RMBS/Spain
New Issue

HIPOCAT 10, Fondo de Titulizacion de Activos

Ratings

Class	Amount (EURm)	Legal Maturity	Rating	CE (%)
A1	160.0	Oct 2007	AAA	8.80
A2	733.4	Oct 2039	AAA	8.80
A3	300.0	Oct 2039	AAA	8.80
A4	200.0	Apr 2012	AAA	8.80
B	54.8	Oct 2039	A	5.15
C	51.8	Oct 2039	BBB	1.70
D*	25.5	Oct 2039	CCC	NA

* Uncollateralised note issued to fund the creation of the reserve fund at closing date

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Closing Update

Closing occurred on 10 July 2006. The structure and portfolio characteristics described in this report remain applicable. The collateral information throughout the report and on the data sheet it based on the final loan pool as of 8 June 2006.

Related Research

The following special reports provide additional detail on Fitch's rating approach to, and the performance of, the RMBS market; all are available at www.fitchratings.com:

- "*Spanish Residential Mortgage Default Model III - Amended*", dated 15 September 2005
- "*Spanish Performance Bulletin 2005 (Spain/RMBS)*", dated 14 September 2005
- "*A Guide to Cash Flow Analysis for RMBS in Europe*", dated 20 December 2002
- "*Fitch Issuer Report Grades May 2006 Update*", dated 5 June 2006

Summary

This transaction is a cash flow securitisation of a EUR1,500 million static pool of first-ranking residential mortgage loans ("the collateral") granted by Caixa d'Estalvis de Catalunya ("Caixa Catalunya" or "the seller", rated 'A/F1') to residents in Spain. Fitch Ratings has assigned ratings to the notes issued by HIPOCAT 10, Fondo de Titulización de Activos ("HIPOCAT 10" or "the fund") as indicated at left.

This is the 10th residential mortgage securitisation conducted out of the "HIPOCAT" programme, and the eighth rated by Fitch (see *Performance Analytics*). As in previous HIPOCAT transactions, the securitised pool comprises the initial drawdowns of mortgage lines of credit, known as *Crédito Total Primera Vivienda* ("CTPVs").

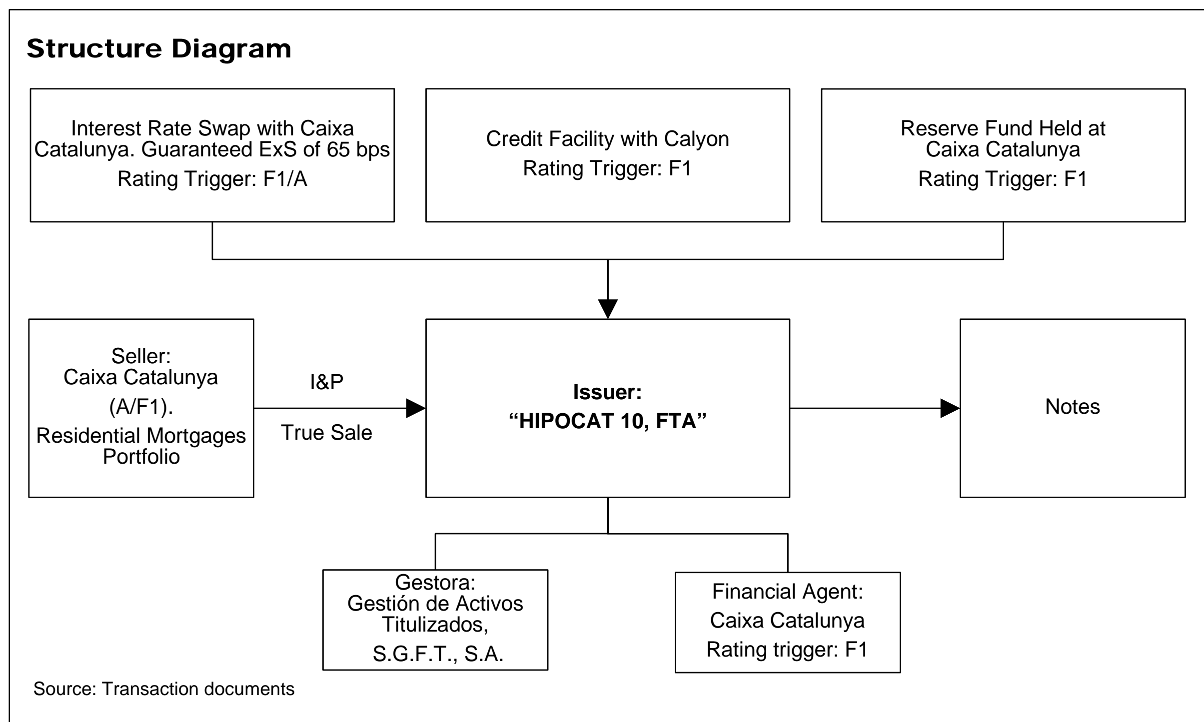
The fund is regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to transform a portfolio of mortgage certificates (*certificados de transmisión de hipoteca* or "CTHs") acquired from the seller into fixed-income securities. The CTHs were acquired from the seller on behalf of the fund by Gestión de Activos Titulizados, S.A., S.G.F.T. (the "*sociedad gestora*"), a limited liability company incorporated under the laws of Spain and whose activities are limited to the management of securitisation funds.

