RMBS/Spain
New Issue

HIPOCAT 8, Fondo de Titulización de Activos

Ratings

Class	Amount (EURm)	Final Maturity	Rating	CE (%)
A1	250.0	March 2038	AAA	7.85
A2	1,155.5	March 2038	AAA	7.85
B	26.2	March 2038	AA	6.10
C	35.6	March 2038	A	3.73
D	32.7	March 2038	BBB+	1.55

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Closing Update

Closing occurred on 6 May 2005. Changes prior to closing: no changes occurred to the capital structure from the date of the presale report.

The collateral information throughout the report and on the data sheet is based on the provisional loan pool.

Summary

This EUR1,500 million transaction is a securitisation of Spanish residential *Crédito Total* mortgage loans ("CT" or "the collateral", see *Collateral*) secured on property located in Spain. Fitch Ratings has assigned final ratings to the notes to be issued by HIPOCAT 8, Fondo de Titulización de Activos ("HIPOCAT 8" or "the Fund") as indicated at left.

At closing, HIPOCAT 8 will issue notes backed by the collateral, which was originated by Caixa d'Estalvis de Catalunya ("Caixa Catalunya" or "the seller", rated 'A/F1'), which will continue to service the mortgages.

HIPOCAT 8 is regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to transform the mortgage transmission certificates *("certificados de transmisión de hipoteca" or "CTHs")* acquired from the seller into fixed-income securities. The *CTHs* will be subscribed on behalf of HIPOCAT 8 by Gestión de Activos Titulizados, S.A., S.G.F.T. ("the *Sociedad Gestora*"), a management company with limited liability incorporated under the laws of Spain, whose sole function is to manage asset-backed funds.

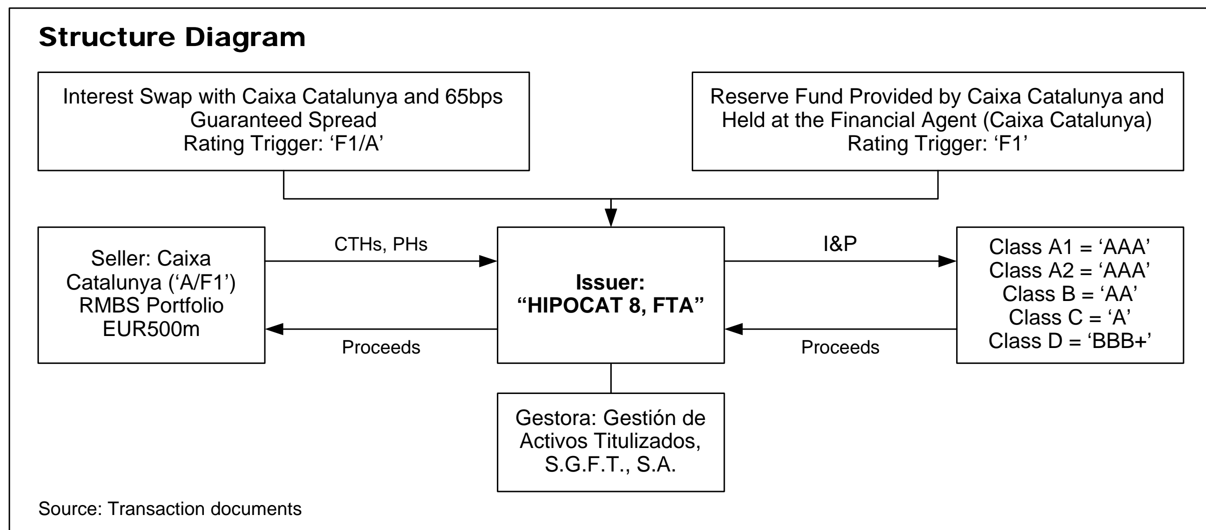
The final ratings are based on the quality of the collateral, the underwriting and servicing of the mortgage loans, available credit enhancement ("CE") and the sound legal and financial structure of the transaction. Initial credit enhancement for the Class A notes, totalling 7.85%, will be provided by the subordination of the Class B (1.75%), Class C (2.37%) and Class D notes (2.18%) and a reserve fund sized at 1.55% of the initial note balance. In addition, the transaction will also benefit from the 0.65% excess margin guaranteed by the swap.

