MBS Bancaja 1 Fondo de Titulización de Activos

Bancaja
MBS
Spain

PLEASE NOTE: This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of April 2004. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The definitive ratings may differ from the provisional ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk.

CLOSING DATE
[20 May 2004]

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RATINGS

Series	Rating	Amount	% of Total	Legal Final Maturity	Maturity Expected
A	(P)**Aaa**	€630,600,000	91.4%	17/11/2035	30/11/2033
B	(P)**Aa2**	€14,500,000	2.1%	17/11/2035	30/11/2033
C	(P)**A2**	€31,100,000	4.5%	17/11/2035	30/11/2033
D	(P)**Baa2**	€13,800,000	2.0%	17/11/2035	30/11/2033
Total		€690,000,0000	100%		

The ratings address the expected loss posed to investors by the legal final maturity. The structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

OPINION

Strengths of the Transaction

- 100% of the loans secured by a first lien mortgage guarantee
- Interest rate swap provided by Bancaja (**A1**/**P-1**) guaranteeing an excess spread of 0.55%
- Excess spread-trapping mechanism through an 18 months "artificial write-off" mechanism
- Good historical performance of the loans included in the provisional portfolio

Weaknesses and Mitigants

- Geographical concentration in the region of Valencia (74%), mitigated in part by the fact that this is the region of Bancaja's origin, where it has its highest expertise. Additionally Moody's mitigates the potential increase in the volatility of losses in light of the fact that the highest concentrations require additional credit enhancement.
- Pro-rata amortisation of the B, C and D Series of notes leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which terminate the pro-rata amortisation of the notes as the performance of the transaction deteriorates.
- The deferral of interest payments on Series B, C and D benefits the repayment of senior series, but increases the default probability on the first series. This negative effect for Series B, C and D is mitigated by setting the deferral trigger at a level in which the increase in the probability of default is consistent with the rating assigned to the Series B, C and D notes.

STRUCTURE SUMMARY

Issuer:	MBS Bancaja 1 Fondo de Titulización de Activos
Structure Type:	Senior/Mezzanine/Subordinated floating-rate notes
Seller/Originator/Servicer:	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja, **A1**/**P-1**)
Payment Dates:	17 February, 17 May, 17 August, 17 November First payment date: 17 August 2004
Interest Payments:	Quarterly on each payment date
Notes Amortisation:	Soft Bullet until the payment date falling on 17 August 2005 Pass-through from 17 November 2005 until the final maturity
Credit Enhancement/Reserves:	0.55% excess spread 1.40% reserve fund Subordination of the notes
Hedging:	Interest rate swap to cover interest rate risk
Interest Rate Swap Counterparty:	Bancaja
Paying Agent:	Bancaja
Management Company (*Gestora*):	Europea de Titulización S.G.F.T, S.A
Arranger:	JP Morgan
Lead Managers:	Bancaja, JP Morgan, Société Générale

PROVISIONAL POOL (AS OF 31 MARCH 2004)

Collateral:	Loans to individuals secured by a first lien mortgage
Total Amount:	€728,283,810
Highest Exposure:	€569,440
Number of Contracts:	14,045
Number of Borrowers:	13,759
Geographic Diversity:	Region of Valencia (74%), Madrid (7%), Catalonia (6%)
WA LTV:	56.13%
WA Remaining Term:	15.1 years
Seasoning:	2.62 years
Delinquency Status:	No loans more than 30 days at closing date
Interest Basis:	Floating (100%)
WA Interest Rate:	3.53%