The ratings are based on the quality of the collateral, the underwriting and servicing of the mortgage loans, available credit enhancement ("CE"), the integrity of the transaction's legal and financial structure and the *sociedad gestora*'s administrative capabilities. The ratings of the class A (together the A1, A2, A3, A4), B and C notes address payment of interest on the notes according to the terms and conditions of the documentation, subject to a deferral trigger on the class B and C notes, as well as the repayment of principal by the legal final maturity date of each note. The class D notes were issued to finance the creation of the reserve fund and were subscribed by the seller at closing. The class D notes are ultimately likely to default and their ratings are supported by the expected recovery rate for noteholders, that is, the amounts investors are likely to receive during the life of the transaction (see *Class D notes*).

To verify that the CE available for each class of notes is in line with its respective rating, Fitch analysed the collateral using its loan-by-loan mortgage default model specific to Spain. The agency also modelled the cash flow contribution from excess interest using the stress scenarios determined by its default model.

Credit Committee Highlights

- The class A1 notes will be repaid on a pass-through basis until its final legal maturity date in October 2007, and the class A4 notes will be repaid with a bullet payment in April 2012.



- The 'AAA' rating assigned to the A1 and A4 notes was sized using conservative constant prepayment rate ("CPR") scenarios (see *Cash Flow Analysis*). Beginning July 2008, a principal collection account will be used to accumulate cash for the bullet amortisation of the class A4 notes. Additionally, a sole purpose credit line provided by Calyon, Spanish Branch ("credit facility provider", rated 'AA/F1+') and sized at 6.7% of the original collateral balance has been set up to guarantee that funds are available to redeem these notes in their entirety at their final legal maturity date in case the cash flow from the collateral is not sufficient (see *Credit Facility*).

- All CTPV mortgages are flexible products. Subject to a new credit check, borrowers are given the right by the seller to have further drawdowns on their mortgage, up to an amount that brings the outstanding loan balance to the original loan-to-value ratio ("LTV"), if the current LTV is below 80%, or to an amount equal to an 80% LTV. Since Spanish securitisation legislation specifies that assets are transferred with all rights but no obligations, the securitised collateral is only composed of the first drawings on these mortgages. In its credit analysis, Fitch has assumed that all borrowers will redraw funds up to the maximum of the CTPV facility. As a result, the default probability of each loan in the portfolio has been calculated with the maximum original loan to value ratio ("OLTV"). Moreover, since second draws rank *pari passu* with the first drawdown, Fitch has estimated loss severity by allocating recovery proceeds *pro rata* between the current loan amount owed to the fund and the maximum subsequent advances booked by Caixa Catalunya.

- CTPVs also offer borrowers the additional right of five payments holiday periods during which they can defer interest and principal payments for up to a maximum of 12 months per period, and up to a maximum of 36 months during the life of the loan. Fitch has accommodated such a feature within its cash flow model, by reducing the available funds on each payment date for a conservative period of time. Note that the swap agreement will cover the liquidity risk associated with these loans under a payment holiday option when their aggregated balance is equal or greater than 35% of the outstanding collateral balance (see *Swap Agreement*).

- Since borrowers are already highly leveraged, redraw risk is deemed low. The weighted average ("WA") OLTV of the pool is 83.3% and the current WALTV is 80.4%. Fitch computed that if all borrowers redraw funds up to the maximum of 80% or their own OLTV, the WALTV of the pool would reach 72.8%. The risk implied by these high LTV loans is mitigated by the fact that all CTPVs are used to purchase residential homes. Moreover, 79.8% of the borrowers are regularly employed.

Key Information

Structure

Originator and Seller: Caixa d'Estalvis de Catalunya, ("Caixa Catalunya", rated 'A/F1')

Servicer of the Collateral: Caixa Catalunya

Fund: HIPOCAT 10, Fondo de Titulización de Activos ("HIPOCAT 10")

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

Swap Counterparty: Caixa Catalunya

Paying Agent: Caixa Catalunya

Credit Facility Provider: Calyon, Corporate and Investment Bank (rated 'AA/F1+')

Final Legal Maturity: October 2039

Securitised Portfolio Characteristics

Total Collateral Amount: EUR1.8bn as of 8 June 2006 (of which EUR1.5bn were selected at closing)

WA Original LTV: 83.2%

WA Current LTV: 80.3%

WA Indexed Current LTV: 77.3%

WA Remaining Maturity: 27 years

WA Seasoning: 16.9 months

- The portfolio has a significant exposure to Catalunya (70.0% in volume terms). Since the region is one of the stronger economies in Spain, Fitch has stressed the default probability for the loans concerned by a moderate 5% hit.

