RMBS/CMBS/Spain
Presale Report

MBS Bancaja 1, Fondo de Titulización de Activos

Expected Ratings*

Class	Amount (EURm)	Final Maturity	Rating	CE (%)
A	630.6	Nov 2035	AAA	10.0
B	14.5	Nov 2035	AAA	7.9
C	31.1	Nov 2035	A+	3.4
D	13.8	Nov 2035	BBB	1.4

Analysts
Christian Moor
+44 20 7862 4054
christian.moor@fitchratings.com

Natalia Bourin
+33 1 44 29 91 76
natalia.bourin@fitchratings.com

Performance Analytics
Antje Mayer
+44 20 7417 4335
sf_surveillance@fitchratings.com

* Expected ratings do not reflect final ratings and are based on information provided by issuer as of 31 March 2004.

Summary

This EUR690 million transaction is a securitisation of Spanish residential and commercial mortgages originated by Caja de Ahorros de Valencia, Castellon y Alicante ("Bancaja", rated 'A+/F1'). Fitch Ratings has assigned expected ratings to the notes to be issued by MBS Bancaja 1, Fondo de Titulización de Activos ("MBS Bancaja 1" or "the fund") as indicated at left. The mortgages are, and will continue to be, serviced by Bancaja.

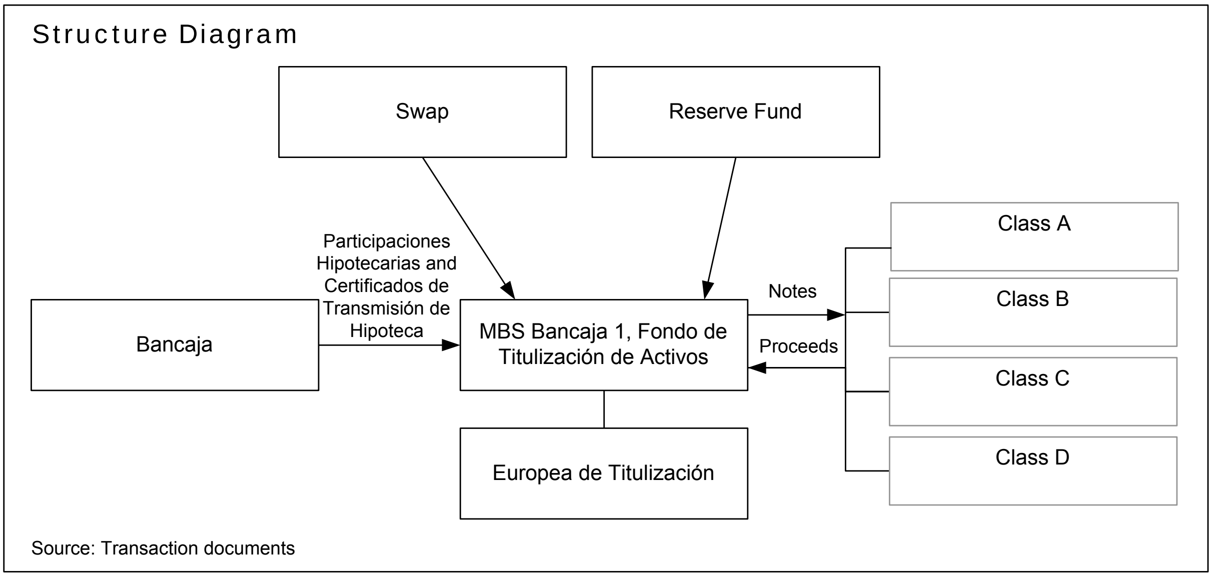
Bancaja is the third-largest savings bank and the sixth-largest financial institution in Spain by assets. It has traditionally focused on the region of Valencia and mortgages are among its core businesses.

MBS Bancaja 1 is regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to transform the mortgage loan participations and certificates acquired from the participation and certificate issuer, Bancaja, into fixed-income securities. The participations will be subscribed on behalf of MBS Bancaja 1 by Europea de Titulizacion, S.A., S.G.F.T. ("the *sociedad gestora*"), whose sole function is to manage asset-backed funds.