OVERVIEW

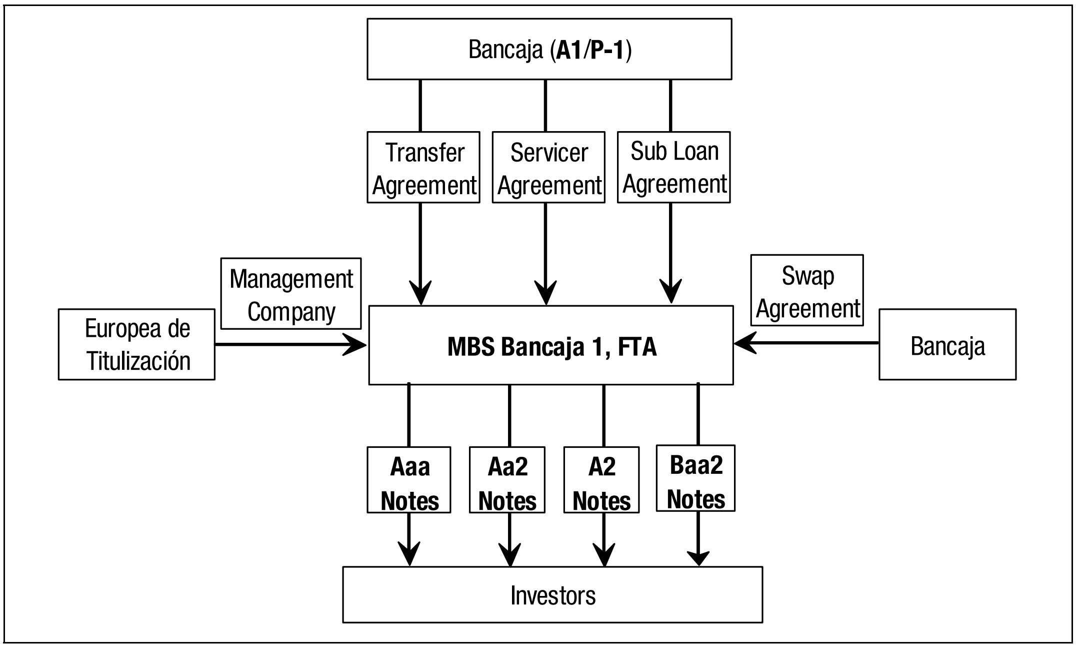
Securitisation of loans granted to individuals and secured by a mortgage guarantee

Through this deal Bancaja is securitising a portfolio of loans granted to individuals and secured by first lien mortgages. However, it cannot be considered as a pure RMBS deal since:

1) Part of the mortgaged properties are industrials, commercials and rural lands/properties, hence the deal does not posses the "residential" feature (see Collateral – Reference Portfolio section).
2) A significant portion of the securitised loans does not have the purpose of acquiring, refurbishing or constructing a property.

In line with the pattern observed in previous Bancaja transactions, the portfolio is highly concentrated in the region of Valencia.

STRUCTURAL AND LEGAL ASPECTS



With this transaction, Bancaja is selling a portfolio of loans to MBS Bancaja 1 (the "Fondo"), which in turn will issue four series of notes to finance the purchase of the loans (at par). The capital structure consists of:

- A subordinated Series D rated **Baa2**
- A mezzanine Series C rated **A2**
- A mezzanine Series B rated **Aa2**
- A senior Series A rated **Aaa**

Each series of notes is supported by the series subordinated to itself, a cash reserve and the excess spread guaranteed under the swap agreement with Bancaja. The swap agreement will also hedge the Fondo against the risk derived from having different index reference rates on the assets and notes sides.
In addition, the Fondo will benefit from a €1.21 million subordinated loan provided by Bancaja to fund the starting expenses and the notes' issuance costs.

Interest rate swap guaranteeing 0.55 bppa of excess spread

According to the swap agreement entered into between the Fondo and Bancaja, on each payment date:

- The Fondo will pay the interest actually received from the loans
- Bancaja will pay the sum of (1) the weighted average coupon on the notes plus 55 bppa, over a notional calculated as the daily average of the outstanding amount of the loans not more than 90 days in arrears since the last payment date; and (2) the weighted average margin on the notes over a notional calculated as the daily average of the outstanding amount of the amortisation account

The excess spread thus provided through the swap agreement constitutes the first layer of protection for investors.

In the event of Bancaja's long-term rating being downgraded below **A1**, within 10 business days it will have to (1) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the notes; or (2) find a suitably rated guarantor or substitute. Any failure by Bancaja to comply with these conditions will constitute an event of default under the swap agreement.

Reserve fund to help the Fondo meet its payment obligations

The second layer of protection against losses is a cash reserve provided by Bancaja and fully funded upfront. It will be used to cover potential shortfalls on interest or principal on an ongoing basis.