Financial Structure

The fund 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. In this structure, Caixa Catalunya is the swap counterparty, the paying agent and it continues to service the collateral. However, for the protection of investors, if Caixa Catalunya is unable to continue to service the collateral, the *sociedad gestora* must appoint a replacement administration company in accordance with the Spanish securitisation law.

The cash bond administration ("CBA") function for this transaction is carried out by the *sociedad gestora,* which is a special-purpose company with limited liability and supervised by the *Comisión Nacional del Mercado de Valores* ("CNMV"). Gestión de Activos Titulizados, S.G.F.T. S.A. was incorporated under the laws of Spain in 1998 and it is fully owned by the Caixa Catalunya group. Its activities are limited to the management of securitisation funds.

The *sociedad gestora* has been actively involved in the pre-closing of the deal. Since closing, the *sociedad gestora* completes cash reconciliation, waterfall calculations and their reporting, including the verification of applicable triggers. It is also responsible of taking any action in the interest of the noteholders, such as the replacement of the servicers, account bank or swap counterparty if applicable.

Interest and principal collections from the collateral are handled jointly through the combined priority of payments, which is described below and commences in October 2006. A principal collection account and a treasury account are held in the name of the issuer at Caixa Catalunya, as the paying agent. Beginning in July 2008, the principal collection account will be used to accumulate cash for the bullet amortisation of the class A4 notes in April 2012 (see *Amortisation of the Notes*). The treasury account is used to maintain the reserve fund and receive all other incoming cash flow of the mortgage pool two days after collection. Amounts standing to the credit of these accounts will earn the fund a guaranteed return equal to three-month Euribor. Note that the fund is subject to negative carry with regards to the principal collection account, which only yields three-month EURIBOR while the fund still needs to service the A4 notes. This has been accommodated within the cash flow model.

With regard to these accounts, if Caixa Catalunya's short-term rating is downgraded below 'F1', the *sociedad gestora* will be required to take one of the following steps within 30 days:

1. find a third party with a satisfactory rating to guarantee its obligations;
2. transfer the treasury account to another entity rated at least 'F1'; or

Comparison Table: HIPOCAT 7, 8, 9, & 10

(%)	HIPOCAT 7	HIPOCAT 8	HIPOCAT 9	HIPOCAT 10
WA Original LTV	86.4	78.8	80.9	83.3
WA Current LTV	83.0	74.6	78.6	80.4
Concentration in Catalunya	69.9	79.3	67.5	70.0
Current Term to Maturity (Years)	26.3	25.7	26.9	26.9
WA Seasoning (Months)	21.1	22.2	14.4	16.9

Pool information as of the closing date for HIPOCAT 7, 8 and 9 and of the provisional portfolio for HIPOCAT 10
Source: Fitch/Titulización de Activos

3. if neither of the above are possible, provide a guarantee of financial assets rated at least on a par with the Kingdom of Spain (‘AAA/F1+’).

Alternatively, if neither of the above options are possible, the *sociedad gestora* could also invest the balance of the accounts temporarily, and until the next payment date, in fixed-income assets (“qualified investments”). An ‘F1’ rating is sought for qualified investments maturing within 30 days, and a rating of ‘F1+’ for longer periods.

All the notes will pay interest quarterly in arrears based on three-month Euribor plus a margin.

Priority of Payments

On each quarterly payment date, in January, April, July and October, the combined ordinary priority of payments will be as follows:

- expenses and servicing fees;
- net swap payments (if applicable);
- interest due on i) the class A1, A2, A3, A4 notes ii) disbursed amounts under the credit line if any; (paid *pro rata*)
- class B interest (if not deferred);
- class C interest (if not deferred);
- principal due for the class A to C notes in order of seniority (see *Amortisation of the Notes*), and reimbursement of any drawn amounts under the liquidity facility (if any);
- class B interest if deferred, which will occur if the ratio of gross cumulative defaults reaches 11.0%;
- class C interest if deferred, which will occur if the ratio of gross cumulative defaults reaches 7.0%;
- replenishment of the reserve fund;
- class D interest and principal (see *Class D Notes*); and
- subordinated amounts.

The ratio of cumulative defaults is defined as the balance of loans more than 18 months delinquent over the initial collateral balance. The structure covers ordinary and extraordinary expenses through the 0.65% excess spread that is guaranteed by the swap agreement (see *Swap Agreement*). Initial expenses have been covered via the subordinated loan agreement granted to the fund by Caixa Catalunya before the closing date.

Amortisation of the Notes

As opposed to most Spanish RMBS transactions that include the same legal maturity for all the notes, the class A1 notes are pass-through notes with a legal maturity date of October 2007 and the class A4 notes are bullet notes with a legal maturity date of April 2012.