This is the eighth RMBS transaction originated by Caixa Catalunya under the HIPOCAT programme and the sixth rated by Fitch. The agency upgraded three tranches and affirmed five tranches of HIPOCAT 3, 4 and 5 in October 2004. Fitch affirmed the ratings of HIPOCAT 6 in December 2004. Details of these transactions' performance are available at www.fitchresearch.com.

Credit Committee Highlights

- As in previous HIPOCAT deals, the collateral portfolio is composed of flexible loans. CT loans offer borrowers the following options: i) redraw, subject to a maximum limit of an 80% loan to value ratio ("LTV"); and ii) payment holidays, whereby the borrower can defer interest and principal payments for a predetermined period.

- The portfolio has a high concentration in the Catalunya region (81.08%). Fitch has not stressed this geographical concentration since the region has historically been one of the stronger economies in Spain.



- The collateral portfolio includes loans with some of the highest original loan-to-value ("OLTV") ratios in any Spanish securitised portfolio. The weighed average original LTV ("WAOLTV") is 78.8% and nearly 40% of the portfolio is in the 90% to 100% OLTV bucket. Fitch applies higher base default probabilities on high-LTV loans to account for the additional credit risk.

- CE levels take into account the minimum guaranteed excess spread of 0.65% the swap will pay to the fund on a notional that is at least equal to the balance of collateral that is either performing or less than 90 days delinquent. Excess spread provided by the swap mitigates margin compression risks and the potential effects of negative carry (see *Swap Agreement*).

- Average seasoning of 24 months contributed to a lower indexed current LTV of 66.9%.

The final ratings address payment of interest on the notes, according to the terms and conditions of the documentation, which allow for interest deferral subject to performance triggers, as well as the repayment of principal by the legal final maturity of the transaction. The cash flow test showed that each class of rated notes, taking available CE into account, can withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

Financial Structure

HIPOCAT 8 is a limited–liability, special-purpose vehicle incorporated under the laws of Spain, whose sole purpose is to acquire the *CTHs* from the seller as collateral for the issuance of quarterly paying notes. At closing, Caixa Catalunya will transfer the collateral to the Fund, together with a pledge over all present or future claims and/or rights under the various transaction documents. the mortgages will be transferred to the Fund as *CTHs*.

An amortisation account and a treasury account will be held in the name of the issuer at Caixa Catalunya, as the paying agent. The first will be used to accumulate cash until the first amortisation date for the A2 notes in December 2006 (see *Amortisation of the Notes*), and the second to maintain the reserve fund and cover the ongoing expenses of the issuer, as detailed in the *Priority of Payments* section. Amounts standing to the credit of these accounts will earn the Fund a guaranteed return equal to the three-month EURIBOR rate.

For both these accounts, the *Sociedad Gestora* will be required to take one of the following steps within 30 days if Caixa Catalunya's Short-term rating is downgraded below 'F1':

1. find a third party rated at least 'F1' to guarantee its obligations;
2. transfer the treasury or amortisation account to another entity rated at least 'F1';
3. if unable to effect either of the above, provide a guarantee of financial assets rated at least on a par with the Kingdom of Spain ('AAA');
4. if unable to effect option 2, above, invest the balance of the treasury account temporarily and until the next payment date in fixed-income assets issued by entities rated at least 'F1'.

Interest and principal collections will be given equal standing in the combined priority of payments, which is described below. Collections on the collateral received by the seller will be transferred into the treasury account within 48 hours of receipt.

Key Information
(As of 30 March 2005)

Portfolio Characteristics

Total Amount: EUR1,689m

WA Original LTV: 78.8%

WA Current LTV: 74.6%

WA Indexed Current LTV: 66.9%

WA Remaining Maturity: 25.2 Years

WA Seasoning: 24 Months

Concentration in Catalunya Region: 81.08%

Structure

Fund: HIPOCAT 8, Fondo de Titulización de Activos (“HIPOCAT 8”)

Sociedad Gestora: Gestión de Activos Titulizados, S.A., S.G.F.T.