At every point in time, the amount requested under the reserve fund will be the lesser of the following amounts:

1) 1.40% of the initial balance of the notes
2) The higher of the following amounts:
   - 2.80% of the outstanding balance of the notes. This amount will be increased by 35% of the outstanding amount of loans more than 3 months and less than 18 months in arrears, if the arrears level (defined as the percentage of loans more than 3 months and less than 18 months in arrears over the outstanding balance of the loans less than 18 months in arrears) exceeds 3%.
   - 1% of the initial balance of the notes

Amortisation of the reserve fund will cease if any of the following scenarios occur:

- The arrears level exceeds 1%
- The reserve fund is not funded at its required level on the previous payment date

Treasury Account and Amortisation Account

The treasury account will be held at Bancaja. The proceeds from the loans, any amount received under the swap agreement and the reserve fund will be deposited in the treasury account.

Moody's has set up some triggers in order to protect the treasury account from the possible downgrade of the short-term rating of Bancaja. Should Bancaja's short-term rating fall below **P-1**, it will have to perform any of the following actions in the indicated order of priority within 10 business days:

1) Find a suitably rated guarantor or substitute.
2) Collateralise its payment obligations under the treasury account in an amount sufficient to maintain the then current rating of the notes.
3) Invest the outstanding amount of the treasury account in securities issued by a **P-1** rated entity.

Bancaja guarantees an annual yield of the amounts deposited in the treasury account equal to the index reference rate of the notes.

Until the payment date falling on 17 August 2005, all funds available to the repayment of the notes will be transferred to a special account held at Bancaja (namely, the amortisation account). This account is subject to the same triggers and the same yield as the treasury account, and will be automatically cancelled on 17 November 2005.

Limitations on the renegotiation of the loans

Any renegotiation of the terms and conditions of the loans is subject to the *gestora*'s approval. Exceptionally, the *gestora* may authorise Bancaja to renegotiate the interest rate or maturity of the loans without requiring its approval. However, Bancaja will not be able to (1) renegotiate the interest rate of any loan if the weighted average margin of the pool falls below 0.50%, or (2) extend the maturity of any loan later than 30 November 2033. Moreover, the renegotiation of the maturity of the loans is subject to the following conditions:

1. The global initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the pool.
2. The frequency of payments cannot be decreased.
3. The repayment system cannot be modified.

Payment Structure Allocation

On each quarterly payment date, the Fondo's available funds (principal and interest received from the asset pool, the reserve fund, amounts received under the swap agreement and interest earned on the transaction accounts) will be applied in the following simplified order of priority:

1) Cost and fees, excluding servicing fee (except in the case of Bancaja being replaced as servicer of the loans)
2) Any amount due under the swap agreement
3) Interest payment to Series A
4) Interest payment to Series B (if not deferred)
5) Interest payment to Series C (if not deferred)
6) Interest payment to Series D (if not deferred)
7) First amortisation fund
8) Interest payment to Series B notes (if deferred)
9) Second amortisation fund
10) Interest payment to Series C notes (if deferred)
11) Third amortisation fund
12) Interest payment to Series D notes (if deferred)
13) Four amortisation fund
14) Replenishment of the reserve fund
15) Termination payment under the swap agreement (except if the Fondo is the defaulting or the sole affected party)
16) Junior expenses

Interest Deferral Mechanism

The payment of interest on the Series B, C and D notes will be brought to a more junior position upon the occurrence of the following criteria:

Series B:	The difference between (1) the outstanding amount of series A and (2) the sum of (i) the outstanding amount of the amortisation account, (ii) the Fondo's available funds after the repayment of the first three items of the payment structure, and (iii) the outstanding amount of the assets pool, is greater than zero
Series C:	The difference between (1) the outstanding amount of series A and B and (2) the sum of (i) the outstanding amount of the amortisation account, (ii) the Fondo's available funds after the repayment of the first four items of the payment structure, and (iii) the outstanding amount of the assets pool, is greater than zero
Series D:	The difference between (1) the outstanding amount of series A, B and C and (2) the sum of (i) the outstanding amount of the amortisation account, (ii) the Fondo's available funds after the repayment of the first five items of the payment structure, and (iii) the outstanding amount of the assets pool, is greater than zero