At closing, MBS Bancaja 1 will acquire a portfolio of residential and commercial mortgage loans from the seller as collateral for the notes. The portfolio consists of first-ranking, variable-rate mortgages secured over residential (69%) and commercial (31%) properties located in Spain.

The expected ratings are based on the quality of the collateral, the underwriting and servicing of the mortgage loans, available credit enhancement and the sound legal and financial structure. Initial credit enhancement for the Class A notes, totalling 10.0%, is provided by the Class B, C and D notes and the reserve fund. Initial credit enhancement for the Class B notes, totalling 7.9%, is provided by the Class C and D notes and the reserve fund. Credit enhancement for the Class C notes, totalling 3.4%, is provided by the Class D notes and the reserve fund. Credit enhancement for the Class D notes, totalling 1.4%, is provided by the reserve fund. In addition to subordination and the reserve fund, the transaction also benefits from the 0.55% excess margin guaranteed by the swap.

To determine appropriate levels of credit enhancement, Fitch analysed the collateral using a loan-by-loan mortgage default model specific to Spain (see "*Spanish Mortgage Default Model II*", dated 24 March 2004 and available on www.fitchratings.com). Fitch also modelled the cash flow contribution from excess interest, using as input the stress scenarios determined by its default model.



Credit Committee Highlights

- The reference portfolio consists of 14,045 mortgage loans, approximately 69% of which are residential and 31% commercial loans.

- The commercial loans in the portfolio correspond to industrial warehouses (12.1%), commercial outlets (16.8%) and rustic properties (1.9%); the default probability and market value declines ("MVDs") for these loans were increased to address the greater risk associated with this type of loan.

- Some 7% of the loans in the portfolio (excluding commercial loans) are to self-employed borrowers. Fitch has increased the default probability on such loans to account for the additional risk created by the uncertainty of the borrower's income levels.

- Approximately 16% of the loans in the portfolio (excluding commercial loans) were extended to finance a second home. Fitch increases the default probability on such loans to account for the additional risk.

- Some 73.6% of the portfolio is located in the Comunidad of Valencia. To mitigate this geographical concentration risk, Fitch has stressed the default probabilities for the loans concerned.

- Gross excess spread is guaranteed at 0.55% per annum by an interest rate swap.

- Seasoning is 31.1 months, which contributed to a lower indexed current loan to value ("LTV") of 53.0%, as compared with the original LTV of 65.7%.

- Portfolios originated by Bancaja and securitised in earlier transactions have all performed well, with arrears over 60 days remaining well below 0.03% of the outstanding loan balance.

- The expected ratings address the likelihood that interest on the notes will be paid according to the terms and conditions of the documentation (which includes an interest deferral trigger for the Class B, C and D notes) and that principal will be repaid by legal final maturity in November 2035.

Financial Structure

Classes A, B, C and D will pay interest quarterly in arrears at a floating rate based on three-month EURIBOR plus a margin.

The mortgages will continue to be serviced by Bancaja, acting as administrator. The savings bank will transfer amounts received from the mortgages into the fund's treasury account every 10 days or, if deemed necessary by the *sociedad gestora*, on a more frequent basis. If Bancaja's short-term rating falls below 'F1', the *sociedad gestora* must take one of the following steps within 10 days:

1. appoint a counterparty, rated at least 'F1', to guarantee Bancaja's obligations under the treasury account agreement;

2. transfer the treasury account to a counterparty rated at least 'F1'; or

3. if 1 and 2 are not achievable, the *sociedad gestora* will invest the funds in the account in EUR notes, rated at least 'F1', with a maximum maturity of three months.

Key Information Structure

Originator and Seller: Caja de Ahorros de Valencia, Castellón, y Alicante ("Bancaja", 'A+/F1')

Servicer: Bancaja

Lead Managers: Bancaja, JPMorgan and Société Générale

Fund: MBS Bancaja 1, Fondo de Titulización de Activos ("MBS Bancaja 1")

Sociedad Gestora: Europea de Titulización, S.A., S.G.F.T.

