a period of at least four consecutive months, the reserve fund will be the lower of (a) 5.75% of the current note balance outstanding and (b) 1.4% of the original note issue at closing.

The reserve fund will cease to amortise if: 1) the outstanding balance of mortgages in arrears over 90 days plus 2) the outstanding balance of all mortgage loans on which the borrowers have exercised their forbearance period (during which they are not required to make either principal or interest payments on their loan) option; is greater than 3.5%.

Interest Rate Risk

Hipocat 6 will enter into a swap agreement with CC to hedge the interest rate risk between the underlying collateral and the note basis rates. The Fund will pay to the swap counterparty the interest rate it receives on the mortgage loans. In return, the swap counterparty will pay to Hipocat 6 three-month EURIBOR plus the WA spread on the notes plus a guaranteed excess spread of 65bps on the swap notional amount, equal to the total amount of performing assets.

Forbearance Period

If, during the first five years of the transaction the total balance of mortgage loans on which the borrowers have exercised their forbearance period option exceeds 30% of the total outstanding balance, CC is required to either; a) replace the percentage of mortgages in forbearance that exceed the ceiling or b) set up a liquidity line for an amount equal to the missed interest and principal of the mortgages in forbearance above the ceiling.

After the first five years, the ceiling on mortgages in forbearance increases as follows:

- From year 5 to year 10: 35%
- From year 10 to year 15: 43%
- From year 15 to year 20: 53%
- From year 20 to year 21: 66%
- After year 21: 70%

Subordinated Loan

Additionally, CC has advanced a subordinated loan to Hipocat 6 which will be used to: 1) pay the start-up and underwriting expenses of Hipocat 6, 2) at closing cover the interest due on the mortgages between acquisition and payment for the mortgage participations, and 3) fund the reserve fund up to its initial amount. The subordinated loan is to be redeemed using available liquidity on each payment date, following the priority of payments, for the amount used in '3' above and following accountancy methods for the remainder. The loan will receive interest payments equal to three-month EURIBOR plus a margin.

■ Legal Structure

At closing, the mortgage loans will have been sold by CC to the *Sociedad Gestora* on behalf of Hipocat 6. The *Sociedad Gestora,* a special purpose company with limited liability and incorporated under the laws of Spain, is owned by:

- CC: 54%.
- FACTORCAT, Establecimiento Financiero de Crédito, S.A.: 23%.
- LEASING CATALUNYA, Establecimiento Financiero de Crédito, S.A.: 23%.

The *Sociedad Gestora's* activities are limited to the management of asset-backed notes.

The participations issuer, CC, has transferred the purchased rights (the first initial drawdowns under the CTPV and the collateral securing the mortgages) to Hipocat 6. CC has also transferred or pledged all present or future claims or rights under the various transaction documents to Hipocat 6.

Mortgages with current LTVs below 80% are transferred to the Fund as mortgage participations (*Pacticipaciones Hipotecarias*), while those with current LTVs above 80% are transferred to the Fund as certificates of mortgage transfers (*Certificados de Transmisón Hipotecaria*).

Representations and Warranties

The transfer of the mortgage receivables from CC to the *Sociedad Gestora* is subject to representations and warranties. Any mortgage receivable in the pool not conforming to the following conditions, with the prior agreement of the *Sociedad Gestora*, will be substituted immediately by CC.

The representations and warranties include, among others:

- All the mortgage loans are legally valid and enforceable;
- CC has full title to the mortgage loans;
- Each loan is secured by a first–ranking mortgage over a residential property in Spain;
- None of the properties is subject to any ownership limitations;
- All the securitised mortgage loans are formalised in a public deed and are not subject to any senior ranking right;
- All the properties have been appraised by entities on the Bank of Spain's official register;
- All the properties are fully insured against fire and other damage for at least their reconstruction value;
- CC is not aware of any circumstance that may impede foreclosure of any of the mortgages;
- CC has passed all the necessary resolutions to approve the issue of the '*Participaciones Hipotecarias*' (PH) and '*Certificados de Transmisón Hipotecaria*' (CTH).
- All the PHs and CTHs have been issued in accordance with Spanish law.

■ Collateral

The portfolio comprises only CTPV mortgages, flexible products that provide homebuyers with a mortgage and the freedom, within certain stringent limits, to make further drawdowns to take advantage of any real estate capital appreciation. This is achieved by taking out a line of credit secured by a first lien residential mortgage over freehold residential property in Spain. While the line of credit for each CTPV contract is capped, the initial first drawdown can exceed an original LTV ratio of 80%, the ceiling being 100%.

CC often requires additional third party personal guarantees if an LTV at origination exceeds 80%. According to CC, such guarantees are usually provided by relatives of the borrower.