The principal due to the notes incorporates an 18 month "artificial write-off" mechanism

The transaction's structure benefits from an "artificial write-off" mechanism. This mechanism is implicit in the definition of principal due under the notes, which is calculated as the difference between (1) the outstanding amount of the notes and (2) the sum of (i) the outstanding amount of the amortisation account and (ii) the difference between (a) the outstanding amount of the portfolio and (b) the outstanding amount of the loans with any amount due but unpaid for more than 18 months (or before if the debtor is declared bankrupt or the management company considers that there are no reasonable expectations of recovery under each such loan).

The "artificial write-off" speeds up the off-balance sheet of a non-performing loan; thus, the amount of notes collateralised by non-performing loans is minimised, and consequently the negative carry. However, the most important benefit for the transaction is that the amount of excess spread trapped in the structure is bigger (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost): the transaction makes better use of the excess spread, allowing for lower levels of other credit enhancement figures.

A principal deficiency will occur, on any payment date, if the issuer's available funds are not sufficient to reimburse the principal due under the notes, according to the cash flow rules stated above.

Principal due retention

The principal due will be retained through four amortisation funds. This mechanism only makes sense when any of the interest deferral triggers is hit, and ensures that, once Series A notes are sufficiently collateralised by loans less than 18 months in arrears, the deferred interest on Series B is repaid before a further amortisation of the notes. An analogous reasoning applies to the payment of deferred interest on Series C and D.

Principal due allocation mechanism

As in the most recent Bancaja transactions, this transaction also includes pro-rata amortisation. Pro-rata amortisation entails risk as opposed to fully sequential transactions, given that the credit enhancement decreases in absolute terms.

Until the payment date on which the outstanding amount of Series B, C and D notes exceeds 4.2%, 9.0% and 4.0% of the outstanding amount under all series, respectively, the amount retained as principal due will be used for the repayment of Series A. Once Series B, C and D start to be amortised, the amount retained as principal due will be pro-rata distributed among the four series, so that the percentages indicated above are kept at any payment date thereafter. Nevertheless, amortisation of Series B, C or D will not take place on the payment date on which any of the following events occur:

Series B	Series C	Series D
• The arrears level exceeds 1.5%	• The arrears level exceeds 1.5%	• The arrears level exceeds 1%
• The cash reserve is not going to be funded at its required level		
• The loan balance is less than 10% of the initial loan balance		

COLLATERAL – REFERENCE PORTFOLIO

Granular pool of mortgage loans concentrated in the region of Valencia

As of 31 March 2004, the provisional portfolio is made up of 14,045 loans and 13,759 borrowers, for a total amount of €728,283,810. The loans have been originated by Bancaja in its normal course of business and according to its current credit policies, and comply with the following criteria:

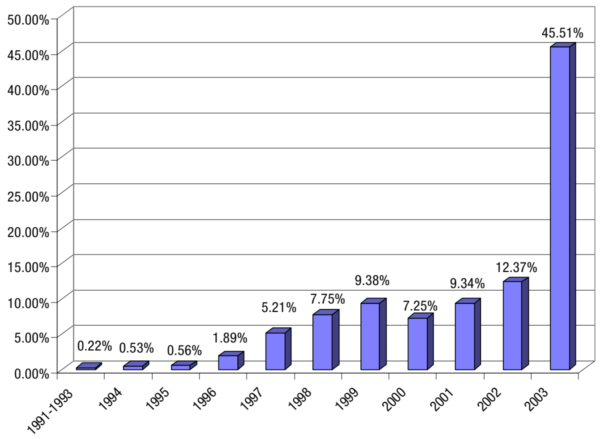
- The loans have been granted to individuals and are repaid by direct debit
- All the loans are secured by a first lien mortgage guarantee, with a weighted average loan-to-value of 56.13%
- All the mortgaged properties are covered by a fire insurance
- At closing all the loans will have accrued at least two instalments
- None of the loan agreements provides a cap on the applicable interest rate
- No loan incorporates any type of balloon payments
- 100% of the principal of the loans has been drawn
- The loans are referenced to floating-rate indexes, with a weighted average interest rate of 3.53%

The loans have been originated between 1991 and 2003, with a weighted average seasoning of 2.62 years and a weighted average remaining term of 15.1 years. The longest loan matures in November 2033.