Seller: Caixa Catalunya (rated ‘A/F1’)

Servicer: Caixa Catalunya

Paying Agent: Caixa Catalunya

Swap Counterparty: Caixa Catalunya

Lead Managers: J.P. Morgan Securities Ltd., Caixa Catalunya, Banco Bilbao Vizcaya Argentaria (“BBVA”, ‘AA-(AA minus)/F1+’))

Final Legal Maturity: March 2038

Servicing of the Securitised Portfolio

Apart from acting as paying agent and swap counterparty, Caixa Catalunya will also act as servicer of the collateral. RD 685/82, which governs the issuance of the CTHs that will be subscribed by Hipocat 8, 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 issuer as servicer of these loans. However, the transaction has certain mechanisms in place (i.e litigation due to a breach in the contractual agreement), that, may allow the *Sociedad Gestora* to appoint a replacement servicer.

Priority of Payments

On each quarterly payment date, in March, June, September and December, the combined ordinary priority of payments will be as follows:

a. expenses and servicing fees;
b. net swap payments and contingent liquidity facility (if applicable);
c. A1 and A2 interest *pro rata*;
d. B interest (if not deferred);
e. C interest (if not deferred);
f. D interest (if not deferred);
g. note principal in order of seniority (see *Amortisation of the Notes*);
h. B interest if deferred, which will occur if there is a principal deficiency at the level of the A notes;
i. C interest if deferred, which will occur if there is a principal deficiency at the level of the B notes;
j. D interest if deferred, which will occur if there is a principal deficiency at the level of the C notes;
k. replenishment of the reserve fund;
l. subordinated amounts including interest and reimbursement of the loan granted by the seller at closing to form the reserve fund.

Principal deficiency is defined as the difference between i) the outstanding balance of the notes minus ii) the outstanding balance of non-defaulted collateral (i.e. loans up to 18 months delinquent) plus the available funds net of monies required to cover the senior items in the payment waterfall. For example, item i) when using the above formula to determine the principal deficiency at the level of the C notes would be the sum the outstanding balance of A1, A2, B and C notes. Available funds are defined as the sum of principal and interest collections on the collateral, the balance and yield generated by the reserve fund, the net swap monies received from the swap counterparty if applicable (see *Swap Agreement*) and the contingent liquidity facility limit, where applicable (see *Contingent Liquidity Facility*).

The structure will cover ordinary and extraordinary expenses through the 0.65% excess spread that is guaranteed by the swap agreement (see *Swap Agreement*).

Amortisation of the Notes

Principal due on any payment date will be paid subject to the availability of funds and according to the priority of payments. Amortisation of the notes will commence sequentially with the Class A1 notes, and amortisation of the A2 notes will begin only when the A1 notes have been repaid in full. The following additional conditions are applicable for the amortisation of Class A1 and A2 notes:

- the earliest possible amortisation start date for the A2 notes is the payment date falling in December 2006; and
- if the delinquency ratio – defined as the outstanding balance of loans that are 90 days or more in arrears over the outstanding balance of the collateral – exceeds 1.5%, the Class A1 and Class A2 notes will begin paying down *pari passu* instead of sequentially.

If the A1 notes are fully amortised before the payment date in December 2006, and the delinquency ratio is be less than 1.5%, the funds available for amortisation (i.e. the positive difference

between the note balance minus the sum of non-defaulted collateral plus the balance of the amortisation account) will be credited to the amortisation account.

The other classes of notes will begin to amortise once the notes immediately senior to them have been fully paid down. For example, the Class C notes will begin to pay down only when the Class B notes have been repaid in full. Nevertheless, if all the conditions below are satisfied then the B, C and D notes will become *pro rata basis*:

- the delinquency ratio is less than 1.5%;
- the difference between the outstanding balance of the notes minus the funds available for amortisation is equal or less than zero on the fifth day before any payment date;
- when the aggregate outstanding balance of the B, C and D notes represents at least 12.6% of the outstanding notes balance, which would then be twice its original size;
- the reserve fund is at the required level (see *Reserve Fund*);
- the outstanding collateral balance is more than 10% of the original collateral balance.

A clean-up call option in favour of the Fund will be available when the collateral balance falls to 10% of its original size. The Fund will be redeemed after the amortisation of the collateral and/or the notes. Other unwinding provisions also relate to legal changes that would have an adverse effect on the efficiency of the transaction for the originator, or exceptional circumstances that would affect the Fund's financial equilibrium. These provisions are subject to the availability of resources to pay the outstanding notes.