The class A1 notes will begin to amortise in the first payment date in October 2006 and will finish amortising in October 2007. In case the cash flow from the collateral is not sufficient, the *sociedad gestora* will use the line of credit provided by Calyon, Spanish Branch to guarantee that these notes are redeemed in their entirety.

The class A2 notes will commence to amortise after the class A1 notes have been redeemed in their entirety and any disbursed amounts (if any) under the credit line have been reimbursed. However, as from October 2009, the class A3 notes will also begin to amortise, the fund will share equally the principal available funds between class A2 and A3 notes from that date onwards, and only after the principal collection account for the amortisation of class A4 notes has been funded.

Beginning in July 2008, the above-mentioned principal collection account should receive EUR12.5m on each of the 15 following payment dates until April 2012, in order to redeem in full the class A4 notes. If on a given payment date, not enough principal funds are available to fund the principal collection amount up to this required levels, the unfunded amount will accumulate for the next payment date. On April 2012, in case the principal collection amount is not funded to the required EUR200m, the *sociedad gestora* will use the line of credit to guarantee that these notes are redeemed in their entirety.

Exceptionally, if the cumulative balance of defaulted loans (i.e. those more than 18 months in arrears) exceeds 25.0% of the outstanding balance of the class A notes, then the A1, A2, A3 and A4 notes will amortise on a *pro rata* basis.

The class B and C notes will amortise sequentially on a pass-through basis after the class A notes have been redeemed in full, and amounts disbursed under the credit line have been reimbursed, if any. However, the class B and C notes will be redeemed *pro rata* with the class A notes if: (i) CE for the class A notes has more than doubled since closing; (ii) the outstanding balance of mortgages more than three months in arrears is less than 1.5% and 1% for the class B and C notes, respectively; (iii) the reserve fund is at its required level; and (iv) the outstanding balance of mortgage loans is greater than 10% of their original balance.

The amortisation profile for the class D notes has been structured to mirror the amortisation profile of the reserve fund (see *Reserve Fund*). Principal funds

available for the amortisation of the class D notes will be limited to the cash released from the reserve fund, the latter being subject to a floor of 0.85% the initial balance of class A to C notes. Caixa Catalunya subscribed the class D notes at closing, and is allowed by the transaction documents to modify the definition of available funds for amortisation, effectively incorporating any excess spread remaining in the waterfall after replenishing the reserve fund (if any). This option will become effective if the seller is not the sole holder of such notes, or if it decides to exercise the above mentioned option, in both cases after informing the *sociedad gestora*. Within the cash flow analysis conducted by Fitch, only the most conservative amortisation scenario has been considered, which restricts the principal amortisation to the funds released by the reserve fund.

All the notes, excluding class D, are subject to a clean-up call that the *sociedad gestora* has the right to exercise when less than 10% of the initial collateral remains outstanding. The clean-up call does not guarantee the full or partial redemption of the class D notes.

Credit Facility

A credit facility (the "credit facility") is provided by Calyon to the fund, in an amount equivalent to 6.7% of the original collateral balance. This facility is in place to ensure the entire amortisation of the class A1 and A4 notes at their respective final legal maturity dates, in case the cash flow received from the collateral is not sufficient.

Should the credit facility provider's short-term rating fall below 'F1', within 30 days, the *sociedad gestora*, will take one of the following steps:

- find an entity rated at least 'F1' to guarantee its obligations under the credit facility agreement; or
- find a replacement counterparty with a Short-term rating of at least 'F1'.

The facility will be paid a senior commitment fee over the available limit on every payment date, and any draw-down amounts will accrue an interest rate equivalent to three-months Euribor plus the spread of the class A1 or A4 notes, which ever is applicable, plus 3 basis points ("bp"). Note that these items have been accommodated within the cash flow model.

Swap Agreement

The notes benefit from a swap agreement between the fund and Caixa Catalunya, under which the issuer will pay Caixa Catalunya the interest received on the performing collateral; in return, it will receive three-month Euribor plus the WA spread on the class A to C notes plus 65bp, on a notional that is defined as the balance of performing assets. Note that the notional amount will only include the loans within a payment holiday option if their aggregate outstanding balance represents 35% or more of the then balance of the collateral.

Moreover, the fund will also receive an amount equivalent to the servicing costs of the collateral that is not within a payment holiday option, unless the aggregated balance of the latter ones represents 35% or more of the then balance of the collateral. The swap will also pay these servicing costs if a replacement servicer is appointed.

This has three main effects:

1. it hedges the structure against an interest rate mismatch between the assets and the liabilities arising from differences in the reference indices (for example, 12-month Euribor for the assets versus three-month Euribor for the liabilities);
2. it produces a stable spread (65bp) on the performing loan balance over the life of the deal, thereby neutralising any compression in the WA margin on the loans and offsetting the increase in note funding costs over time; and
3. it covers the servicing costs of the collateral.