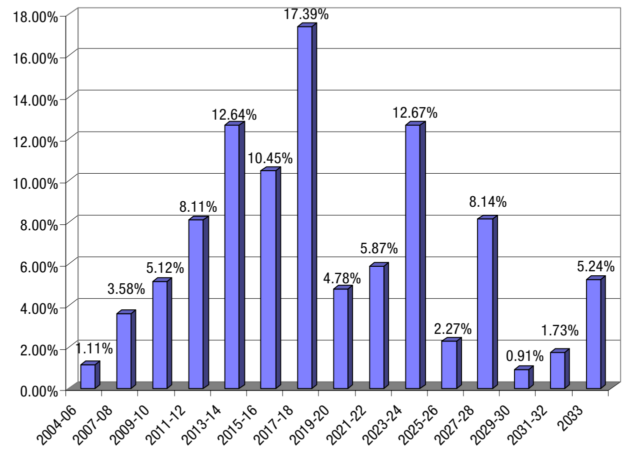
In terms of debtor concentration, the pool is quite granular: the highest exposure is 0.08% of the outstanding of the provisional pool. Furthermore, the sum of the 100 highest debtors represents only 5.24% of the pool.

We have also been provided with the historical arrears information of the loans included in the reference pool. The performance of these loans has been quite good, as shown by the fact that, during the last two years, only 1.29% of the pool has been in arrears at any point in time.

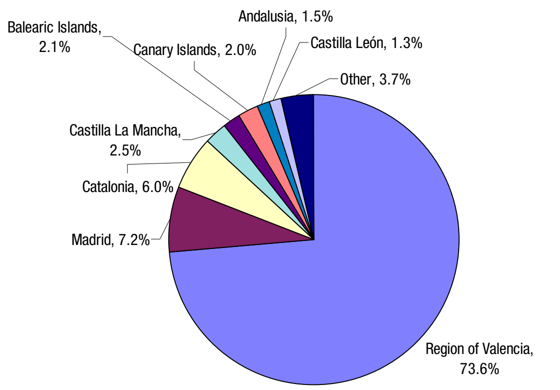
Portfolio Breakdown by Year of Origination



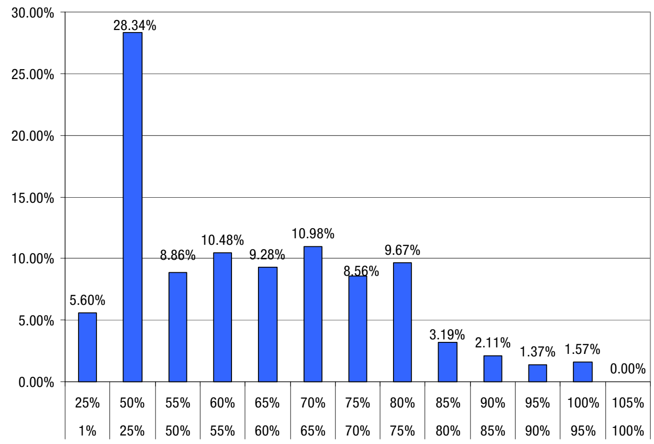
Portfolio Breakdown by Maturity



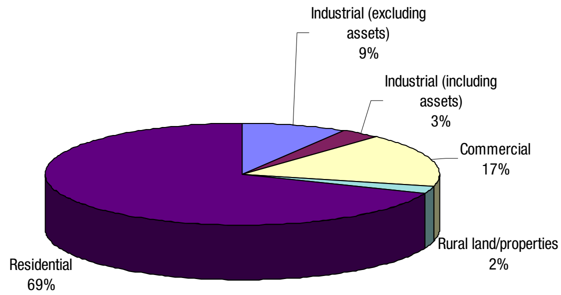
Portfolio Breakdown by Geographic Concentration