Swap Agreement

The Fund will enter into an interest hedging agreement with Caixa Catalunya to cover basis and margin compression risks. The Fund will pay Caixa Catalunya the interest received from the collateral, and will receive three-month EURIBOR plus the weighted average ("WA") margin on the notes plus 0.65%. This is calculated on a notional equal to: i) the balance of collateral that is either performing or less than 90 days in arrears; plus ii) broadly speaking, an amount that would cover the difference between the coupon paid by the notes and the interest yielded by the amortisation account. This has three main effects:

1. it hedges the basis risks arising from the different reference indices (e.g. 12-month EURIBOR for the collateral versus three-month EURIBOR for the notes);
2. it produces a stable spread (65bps) on the performing loan balance over the life of the transaction, mitigating any compression in the WA margin on the loans and offsetting the increase in note funding costs over time; and
3. it covers the negative carry of accumulating cash in the amortisation account, which only yields a flat rate of three-month EURIBOR, while still servicing the liability on the notes.

If Caixa Catalunya's Short-term rating is downgraded below 'A/F1', it will, within 30 days, take one of the following steps:

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

Reserve Fund

The reserve fund will be created at closing through a subordinated loan granted by the seller, and will equate to 1.55% of the initial note balance. Subject to the following conditions, it will be permitted to amortise to the lesser of:

- 1.55% of the initial note balance if the delinquency ratio is less than 3.0%, otherwise 1.65%; or
- 3.10% of the outstanding note balance if the delinquency ratio is less than 3.0%, otherwise 3.50%.

The reserve fund will be subject to an absolute floor of 0.75% of the original note balance if the delinquency ratio is lower than 3.0%, or 0.85% if otherwise.

The reserve fund will not amortise in between two payment dates if:

- the delinquency ratio is less than 1.5%;
- 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.

Contingent Liquidity Facility

When the outstanding balance of the loans that have exercised the payment holiday option (see *Collateral* below) exceeds 35% of the initial collateral balance, Caixa Catalunya will extend a standby liquidity facility to the Fund in an amount equal to the lower of: i) 3.75% of the original notes balance; or ii) 7.5% of the outstanding notes balance.

This liquidity facility can be used to cover the senior items in the payments waterfall up to D interest when not deferred. It will be repaid on subsequent payment dates when i) the available funds net of monies required to cover the senior items in the ordinary priority of payments up to D interest is greater than zero; or ii) there is a principal deficiency at the level of the A notes. Repayment of the liquidity facility will be the third item in the ordinary priority of payments.

Should Caixa Catalunya's Short-term rating fall below 'F1' it will, within 30 days, take one of the steps, also described in the *Swap Agreement* section above.

Collateral

As of 30 March 2005, the collateral portfolio consisted of mortgage loans originated by the seller. All are secured by residential properties in Spain and benefit from first-ranking mortgages registered in the *Registro de la Propiedad* (the official register). Other characteristics of the collateral are presented in the *Portfolio Summary* table below.

The total portfolio comprises CT mortgages, which are flexible products that offer borrowers the option for further redraws and payment holidays, subject to certain stringent criteria, which include new credit approval and no arrears balances in the past 12 months. Note that the collateral for this transaction consists entirely of first CT drawdowns.

Regarding the redraws, the borrower may apply for further redraws, which Caixa Catalunya will approve only if they pass a new credit analysis, regardless of previous redraws. Subsequent redraws are limited to the lesser of: 1) the original line of credit limit; or 2) an 80% LTV ratio. All the loans in the pool have a maximum OLTV of 100%. However, borrowers may only redraw funds under the facility after the CLTV falls below 80%, and then only up to a maximum of 80% of the property value. The maximum time to maturity for the line of credit, including all redraws, is 35 years (30 years for the first drawdown).

Subject to Caixa Catalunya's approval and other eligibility criteria, the borrower may take up to five payment holidays involving a total of 36 months during the life of the mortgage. No single forbearance period may be longer than 12 months. The length of the payment holiday 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.