During the life of the CTPV, the borrower may apply for further drawdowns for various purposes, which CC will approve subject to the borrower passing a new credit analysis, independently of previous drawdowns. Subsequent drawdowns are limited to the lesser of 1) the original line of credit limit or 2) an 80% LTV ratio. Therefore, a borrower advanced a loan on an LTV in excess of 80% may only redraw after the LTV falls below 80%, and then only up to a maximum of 80% of the property value.

This maximum balance will decrease for the drawdowns during the last four years to maturity. The maximum time to maturity for the line of credit, including all drawdowns, is 35 years (30 years for the first drawdown). Further drawdowns will rank *pari passu* with the first initial drawdown in claims over the collateral, but will not form part of the pool of loans supporting Hipocat 6.

Another feature of the CTPV product is the option of taking one or more payment forbearance periods under the initial drawdown, subject to the approval of CC, which can be denied, if the credit quality of the borrower has deteriorated or the loan has been in arrears during the previous year.

The number of forbearance periods on any CTPV is limited to a maximum of five and 36 months in total during the life of the mortgage. No single forbearance period may be longer than 12 months.

The length of the forbearance period is further limited by the amount of capitalised interest, which together with the current outstanding balance may never exceed the original line of credit limit.

CC's software allows it to control each drawdown separately, servicing them as a series of separate loans.

Despite its particular legal format, the first initial drawdown of CTPVs can be transferred through mortgage participations under Law 19/1992 due to the characteristics shared with traditional mortgage loans.

The provisional pool forming the collateral for the Hipocat 6 notes consists of 100% CTPV first drawdowns and originated by CC in its normal course of business. All the first drawdowns under the CTPVs are secured by residential properties in Spain, the security being the mortgages registered in the *"Registro de la Propiedad"* (the official register) and are provided for the purpose of acquiring a primary residence.

Provisional Portfolio Summary

Pool Characteristics	
Original Principal Balance (EUR)	1,039,192,586
Current Principal Balance (EUR)	970,470,578
Average Current Loan per Borrower (EUR)	82,882
Average Original Loan per Borrower (EUR)	88,752
Number of Borrowers	11,709
Oldest Loan in Portfolio	30 May 1996
Most Recent Loan in Portfolio	31 Dec 2002
Mortgage Type	
CTPV (%)	100
Interest Rate Type	
Floating Rate Loans (%)	100
WA Interest Margin (%)	4.80
Interest Index	IRPH Cajas and others
Payments	
Payment Frequency	Monthly
Payment Method	Direct Debit
Performing Loans (%)	100
Regional Concentration (%)	
Catalunya	84.0
Madrid	6.0
C. Valencia	6.2
Lien Position (%)	
First Ranking:	100.0

■ Origination and Servicing

In addition to the pool analysis, Fitch has reviewed and analysed CC's origination and servicing guidelines, and visited both its origination and servicing departments.

CC puts a strong emphasis on a borrower's ability to pay and creditworthiness. A borrower's ability to pay is determined primarily by their credit profile, the risk profile of the property and the purpose and LTV ratio of the transaction. Credit approval is subject to the usual CIRBE, RAI and other checks, and valuations from Bank of Spain registered valuation companies.

The loans in the portfolio have been originated by CC's local branch network. The residential mortgage business is regionally organised, with approximately 936 branches (75% of them in the Catalunya region). A branch manager can approve mortgage loans up to certain amounts and depending on the credit analysis. If the amount of the mortgage loan exceeds the maximum, approval by one of the eight regional committees is mandatory. Exceeding this level of authorisation, approval must be given by a centralised committee.

All the borrowers in the pool make their mortgage payments via Direct Debit. Generally, on the first day a payment falls into arrears, an employee of the originating branch will contact the borrower in an attempt to resolve the arrears. The system generates periodic reminders after the due date. Up until the 35th day, arrears are dealt with at local office level. After this time, or earlier if necessary, loans will be managed by an external, centralised, telephone recovery centre, whilst letters continue to be sent. After 90 days in this centre without results, an external recovery company will contact the debtor personally to agree a new payment date. On or before 120 days in arrears the client account will be transferred to CC's legal department. Legal proceedings will then be prepared but generally not started for five months. Over the past few years, legal proceedings launched by CC have lasted on average eight months, followed by an additional 10 months to sell a property.

Fitch considers CC to be a sound originator and servicer of residential mortgage loans in Spain and did not make any adjustments when factoring underwriting quality into its default model.

■ Credit Analysis

Fitch analysed the collateral for Hipocat 6 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 on individual loans in the portfolio (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 being 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.