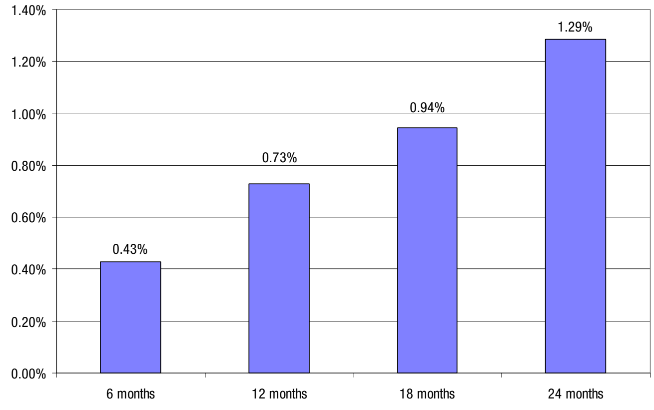
Portfolio Breakdown by LtV



Portfolio Breakdown by Guarantee Type

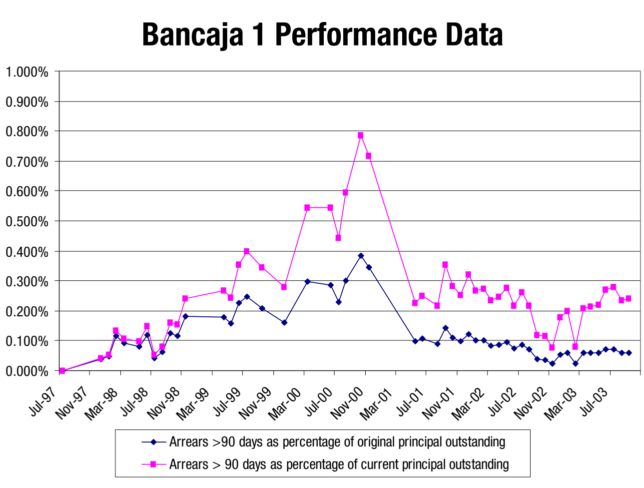


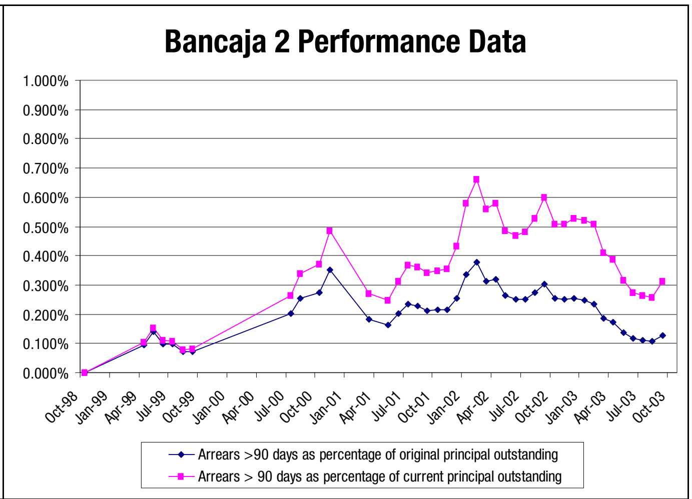
Percentage of the Pool in Arrears during the last…