Origination and Servicing

As part of its analysis, Fitch has reviewed and analysed Caixa Catalunya's origination and servicing guidelines. The agency made an on-site visit to Caixa Catalunya and met the originator and servicer managers responsible for the mortgage loan department as well as members of the risk department.

Caixa Catalunya is the parent company of Spain's seventh-largest banking group and fourth-largest savings banks by total assets as of 31 December 2004.

Caixa Catalunya places strong emphasis on a borrower's creditworthiness and ability to pay. A borrower's ability to pay (the maximum debt to income ratio ("DTI") is 40%) is determined primarily by their credit profile, the risk profile of the property and the purpose and LTV ratio of the transaction. Maximum OLTVs are 80%, but higher ratios can apply if the borrower has: (i) a suitable guarantor; (ii) additional collateral; or (iii) an acceptable track record as client of the bank. Credit approval is subject to the usual CIRBE, RAI and other checks, as well as valuations by valuation companies registered with the Bank of Spain.

The loans in the portfolio were originated by Caixa Catalunya's local branch network. The residential mortgage business is regionally organised, with approximately 1,004 branches (75% in the Catalunya region). Branch managers are authorised to approve mortgage loans up to certain amounts, subject to satisfactory credit analysis (from EUR200,000 to EUR320,000 depending on the branch category).

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.

Arrears Management

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 situation. The system generates periodic reminders after the due date. Up until the 35th day of delinquency, arrears are dealt with at the local office level. After this point, or earlier if necessary, loans will be managed by an external, centralised, telephone recovery centre, while letters continue to be sent. If the situation remains unresolved after the centre has been handling it for 90 days, an external recovery company will contact the debtor personally to agree a new payment date. On or before the loan is 120 days in arrears, the client account will be

transferred to Caixa Catalunya's legal department. Legal proceedings will then be prepared, but are generally not started until five months after the loan has fallen into arrears.

Over the recent years, legal proceedings launched by Caixa Catalunya have lasted an average of eight months and it has taken an additional 10 months to sell the property. On the basis of its recent operational review, Fitch believes Caixa Catalunya to be a satisfactory originator and an effective servicer of Spanish residential mortgages.

■ Credit Analysis

Fitch's general methodology for assigning credit ratings to Spanish residential mortgage transactions is described in *Appendix 1*. The following section details the agency's particular areas of focus and concern regarding HIPOCAT 8, as well as factors it incorporated into its analysis to deal with them.

To evaluate the contribution of structural elements, such as excess spread, subordination and other factors, Fitch modelled the cash flows based on the WA recovery rate ("WARR") and the WA frequency of foreclosure ("WAFF") provided by the loan-by-loan collateral analysis (see "*A Guide to European RMBS Cash Flow Analysis*", dated 20 December 2002 and available at www.fitchratings.com).

Default Probability

Generally, the two key determinants of default probability are a borrower's willingness and ability to make the mortgage payments. Willingness to pay is usually measured by the LTV: Fitch assumes 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 to maintain/protect their equity, thereby 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. Caixa Catalunya is strongly focused on a borrower's ability to pay, implements comparatively strict origination guidelines in this area and allows a maximum DTI of only 40%. In contrast with many other Spanish transactions, DTI information was available on a loan-by-loan basis; the vast majority of borrowers had DTI ratios in Fitch's Classes 3 and 4. The Weighted Average DTI ratio calculated for the provisional pool is 35.8%.

Fitch took the specific characteristics of the loans into consideration in its default probability analysis of the portfolio. The agency used the OLTV of the first draw to calculate its base default probabilities, since the WAOLTV and WA maximum drawable amount, measured as a percentage of the appraised value of the properties in the provisional pool, are fairly similar (78.8% and 81.8%, respectively). Fitch increased the default probability for self-employed borrowers and loans with quarterly and semi-annual payment frequency to reflect the additional risk implicit in this transaction (see appendix 1)

Portfolio Summary

Pool Characteristics	
Current Principal Balance (EURm)	1,689
Average Current Loan per Borrower (EUR)	98,250
Average Original Loan per Borrower (EUR)	106,037
Oldest Loan in Portfolio	May 1994
Most Recent Loan in Portfolio	December 2004
Interest Rate Type	
Floating-Rate Loans (%)	Monthly
WA Interest Margin (%)	0.53
Interest Index	EURIBOR/MIBOR
Payments	
Payment Frequency (%)	Monthly
Payment Method	Direct Debit
Loans <30 Days in Arrears (%)	96.66
Regional Concentration (%)	
Catalunya	81.08
Lien Position (%)	
First-Ranking	100