Ability to pay is usually measured by a borrower's income to mortgage payment (or DTI ratio). As with many Spanish originators, this information was not available on a loan-by-loan basis for Hipocat 6. However, CC has comparatively strict origination guidelines in this respect, and only allows a maximum DTI of 40%, using the borrower's total existing debt (from CIRBE) and gross income.

Fitch took into consideration the specific characteristics of the product in the default probability analysis of this portfolio, using the LTV based on the original balance of the initial drawdown as the main measure of a borrower's willingness to pay.

Recovery Proceeds

To estimate recoveries on mortgage loans in Spain, Fitch examined regional house price movements between 1987 and 2002. The agency found significant differences, most notably between Madrid, Catalunya and País Vasco and the other Spanish regions, with cities in these three regions experiencing higher price increases than elsewhere in Spain. Based on its analysis of the Spanish real estate market, Fitch assumed slightly higher market value declines ("MVDs") for certain regions and some large urban areas.

To derive MVDs for the respective stress scenarios, Fitch then compared the Spanish real estate market with those in other European countries. As in its other European mortgage default models, the agency increased MVDs for higher value properties, these being generally subject to greater MVDs than homes with average or below-average market values due to limited demand. Approximately 12.2% of the reference pool is considered by Fitch to be secured on high value, or "jumbo", properties.

When calculating recovery values, Fitch's model reduces each property's value by the MVD, external foreclosure costs, and the cost to the servicer of carrying the loan from delinquency through to default. That cost depends on the time to foreclosure, which the agency assumes to be three years in this case, as well as a loan's interest rate.

In calculating recoveries, Fitch took into account the amount each borrower could redraw, since recovery proceeds would be paid on a *pro rata* basis. However, the risk of redraw remains low in the first few years of the transaction, since LTVs remain high and above the maximum 80% redraw ceiling.

Cash Flow Analysis

To evaluate the contribution of structural elements such as excess spread, the subordinated loan 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 evenly over three years, starting nine months 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. Interest rates are stressed upwards over time. Recovery timing was increased to take into account the fact that borrowers may be in a forbearance period before entering into the default period.

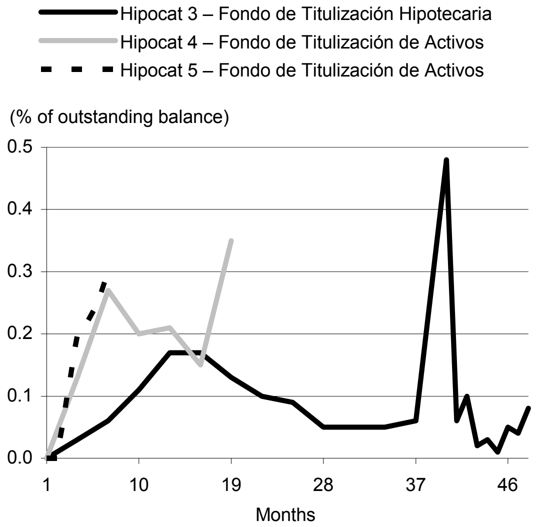
The cash flow analysis assumes a high level of prepayments on the mortgages, which stresses available excess spread, of 25%, 21% and 18% for the ‘AAA’, ‘A’ and ‘BBB’ scenarios respectively.

The expected ratings 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 will be made on a timely basis under the relevant stress assumptions

■ Performance Analytics

This is the sixth publicly rated residential mortgage backed transaction originated by Caixa Catalunya and the fourth rated by Fitch (the agency affirmed the ratings for Hipocat 3, 4 and 5 on 14 August 2003).

Hipocat 3–5 Delinquencies: 90+ days



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 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 show low levels of default. Base default probabilities are determined by 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-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 circa 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 the acquisition of 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 mortgage loans in Spain, Fitch examined home price movements there on a regional basis from 1987–2001. Fitch found significant differences in price development among regions, mainly between Madrid, Catalunya, País Vasco, and the rest of Spain. The cities in these regions have experienced higher price increases than others 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 as well as 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 in its other European mortgage default models, Fitch increased market value declines for higher value properties. These properties are generally subject to higher market value declines in a deteriorating market than homes with average or below-average values due to limited demand for them.

When calculating recovery value, Fitch's model reduces each property value by the market value decline, external foreclosure costs, 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 foreclosure process might take longer in a recession. To calculate carrying costs, Fitch uses a worst-case scenario analysis, assuming that the borrower does not pay interest and the collateral is not realised for three years.

Excess Spread

Excess spread represents the monetary difference between the income received by the Fund from the borrowers and the interest on the notes and other expenses paid by the Fund. 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 Fund a minimum level of excess spread. Due to the swap agreement between Hipocat 6 and CC this doesn't apply to this transaction