Swap Counterparty: Bancaja

Final Legal Maturity: November 2035

Provisional Portfolio Characteristics

Total Amount at Closing: EUR728,3 million

(of which EUR690m is selected at closing)

WA Original LTV: 65.7%

WA Current LTV: 56.1%

WA Indexed Current LTV: 53.0%

WA Remaining Maturity: 14.8 years

WA Seasoning: 31.1 months

Concentration in Valencia: 73.6%

Priority of Payments

Prior to enforcement, revenue payments will be allocated in the following priority of payments on each distribution date:

i. the fund's senior fees and expenses;
ii. payments due under the interest rate swap agreements;
iii. interest due on the Class A notes;
iv. interest due on the Class B notes, if not deferred;
v. interest due on the Class C notes, if not deferred;
vi. interest due on the Class D notes, if not deferred;
vii. Provisioning to the principal capital repayment fund (see page 3);
viii. interest due on the Class B notes, if deferred;
ix. Provisioning to the second capital repayment fund;
x. interest due on the Class C notes, if deferred;
xi. Provisioning to the third capital repayment fund;
xii. interest due on the Class D notes, if deferred;
xiii. Provisioning to the fourth capital repayment fund;
xiv. replenishment of the reserve fund;
xv. payments due under the swap in the event of a swap counterparty default;
xvi. interest due on the start-up loan;
xvii. principal due on the start-up loan;
xviii. interest due on the subordinated loan;
xix. principal due on the subordinated loan;
xx. administrator fee, unless Bancaja has been replaced as the administrator, in which case this fee will be paid as item number i;
xxi. financial intermediation to Bancaja.

Interest Deferrals

Interest due on the Class B notes will be deferred if the difference between:

a. the outstanding principal of the Class A Notes;
b. the sum of: (x) the positive difference between the available funds and the amounts necessary to pay items i through iv in the Priority of Payments; and (y) the outstanding principal amount of the Loans (excluding Written-off Loans); and
c. the outstanding balance in the Amortisation Account;

is greater than zero.

Interest due on the Class C notes will be deferred if the difference between:

a. the outstanding principal of the Class A Notes and Class B Notes; and
b. the sum of: (x) the positive difference between the available funds and the amounts necessary to pay items i through v in the Priority of Payments; (y) the outstanding principal amount of the Loans (excluding Written-off Loans);and
c. the outstanding balance in the Amortisation Account;

is greater than zero.

Interest due on the Class D notes will be deferred if the difference between:

a. the outstanding principal of the Class A, B and C Notes; and
b. the sum of: (x) the positive difference between the available funds and the necessary amounts to pay items i through vi in the Priority of Payments; (y) the outstanding principal amount of the Loans (excluding Written-off Loans);and
c. the outstanding balance in the Amortisation Account;

is greater than zero.

Principal Redemption

Class A Notes Redemption

No principal shall be repaid on the notes until 17 November 2005. On that date, principal receipts received from debtors will be paid into the amortisation fund to be used for redemption of the A notes. A certain amount of negative carry is created by the fact that the note balance does not decrease while the mortgage balance does – hence generating lower interest payments. The negative carry is covered by the swap agreement.

If principal funds accumulated in the amortisation fund are insufficient to repay the A notes on 17 November 2005, principal receipts received after this date will be allocated solely to repayment of these notes. The final maturity date for the A notes is November 2035.

Class B & C & D Notes Redemption

The Class B, C and D notes will be redeemed *pro rata* with the other notes only if: a) the outstanding balance of the Class B, C and D notes represents, respectively, 4.2%, 9.0% and 4.0% of the total outstanding note balance (ie double the principal outstanding balance at closing); b) the reserve fund is at its maximum level; and c) the outstanding balance of mortgages more than three months in arrears does not exceed 1.5% of the current mortgage balance in the case of the B notes , 1.5% in the case of the C notes and 1.0% in the case of the D notes.

Interest Rate Risk

The fund will enter into an interest hedging agreement with Bancaja to cover the basis and margin compression risks. The swap, as described below, will guarantee a 0.55% excess margin.

The fund will pay Bancaja interest received from the mortgages, and will receive three-month EURIBOR plus the margin on the notes plus 0.55% calculated on the performing balance of the mortgages.