Source: Fitch

Recoveries

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

To determine the recovery rate for each loan, Fitch employed the calculation described below. The minimum of:

- the indexed property value net of foreclosure costs (based on Fitch's indexation methodology, whereby 50% credit is given for property price appreciation and foreclosure costs, assumed to be 10% of the value of the underlying property) reduced by the MVD factor; less: (i) accrued interest relating to the mortgage receivable based on the contractual rate for a period of

three years; and (ii) the principal balance of the mortgage receivable; or

- the current balance plus accrued interest for a period of three years.

Recovery proceeds on the redrawn amount are allocated n a *pro rata* basis between the issuer and the seller. Higher priority is given to longer-outstanding debts, which means that the first withdrawal has priority over subsequent withdrawals.

However redraw remains low in the early years of the transaction, since LTVs remain high and in line with the maximum 80% redraw ceiling. WA CLTV of the provisional pool is around 75%. Fitch has reviewed historical redraw data on this portfolio and previous Hipocat transactions that confirms that the actual redraws have remained below 3%.

Cash Flow Analysis

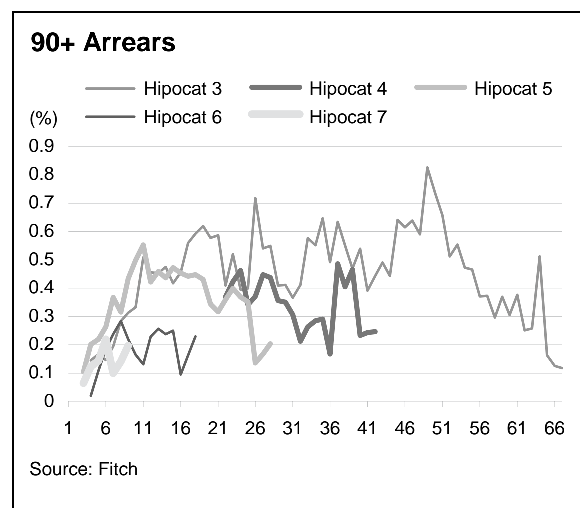
To evaluate the contribution of structural elements, such as excess spread, the reserve fund and other factors, Fitch modelled the cash flows from the mortgages based on the WA recovery rate and WA frequency of foreclosure provided by the loan-by-loan collateral analysis. Recoveries included both interest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

The cash flow model assumes that defaults are spread over the first five years of origination immediately 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 carrying cost until recoveries are received after the assumed 36 months. Interest rates are stressed upwards over time; however, the effect of this factor is limited by the swap.

The cash flow analysis assumes a high level of prepayments on the mortgages – which stresses available excess spread – of 25%, 21% and 18% under ‘AAA’, ‘A’ and ‘BBB’ scenarios, respectively. Under these stresses, repayment of principal will be received before the final legal maturity date. Payment of interest will be received without interruption.

Performance Analytics

This is the eighth RMBS transaction originated by Caixa Catalunya under the HIPOCAT programme and the sixth rated by Fitch. Using its credit cover multiple methodology, the agency upgraded three tranches and affirmed five tranches of HIPOCAT 3, 4 and 5 in October 2004. Fitch affirmed the ratings of HIPOCAT 6 in December 2004. Details of these transactions’ performance are available at www.fitchresearch.com.



Source: Fitch

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 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 c. 27%-33%.

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.

- **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 increases.
- **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 the default probability on loans to self-employed borrowers by 33%-50% to account for their lack of a 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 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, 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 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 higher-value properties. These properties are generally subject to larger MVDs in a deteriorating market than homes with average or below-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 10% of the loan's balance 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 scenario analysis which assumes that 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 WA interest rate of the reference mortgage portfolio throughout the life of a transaction.