If Caixa Catalunya 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 rating of at least 'A/F1'; or
- cash- or security-collateralise its obligations in an amount satisfactory to the rating agencies.

Fitch's cash flow analysis modelled for servicing fees to be paid by the swap in all stress scenarios, considering the rating downgrade language incorporated. Indeed, if Caixa Catalunya is downgraded below 'A/F1' and when posting of collateral is the action of choice, it will, within 15 calendar days, report to Fitch the formula to calculate the mark-to-market of the swap and therefore the amount to be posted as collateral. If the formula is not in line with Fitch's criteria, the mark-to-market formula would have to account for an additional 50bp per year with regards to this servicing replacement cost feature.

For details on the method used to calculate the collateral amount see "*Counterparty Risk in Structured Finance Transactions: Swap Criteria*",

dated 13 September 2004 and available at www.fitchratings.com.

Reserve Fund

The reserve fund has been created at closing through the proceeds of the class D notes subscribed by the seller. This initial reserve fund represents 1.70% of the initial note balance.

Provided that the balance of loans over 90 days in arrears does not exceed 1.0% of the non-defaulted collateral, the closing date was more than three years earlier, and the size of the reserve fund was at its appropriate level on the previous payment date, the required reserve fund amount can be reduced to the equivalent of 3.4% of the then outstanding collateral balance. This is subject to an absolute floor of 0.85% on the original note balance.

■ Collateral

As of 8 June 2006, the collateral portfolio consisted of first disbursements under CTPV loans originated by the seller. All were secured by properties in Spain and benefited from first-ranking mortgages registered in the *Registro de la Propiedad Inmobiliaria* (the official register). Other characteristics of the collateral are presented in the Portfolio Summary as of 8 June 2006 table below.

The total portfolio comprised CTPV facilities, which are flexible products that offer borrowers the option for further redraws and payment holidays, subject to certain stringent criteria, which include a new credit approval, a maximum debt to income ("DTI") ratio of 40% and no arrears balances in the previous 12 months. Subject to Caixa Catalunya's approval and other eligibility criteria, the borrower may take up to five payment holidays aggregating to a total of 36 months during the life of the mortgage. No single payment holiday may be longer than 12 months.

Borrowers 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 contractual credit facility limit; or 2) an 80% LTV ratio. Some of 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 30 years.

The purpose of the first draw down under the CTPV facility is always the acquisition of first home and only residential properties.

Servicing of the Collateral

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

Royal Decree 685/82, which governs the issuance of the CTHs subscribed by HIPOCAT 10, stipulates that the issuer of the mortgage transfer 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 whereby the *sociedad gestora* may be able to replace the servicer upon any breach of the terms of the servicing contract regulated by the issuer's deed of incorporation, if current legislation makes this possible.

Portfolio Summary as of 8 June 2006

Pool Characteristics	
Current Principal Balance (EURm)	1,828
Average Current Loan per Borrower (EUR)	136,191
Average Original Loan per Borrower (EUR)	142,659
Oldest Loan in Portfolio	June 1994
Most Recent Loan in Portfolio	February 2006
Interest Rate Type	
Floating-Rate Loans (%)	100.0
WA Interest (%)	3.59
Payments	
Payment Frequency (%)	Monthly
Payment Method	Direct Debit
Loans <30 Days in Arrears (%)	100
Regional Concentration (%)	
Region of Catalunya	70.0
Lien Position (%)	
First-Ranking	100.0

Source: Fitch

Origination and Servicing

The origination and servicing strategies of Caixa Catalunya were documented by Fitch in December 2005, within the scope of Caixa Catalunya's previous RMBS transaction. Please see new issue report "*HIPOCAT 9, FTA*" dated 22 December 2005 and available at www.fitchratings.com. The main underwriting and servicing guidelines are summarised below.

- The majority of originations take place directly at the branch level. Caixa Catalunya uses internet and telephone banking for information purposes only. Although 5%-10% of originations are sourced by intermediaries, Caixa Catalunya is currently in the process of rationalising the number of small intermediaries it works with.

- Catalunya is one the most competitive mortgage markets in Spain. Typically, 95% of Caixa Catalunya's originations will be approved at the branch level, whilst 5% would need to be sanctioned at a *Dirección Territorial* or regional office (of which Caixa Catalunya has six; four in Catalunya, one in Madrid and one on the Mediterranean coast). Depending on the branch level of authority, loans between EUR200,000 and EUR320,000 can be approved at this level.

- Since 2001, Caixa Catalunya has used credit scoring, but as a consultative rather than a decision-making tool. As is typical with all Spanish originators, if written authorisation is given by the borrower, credit checks will be conducted with the CIRBE (Spanish Central Bank credit database) and RAI (Judicial database).