If Bancaja's Short-term rating is downgraded to below 'F1', it will, within 10 days, take one of the following steps:

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

Credit Enhancement

Initial credit enhancement for the Class A notes, totalling 10.0% at closing, is provided by the Class B, C and D notes and the reserve fund. Credit enhancement for the Class B notes, totalling 7.9%, is provided by Class C and D notes and the reserve fund. Credit enhancement for the Class C notes, totalling 3.4%, is provided by Class D notes and the reserve fund. Credit enhancement for the Class D notes totalling 1.4% will be provided by the reserve fund (see below).

Reserve Fund

A reserve fund will be provided by Bancaja, which will, at closing, be equivalent to 1.4% of the original principal balance, and will thereafter be the higher of:

a. 2.8% of the outstanding note balance; or
b. 1% of the original principal balance.

However, the required amount will remain the same as on the previous payment date if the outstanding balance of mortgages more than three months in arrears exceeds 1.0% of the outstanding mortgage balance. Moreover, no reduction in the reserve fund will occur if a principal deficiency exists.

■ Legal Structure

At closing, the mortgage loans will be transferred by the sellers to the *sociedad gestora* on behalf of the fund. The seller will also transfer or pledge all present or future claims and/or rights under the various transaction documents to the fund. The *sociedad gestora* is a special-purpose company with limited liability incorporated under the laws of Spain, whose activities are limited to the management of asset-backed notes. The fund is owned by 16 entities, including:

- Banco Bilbao Vizcaya Argentaria, S.A. (83%, 'A-/F1+')
- JP Morgan España, S.A. (4%)
- Caja de Ahorros del Mediterráneo (1.5%, 'A+/F1')
- Bankinter, S.A. (1.5%)
- Barclays Bank (1.5%, 'AA+/F1+')
- Citibank España, S.A. (1.5%)

Mortgages are transferred to the fund as either mortgage participations (*Participaciones Hipotecarias*) or as certificates of mortgage transfer (*Certificados de Transmisión Hipotecaria*).

Representations and Warranties

No search of title will be conducted by the fund or other transaction parties; instead, they will rely on the representations and warranties provided by Bancaja in relation to the pool of mortgage loans, as detailed below. If there is an irretrievable breach of any of these representations or warranties, Bancaja will be required to repurchase the loan(s) in question.

Specifically, the representations and warranties include the following:

- Bancaja has full right and title to the mortgage loans and the power to sell and transfer them;
- each mortgage loan was originated by Bancaja in accordance with its standard underwriting criteria and procedures;
- each mortgage loan is registered in the relevant property registry and represents a first-ranking claim on the corresponding property;
- Bancaja is not aware of any dispute on any of the mortgage loans;
- Bancaja is not aware that any of the underlying properties have been subject to more than a 20% reduction in value;
- Bancaja has full title to all mortgage loans;
- each property under the underlying mortgage loan has been the subject of a valuation, as required by law; and,
- each mortgage loan constitutes a legal, valid, binding and enforceable obligation for the relevant borrower.

■ Collateral

The reference portfolio consists of 14,045 mortgage loans originated by Bancaja in the normal course of its business. All the loans are secured by residential (69%) or commercial (31%) properties in Spain.

Security for the loans is in the form of mortgages registered in the '*Registro de la Propiedad*' (the official register) and all are first-ranking.

All the loans are variable rate. The majority are linked to EURIBOR (70.2%), while the remainder are linked to MIBOR (15.6%) and the average mortgage interest rate (14.3%) for saving banks ("IRPH") in Spain. As of the closing date, no mortgage loan had any payments in arrears for more than one month.

The portfolio main characteristics of the total pool are outlined in the table.

Residential Loans

The portfolio's LTV specific to the residential segment of the portfolio stands at 65.8% for the original weighted average LTV, with a weighted average current LTV of 57,9%. In its recovery calculation, Fitch used an indexed valuation of the underlying properties based on regional residential indices and gave 50% credit to increases in property prices; the weighted average indexed current LTV of the pool is 53.0%.

Commercial Loans

Bancaja originates mortgages to small and medium-sized enterprises and the owner-managed business community. Approximately 31% of the pool balance is secured by commercial real estate assets, the main categories being a) industrial warehouses (12.1%); b) commercial outlets (16.8%). Approximately 1.9% of the commercial segment consists of rustic property.