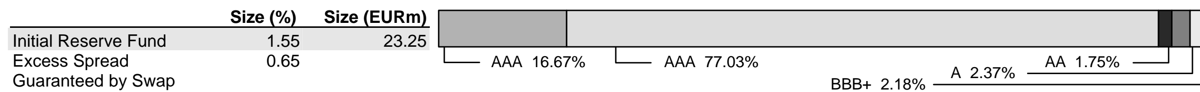
Appendix II: Summary

HIPOCAT 8, Fondo de Titulización de Activos — RMBS/Spain

Capital Structure

Class	Rating	Size (%)	Size (EURm)	Credit Enhancement (%)	Spread (%)	I/P PMT Freq	Maturity	Coupon
A1	AAA	16.67	250.00	7.85	0.04	Quarterly	Mar 2038	3 month Euribor + Spread
A2	AAA	77.03	1,155.50	7.85	0.14	Quarterly	Mar 2038	3 month Euribor + Spread
B	AA	1.75	26.20	6.10	0.16	Quarterly	Mar 2038	3 month Euribor + Spread
C	A	2.37	35.60	3.73	0.26	Quarterly	Mar 2038	3 month Euribor + Spread
D	BBB+	2.18	32.70	1.55	0.46	Quarterly	Mar 2038	3 month Euribor + Spread

	Size (%)	Size (EURm)
Initial Reserve Fund	1.55	23.25
Excess Spread	0.65	
Guaranteed by Swap		



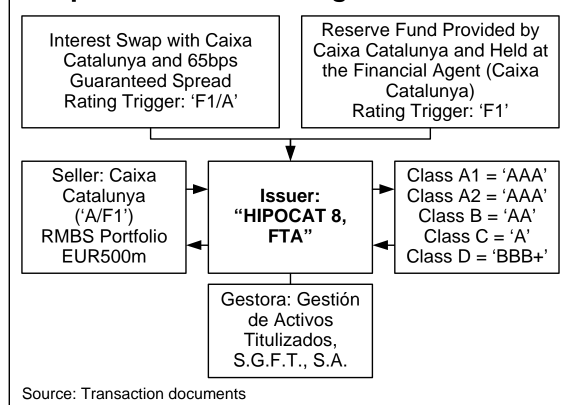
Key Information

Closing Date	6 May 2005	**Role**	Party (Trigger)
Country of Assets	Spain	**Seller/Originator**	Caixa Catalunya
Structure	Sequential	**Structurers**	JPMorgan and Gestión de Activos Titulizados SGFT
Type of Assets	Residential Mortgages	**Issuer**	HIPOCAT 8, FTA
Currency of Assets	EUR	**Lead Manager**	JPMorgan, BBVA
Currency of Notes	EUR	**Trustee**	Gestión de Activos Titulizados SGFT
Primary Analyst	gustavo.celi@fitchratings.com	**Swap Provider**	Caixa Catalunya ('A/F1')
Secondary Analyst	juan.garcia@fitchratings.com	**Financial Agent**	Caixa Catalunya ('F1')
Performance Analyst	sf_surveillance@fitchratings.com		

Fitch Default Model Outputs

Rating Level	AAA	AA	A	BBB
WAFF (%)	19.73	15.79	11.8	7.9
WARR (%)	67.1	72.4	77.4	80.8
WALS (%)	47.5	42.3	37.4	33.9
WAMVD (%)	43.4	38.8	34.2	30.8

Simplified Structure Diagram



Source: Transaction documents

Collateral

Pool Characteristics

Current Principal Balance (EUR)	1,689,405.136	**Regional Concentration (%)**	
Average Current Loan per Borrower (EUR)	98,250	Catalunya	81.08
Average Original Loan per Borrower (EUR)	106,037		
Number of Loans	17,195		
WA Seasoning (Months)	24		
Oldest Loan in Portfolio	May 1994	**Mortgage Characteristics (%)**	
Most Recent Loan in Portfolio	December 2004	First Ranking	100
< 30 Days in Arrears (%)	96.66	Second Homes	0
Interest Rate Type (%)		**Loan to Value (LTV) (%)**	
Variable	100	WA Original LTV	78.8
Fixed	0	WA Indexed Current LTV	66.9
WA Interest	3.60	WA Current LTV	74.6
Interest Index	EURIBOR, IRPH		
		Average Calculated DTI (%)	**35.8**

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