- Credit analysis by the bank will be conducted for further advances requested by the borrower. If the borrower has been in arrears in the previous 12 months on any loan granted by Caixa Catalunya, including the mortgage loan, no further advance or payment holiday will be approved.

- With regard to property valuations, Caixa Catalunya works with five property appraisers regulated by and registered with the Bank of Spain. It routinely conducts second valuations to verify the values of properties being financed.

- The maximum OLTV is typically set at 80%, but higher LTV loans can be granted if the borrower presents an acceptable guarantor or additional collateral. The borrower's credit history with Caixa Catalunya will be a significant factor in the approval process. In terms of affordability, a maximum 40% debt-to-income ("DTI"), calculated using stressed monthly debt obligations over the borrower's disposable income, is considered.

- The management of arrear accounts is initially conducted automatically, and typically conducted at the branch level. On a daily basis, branch officers monitor which clients have missed a payment and make follow-up phone calls/actions.

- If a delinquent position goes beyond 38 or 90 days, depending on the individual circumstances, servicing will be conducted by the third-party servicer. If the position remains delinquent after 150 days, a decision is made in respect of submitting a legal demand, and in any case, after 210 days the foreclosure process commences. For borrowers which exercise the payment holiday option, foreclosure process may commence right after the first missed payment after the end of the forbearance.

- Caixa Catalunya's team responsible of recovery and arrears management is about 45 strong, of which about 12 are exclusively dedicated to mortgage loans. Also, the seller works with about 71 external lawyers that assist in the foreclosure process.

■ Credit Analysis

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

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 focused on a borrower's ability to pay, implements comparatively strict origination guidelines in this area and allows a maximum DTI of only 40%. Fitch took the specific characteristics of the loans into consideration in its default probability analysis of the portfolio. The agency used the maximum of OLTV of the first draw and the maximum drawn down amount under the credit facility to calculate its base default probabilities. Fitch increased the default probability for self-employed borrowers (around 20.0% of the pool).

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 greater price increases than elsewhere in Spain. Based on its analysis of the real estate market, Fitch assumed

Further Drawn Down Amounts – Existing HIPOCAT Deals

	HIPOCAT 4	HIPOCAT 5	HIPOCAT 6	HIPOCAT 7	HIPOCAT 8	HIPOCAT 9
Issue Date	Jul 01	Oct 02	Sep 03	Jun 04	May 05	Dec 05
Initial Outstanding Balance (EUR x Mio)	300.0	696.0	850.0	1,400.0	1,500.0	1,000.0
Additional Drawn Down Amounts (EUR x Mio)	12.2	23.0	23.8	47.4	100.7	43.9
% Additional Drawn Down Amounts (%)	4.1	3.3	2.8	3.4	6.7	4.4
Number of CT Facilities as of the Closing Date	4,787	10,149	10,467	14,333	15,465	8,277
Number of CT Facilities on Which Additional Amounts Have Been Drawn Down	705	1,010	909	2,109	5,206	2,053
% of the Pool (%)	14.7	10.0	8.7	14.7	33.7	24.8

Source: Fitch Performance Analytics

marginally larger market value declines ("MVDs") for certain regions and for some large urban areas. To determine the recovery rate for each loan within the pool, Fitch employed the calculation described below that identifies 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), 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 on a *pro rata* basis between the issuer and the seller. However, redraw remains low in the early years of the transaction, since LTVs are high and in line with the maximum 80% redraw ceiling. The WA CLTV of the provisional pool is around 80.3%.

Fitch has reviewed historical redraw data of previous HIPOCAT transactions. Observations from previous HIPOCAT deals indicate that a significant number of borrowers are indeed using the credit facilities but drawing down small amounts (please see Further Draw Down Amounts – Existing HIPOCAT Deals table above). To derive MVDs for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with those of markets in other European countries. As with its other European mortgage default models, the agency has increased MVDs for higher-value properties. These are generally subject to higher declines in a deteriorating market than houses with average or below-average market values owing to limited demand.

Cash Flow Analysis

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).

The cash flow model assumes that defaults are spread over the first five years of origination, starting straight after closing. The analysis calculated the cost of carrying defaulted loans as the difference between the performing balance of the collateral and the notional note balance until all the recovery proceeds are collected. Excess spread, the reserve fund and principal collections must be sufficient to cover the carrying cost until all recoveries are received.

CE analysis accounted for the interest deferral mechanism in place on the class B and C notes, which will redirect funds away from the junior notes and towards the more senior notes. Should the triggers be hit, while interest on the class B and C notes may be deferred for a period, it will ultimately be paid prior to the legal maturity date.

