

Hipotecario 2, Fondo de Titulización Hipotecaria, Bonos de Titulización Hipotecaria

Spain

CLOSING DATE:

December 9, 1998

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TRANSACTION IN BRIEF

	Senior Series A	Subordinated Series B
Rating:	Aaa	A2
Amount:	PTAs 168,950,000,000	PTAs 6,050,000,000
Coupon:	6 mo. PT. LIBOR + 0.20%	6 mo. PT LIBOR+ 0.48%
Payment Dates:	May 16th, November 16th	
Final Maturity:	May 16th, 2023	
Issuer:	Hipotecario 2 Fondo de Titulizacion Hipotecaria	
Originator/Administrator:	Argentaria (Argentaria, Caja Postal y Banco Hipotecario, S.A.)	
Management Company (Gestora):	Europea de Titulizacion, S.A., S.G.F.T.	
Swap Provider:	Argentaria (Aa3)	
Depository/Paying Agent:	Banco de Negocios Argentaria (Aa3)	
GIC Provider:	Argentaria (Aa3)	
Lead Managers:	Argentaria (Aa3) Banco de Negocios Argentaria	

Collateral Characteristics

Type:	Mortgage participations (Participaciones Hipotecarias: PHs)
Coupon:	Underlying mortgage rate
Count:	25,780
Total Amount (Approx.):	PTAs 175 billion

Provisional Pool of Underlying Mortgage Loans

Type:	Primary residential mortgage loans
WALTV:	60.39% Max: 80%
Average Loans:	Ptas 6,846,972
WAC (Current):	5.63%
Interest Basis:	Variable
Indices:	MIBOR and MHTO
Orig. Loan Purpose:	Purchase, Construction and Renovation
Geog. Concentrations:	Madrid 26.70%; Andalucia 20.44%; Comunidad Valenciana 8.51%; Canarias 7.95%; Other 36.40%
Structure:	Senior/Mezzanine/Reserve Fund
Credit Enhancement:	Reserve Fund (PTAs 1,837,500,000), 3.46% Series B Notes and Spread
Issue Date:	December 9th, 1998



OPINION

Moody's ratings of the Series A and Series B bonos de Titulización Hipotecaria (BTH's mortgage securitisation bonds) issued by Hipotecario 2 reflect:

1. The legal characteristics of the mortgage participations (participaciones hipotecarias – "PHs") and a loan by loan analysis of the quality of the mortgage loans underlying them;
2. The subordinate position of the Series B Mezzanine bonds with respect to the Series A bonds;
3. The credit enhancement provided by the reserve fund;
4. The strength of the cash flows, including excess spread available to cover losses;
5. The contractual obligations and credit strength of the parties to the transaction,
6. The experience of the Gestora Europea de Titulización S.A, SGFT and the supporting guarantee of the Gestora obligations by all of its shareholders.

Moody's evaluation included the legal and regulatory context of the primary and secondary mortgage market and of structured transactions in Spain.

The ratings assigned to the BTHs address the timely payment of interest and payment on principal on or before the final maturity of the transaction in May 2023.

RATING SUMMARY

Structure

The (BTHs) are issued by a mortgage securitisation fund (fondo de titulización hipotecaria) which was created and is managed by Europea de Titulización S.A SGFTH, the management company. The BTHs are secured by PHs.

Under Spanish law each PH represents a certain percentage of a single mortgage loan for the entirety of its remaining life and grants to its holder the right to undertake executory action against the originator and, under certain circumstances, the right to pursue the mortgage debtor. As the Fondo does not possess legal personality any such action must be taken on its behalf by the Gestora. In this transaction all of the PHs represent 100% of the underlying mortgage loan and pay interest at the mortgage rate. Payments of interest on PHs purchased by a mortgage securitisation fund are not subject to withholding tax. However, interest payments on the BTHs issued by the fund are taxable.

All of the mortgage loan securing the PHs were originated by Argentaria which will continue to service the loans and will substitute or repurchase any PH that is found to be backed by a loan that fails to meet various criteria.

The Fondo benefits from a GIC with Argentaria that guarantees a rate of interest equal to the Bonds reference interest rate, on all amounts deposited in the Collections Accounts opened in the name of the Fondo with the originator.

Collateral

Moody's believes that the provisional pool of mortgage loans underlying the PHs has several strong characteristics. The mortgages consist of first charges on residential properties that are all believed to be owner occupied. Geographic diversification is strong with high concentrations in Madrid, and Andalucía. The average current loan to original valuation ratio is 60.39%. The pool benefits from average seasoning of approximately 2.6 years while the short average life remaining on the mortgages loans allows equity to build up in the property relatively quickly.

Credit Enhancement

Moody's compared the expected performance of the mortgage pool in a variety of severe economic scenarios to determine the necessary credit protections to cover losses and arrears at a level consistent with the ratings assigned.

The first layer of protection is *spread* in the transaction, which is the difference between the note rate paid to the bondholders (Peseta LIBOR plus 20bp on the series A Bonos, and Peseta LIBOR plus 48bp on the series B Bonos) and the payment received from the swap counterparty. Argentaria, as provider of the swap, receives the rate on the PHs less 60bp and pays the Fondo the weighted average rate of the class A and B Bonos.

The value of the ongoing spread was assessed under a variety of adverse conditions which would minimise its availability, including high prepayment speeds, various loss distributions, and high arrears levels. Spread that is not used to cover shortfalls of interest or principal or to replenish one of the reserve funds within each interest period is not trapped within the structure.

The second layer of protection for investors is the *reserve fund*. 1.05% of the outstanding principal balance of the PHs growing to 3.15%. From that moment, it declines in size, so that its outstanding balance is equal to the smallest quantity between its original balance and 3.15% of the outstanding principal balance of the PHs for each payment date.

The third layer of protection is the *Series B bonos which initially amount to 3.46% of the original PH balance*. Amortisation of the Series B Bonos will take place when the outstanding principal balance of the B Bonos is greater than, or equal to, 6.90% of the outstanding principal balance of the A Bonos. From that moment on, both A and B Bonos will amortise proportionally. The amortisation of the B Bonos will cease as soon as the B Bonos reach PTAs 1,750,000,000. All the available funds, will then be used to amortise the A bonds, until they are fully repaid, and then to repay the B Bonos.

Start-up expenses are paid through a subordinated loan from the originators, which is repaid with excess spread.

Origination/Servicing

Moody's reviewed the facilities, underwriting and collections procedures, and servicing systems of Argentaria and compared them with the overall lending practices of banks and mortgage lenders in Spain. Moody's believes that Argentaria is capable of fulfilling its servicing obligations in the transaction.

Management Company (Gestora)

The management company (Sociedad Gestora) has broad powers under the Spanish securitisation law, Europea de Titulización, and has experience of Spanish mortgage securitization structures.

The obligations of the Gestora within the structure are guaranteed by its shareholders in proportion to their holdings. Argentaria accounts for 83% of the Gestora's capital. The remainder is owned by 15 Institutions including JP Morgan with 4%, Abbey National Bank S.A.E. (1.54%), Bankinter (1.53%), Barclays Bank (1.53%), Citibank España (1.53%), Deutsche Bank (1.53%).

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