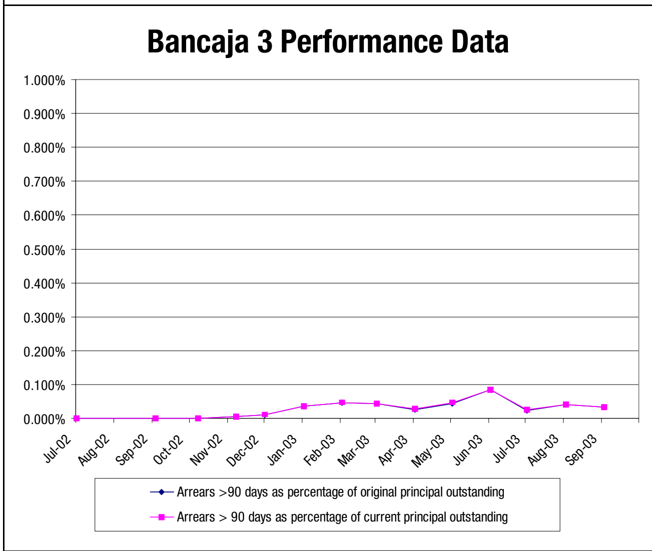


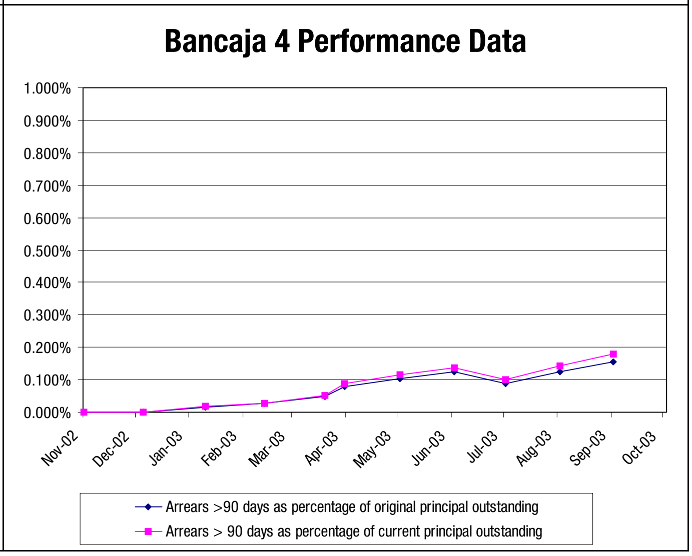
The originator represents and guarantees that, as of the date of the transfer, none of the loan agreements will have been breached. Additionally, none of the transferred loans will have amounts more than 30 days past due.

Performance Data on Previous Bancaja transactions









ORIGINATOR, SERVICER AND DUE DILIGENCE

Bancaja, the sixth-largest financial institution in Spain by assets and with an active presence in the Spanish securitisation market, is the originator of the asset pool

Moody's **A1**/**P-1**/**B-** ratings for Bancaja reflects the bank's strong retail franchise in the region of Valencia and its sound financial fundamentals, which include good profitability, solid asset quality and strong operating efficiency. The ratings also take into account Bancaja's efforts to diversify its revenue sources as well as its low risk profile, but recognise the possibility that this risk profile could be raised as a result of the bank's expansion into higher-risk activities. The current ratings are well positioned with a stable outlook.

With total assets of €35.4 billion at the end of 2003, Bancaja is the sixth-largest financial institution and the third-largest savings bank in Spain by assets. Bancaja's financial profile is typical of those savings banks which have focused on their core business within their local region (approximately 74% of its branch network is based in its home market, the relatively prosperous autonomous region of Valencia). Bancaja is not aiming for a nation-wide presence and is focusing its expansion efforts in Catalonia, Madrid and the Balearic Islands.

Bancaja runs a traditional low-risk franchise with a focus on mortgage lending and local SMEs. Asset quality has improved to very good levels during the past few years on the back of a favourable economic environment with low interest rates. Bancaja's conservative credit standards and its traditional low-risk credit portfolio have also played a role in this turnaround. At the end of 2003, non-performing loans as a percentage of total loans improved its 2002 level from 0.75% to 0.6%

The bank's loan portfolio shows a good level of diversification, although with large exposures concentrated in the real estate and tourism sectors. Moody's recognises the risk of real estate development (especially due to exposure to the hotel and tourism industries in the region of Valencia), but views Bancaja's conservative underwriting standards as reassuring.

Servicer

Bancaja will act as servicer of the loans, and will transfer the proceeds of the loans to the treasury account on a weekly basis.

In the event of Bancaja being declared bankrupt or failing to perform its obligations as servicer, it or the management company will have to designate a new suitable institution as guarantor of Bancaja's obligations under the servicing agreement, or even as new servicer. Otherwise, the management company itself would step in as servicer of the loans.