The agency also modelled prepayments, which can affect certain components of a transaction. Primarily, they lower the absolute amount of excess spread, which is key to the total CE in this structure. On the other hand, since the principal repayment is directed to the senior series, these notes benefit from higher CE as a result of the increase in subordination. Prepayments may also cause adverse selection as the strongest obligors are likely to be most inclined to prepay, which would leave the pool dominated by weaker obligors as the collateral ages. The base case prepayment rate used in the cash flow model is 12.0%, and Fitch applied rates of 25.0% under a 'AAA', 20.0% at 'A', 18.0% at 'BBB' and 15.0% at 'BB' scenarios. With regards to the low prepayments stress that is in line with a 'AAA' rating scenario, Fitch applied an annual level that adjusts downwards from a base case ratio to 2.5% six months after closing.

The analysis showed that the CE levels provided for each of the tranches would be sufficient to withstand

the default hurdles and losses determined by the agency for the individual ratings.

Class D Notes

The performance of the class D notes requires very favourable conditions for the collateral backing the series A to C 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 D notes. Fitch ran multiple stress scenario assumptions, including:

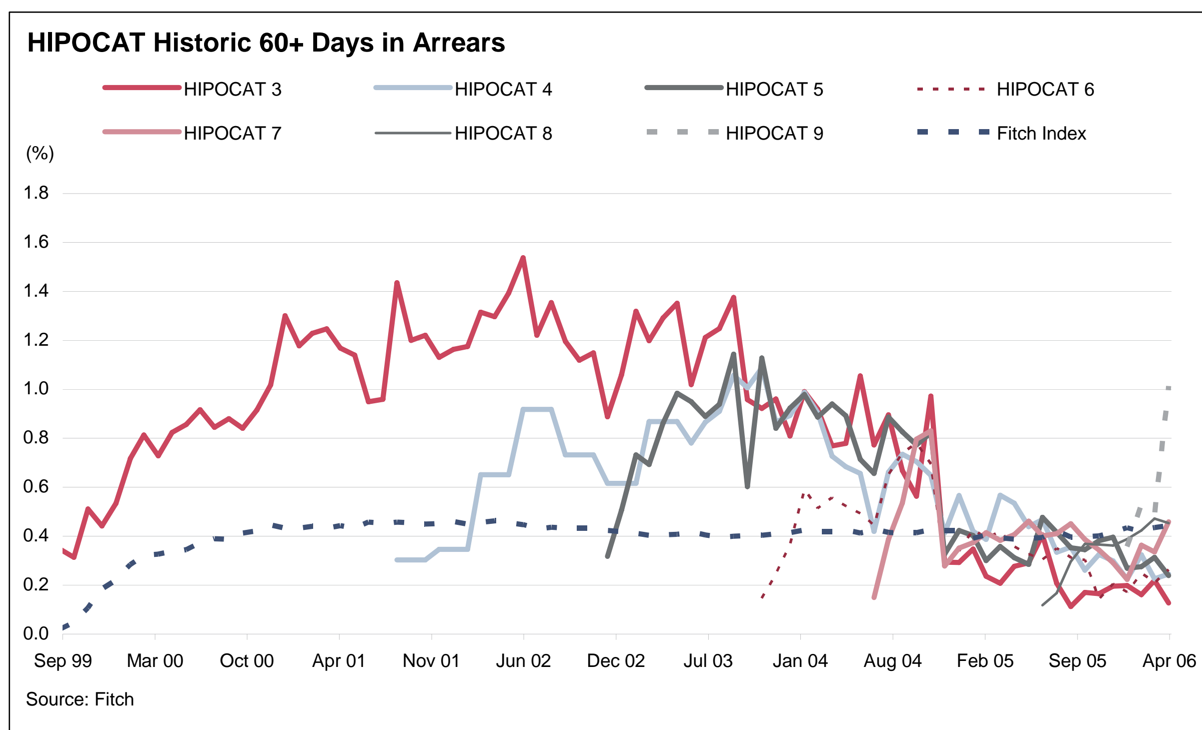
- alternative timing of default assumptions: back-loaded, front loaded as well as evenly spread defaults;
- alternative interest rates: increasing, low, and constant interest rate scenarios;
- prepayment speeds: high, low and average historical prepayment rates;
- different WA margin compression rates 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' rating on the series D notes is supported by the expected recovery rates. As default on the series D notes appears probable, a distribution of possible recovery rates was obtained. The recovery rate has been calculated as the present value of the series D notes' expected interest and principal payouts using a discount factor of 8.0%. Based on Fitch's calculation, the expected recovery rate was in the range of 50%-80% of the initial note balance.

Performance Analytics

Portfolios securitised in previous HIPOCAT transactions are performing well, although arrears over 60 days are above those typically seen in other Spanish RMBS transactions. However, 60 days arrears are lower for the most recent HIPOCAT transactions which may attributable to the scoring system implemented by Caixa Catalunya in 2001.

Fitch upgraded five tranches and affirmed three tranches of HIPOCAT 3, 4 and 5, and affirmed the ratings of HIPOCAT 6 and HIPOCAT 7 in September 2005, considering among other factors the delinquency performance, the increase in CE due to the amortisation of senior notes and the build-up of the reserve funds. Details of HIPOCAT transactions' performance are available at www.fitchresearch.com. Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance performance analytics team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk. Please call the Fitch analysts listed on the first page of this report with any queries regarding the initial analysis or the ongoing performance.