Management Company

The management company (*gestora*), Europea de Titulización, is an experienced company in the Spanish securitisation market. Its obligations within the structure are guaranteed by its shareholders in proportion of their holding. BBVA accounts for 83% of the *gestora's* capital. The remainder is owned by 15 institutions including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.53%), Barclays Bank (1.53%) and Citibank España (1.53%).

MOODY'S ANALYSIS

Given that the portfolio to be securitised does not meet the conditions for this deal to be considered as a pure RMBS, Moody's has decided to base its analysis on historical information provided by Bancaja, through the usage of its standard ABS methodology (lognormal approach). Additionally, a Loan-by-Loan approach has been used to check the consistency of the assumptions made in the ABS analysis.

As concerns the lognormal approach, Moody's has based its analysis on the historical performance of sample pools similar to the pool being securitised. Main parameters for the default rate (mean and standard deviation) have been derived from the historical data, and later adjusted for (1) the seasoning of the portfolio, (2) an expected less favourable macro-economic environment and (3) other qualitative aspects. It is important to note that a loan has been considered as 'defaulted' after 180 days past due. Assumptions for recoveries, delinquency and prepayments have also been established.

Quantitative analysis

Moody's has used an expected loss methodology that reflects the probability of default for each series of notes times the severity of the loss expected for each series of notes. For this analysis, gross losses have been assumed to be lognormally distributed, with a mean of 3.1% and a standard deviation of 1.4%. To allocate losses to the notes in accordance with their priority of payment and relative size, Moody's has built a model that reproduces the cash flows and different triggers present in the transaction. The sensitivity to a variation in the initial assumptions has also been tested.

The excess spread, together with the cash reserve and the subordination of the various series, provides a credit enhancement that is sufficient to achieve expected losses that, combined with each series' expected average life, are consistent with the range of the ratings of the notes.

Structural analysis

Moody's considers how the cash flows generated by the collateral are allocated to the parties within the transaction, and the extent to which various structural features of the transaction may provide additional protection to investors, or act as a source of risk themselves. In addition, Moody's ensures that the transaction is not affected by the bankruptcy of the originator or the servicer of the portfolio.

Legal analysis

Moody's makes sure that the legal documents correctly reflect the structure of the deal, as well as the assumptions made in its analysis.

RATING SENSITIVITIES AND MONITORING

Europea de Titulización, S.G.F.T, S.A, in its capacity as management company, will prepare quarterly monitoring reports with respect to the portfolio and payments to the notes. These reports will detail the amounts received by the issuer during each collection period and will provide portfolio data. Moody's will monitor this transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes to the rating will be publicly announced and disseminated through Moody's Client Service Desk. For updated monitoring information, please contact monitor.madrid@moodys.com.

RELATED RESEARCH

Visit moodys.com for further details

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions, please refer to the following reports:

- RATING METHODOLOGY: "Spanish Residential Mortgage-Backed Securities, An Introduction to Moody's Rating Approach", July 2001
- SPECIAL REPORT: "Introducing Moody's Arrears Index for Spanish Mortgage-Backed Securities Overall Credit Quality of Spanish RMBS Transactions Remains Strong, According to New Index", March 2002
- RATING METHODOLOGY: "The Lognormal Method Applied to ABS Analysis", July 2002
- SPECIAL REPORT: "Moody's Spanish RMBS Arrears Index Delinquency Levels Remained Persistently Low in 2002 but are Likely to Rise Given Weakening Global Economy and Factors Affecting Homeowners' Indebtedness", May 2003
- SPECIAL REPORT: "Structural Features in the Spanish RMBS Market – Artificial Write-Off Mechanisms: Trapping the Spread", January 2004
- BANCAJA 1 Pre-sale report + Performance Overview
- BANCAJA 2 Pre-sale report + Performance Overview
- BANCAJA 3 Pre-sale report + Performance Overview
- BANCAJA 4 Pre-sale report + Performance Overview
- BANCAJA 5 Pre-sale report + Performance Overview
- BANCAJA 6 Pre-sale report + Performance Overview
- FTPYME BANCAJA 1 Pre-sale report + Performance Overview
- FTPYME BANCAJA 2 Pre-sale report + Performance Overview

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