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 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 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 the default probability 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 a 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 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 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

HIPOCAT 10, Fondo de Titulización de Activos — RMBS/Spain

Capital Structure

Class	Rating	Size (%)*	Size (EURm)	CE (%)	I/P PMT Frequency	Legal Maturity	Interest rate + Spread	ISIN
A1	AAA	10.67	160.0	8.80	Quarterly	October 2007	Euribor 3m + 0.02%	ES0345671004
A2	AAA	48.90	733.4	8.80	Quarterly	October 2039	Euribor 3m + 0.14%	ES0345671012
A3	AAA	20.00	300.0	8.80	Quarterly	October 2039	Euribor 3m + 0.15%	ES0345671020
A4	AAA	13.33	200.0	8.80	Quarterly / Bullet	April 2012	Euribor 3m + 0.10%	ES0345671038
B	A	3.65	54.8	5.15	Quarterly	October 2039	Euribor 3m + 0.30%	ES0345671046
C	BBB	3.45	51.8	1.70	Quarterly	October 2039	Euribor 3m + 0.60%	ES0345671053
D**	CCC	1.70	25.5	n.a.	Quarterly	October 2039	Euribor 3m + 4.50%	ES0345671061

* The percentages are expressed as a proportion of the initial collateral balance.
** Un-collateralised note issued to fund the creation of the reserve fund at closing date.

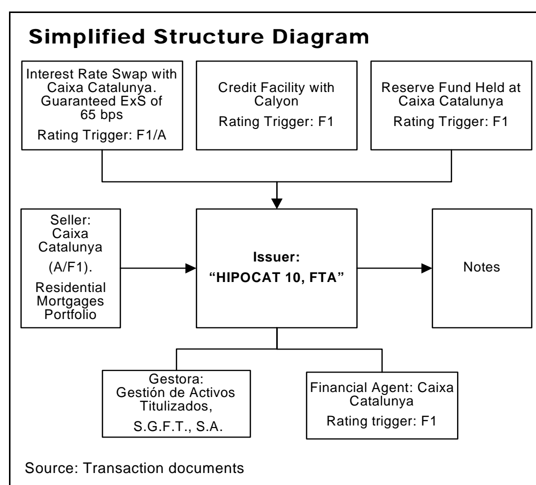
Key Information

		Role	Party (Trigger)
Closing Date	10 July 2006	**Seller/Originator**	Caixa Catalunya
Country of Assets	Spain	**Structurer**	Calyon, Corporate and Investment Bank and Gestión de Activos Titulizados SGFT
Structure	Pass through, except A4 which is bullet and sequential (pro rata under certain conditions)	**Issuer**	HIPOCAT 10, FTA
Type of Assets	Variable rate, residential mortgages	**Lead Managers**	Caixa Catalunya, Calyon ('AA/F1+') HSBC Bank PLC ('AA/F1+')
Currency of Assets	EUR	**Trustee**	Gestión de Activos Titulizados SGFT
Currency of Notes	EUR	**Swap Provider**	Caixa Catalunya ('A/F1')
Primary Analyst	marina.alcalde@fitchratings.com	**Account bank**	Caixa Catalunya ('F1')
Secondary Analyst	juan.garcia@fitchratings.com	**Financial Agent**	Calyon ('F1')
Performance Analyst	sf_surveillance@fitchratings.com	**Credit facility**	Caixa Catalunya

Fitch Default Model Outputs

Rating Level	AAA	AA	A	BBB
WAFF (%)	20.1	16.1	12.1	8.0
WARR (%)	57.9	63.4	68.8	68.8
WALS (%)	57.1	51.6	46.2	46.2
WAMVD (%)	45.4	40.2	35.1	35.1

Simplified Structure Diagram



Source: Transaction documents

Collateral

Pool Characteristics

Current Principal Balance (EUR)	1,828
Average Current Loan per Borrower (EUR)	136,191
Average Original Loan per Borrower (EUR)	142,659
Number of Loans	13,429
WA Seasoning (Months)	16,9
Oldest Loan in Portfolio	June 1994
Most Recent Loan in Portfolio	February 2006
< 30 Days in Arrears (%)	20.7
Interest Rate Type (%)	
Variable	100
WA Interest	3.59
WA Margin	0.68
Interest Index	IRPH (42.7%); 12-Month Euribor (56.5%)

Regional Concentration (%)	
Catalunya	70.0
Mortgage Characteristics (%)	
First Ranking	100
Second Homes	0
Loan to Value (LTV) (%)	
WA Original LTV	83.2
WA Indexed Current LTV	77.3
WA Current LTV	80.3
Average Calculated DTI (%)	35

Source: Fitch, Transaction documents

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