The commercial loans have many characteristics that are normally found in the residential mortgage-backed securities market, including full borrower recourse, minimal exposure to individual borrowers and asset concentrations.

The commercial segment of the portfolio consists of 3,509 mortgages. The portfolio's original weighted average LTV stands at 65.6%, with a weighted average current LTV of 52.7%.

Fitch has increased the default probability and MVDs for these loans, and no credit was given for property price increases.

Provisional Portfolio Summary

Pool Characteristics	
Current Principal Balance (EURm)	728,283,810
WA Original LTV (%)	65.7
WA Current LTV (%)	56.1
WA Indexed* Current LTV (%)	53.0
Average Current Loan per Borrower (EUR)	51.854
Average Original Loan per Borrower (EUR)	65.286
Oldest Loan in Portfolio	Jul 1991
Most Recent Loan in Portfolio	Oct 2003
Interest Rate Type	
Floating-Rate Loans (%)	100
WA Interest Rate (%)	3.5
WA Interest Margin (%)	0.9
Interest Index	Euribor, Mibor, IRPH
Payments	
Payment Frequency (%)	Monthly:96.5 Quarterly:2.21 Biaually:1.27
Payment Method	Direct Debit
Loans <30 Days in Arrears (%)	100
Regional Concentration (%)	
Madrid	7.2
Comunidad Valenciana	73.6
Cataluña	1.1
Lien Position (%)	
First-Ranking	100.0

* Based on Fitch's Indexation methodology, whereby 50% credit is given for property price appreciation (on the residential properties only).
Source: Fitch Ratings

Origination and Servicing

As part of its analysis, Fitch has reviewed and analysed Bancaja's origination and servicing guidelines. It made an on-site visit to Bancaja and met the originator and servicer managers responsible for the mortgage loan department.

Bancaja is the third-largest savings bank and the sixth-largest financial institution in Spain by total assets. For historical reasons, a large proportion of its business is generated in the Valencia region, as reflected in its mortgage portfolio.

Until March 2001, credit approval was carried out at office level. Since then, it has been provided by the *Centro de Autorizaciones Telefónicas* ("CAT"), a centralised department for the approval of mortgage applications. Credit analysis is based on a credit-scoring system Bancaja began developing 10 years ago, which yields a positive, negative or doubtful score. In the latter case, a loan may still be approved if additional guarantees and/or conditions are provided and/or complied with. At least two analysts approve each loan request. Although branch directors have right of veto in such circumstances, this is relatively uncommon.

Information analysed by the scoring system includes debt-to-income ratios ("DTI" – a maximum of 40% is allowed), negative information from CIRBE (a Bank of Spain database that gathers information on borrower exposure and non-payment from all Spanish entities), RAI (*Registro Acceptación Impagados*) or Experian, and other credit parameters that indicate the financial volatility of the applicant. The credit scoring focuses on the borrower's ability to honour their debt payments in a timely fashion. The majority of the properties are valued by Tasaciones Inmobiliarias S.A. (TINSA), Spain's largest valuation company, which is registered with and regulated by the Bank of Spain.

Mortgages in arrears are managed by the branches for the first 90 days, and are subsequently handled by the risk department. A certain number of letters, automatically generated by the bank's system, and calls made through an external specialised call centre, their frequency and content depending on the level of exposure to the borrower. The documentation and procedures required for the foreclosure process are prepared as soon as is deemed necessary (no later than 90 days' delinquency has been reached) to enable lawyers to start proceedings within 24 hours of the decision to commence foreclosure. On average, the corresponding court proceedings tend to begin four to six months later, and last around a year-and-a-half, although the time to recovery has fallen in recent years. Bancaja rarely opts to the renegotiate or refinance the repayment of amounts in arrears.

Credit Analysis

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

Fitch Default Model Output

Rating Level	WAFF* (%)	WARR** (%)	Loss Severity (%)	MVD
AAA	13.2	72.9	42.3	48.0
AA	10.5	78.3	36.7	43.8
A	7.9	83.5	31.5	39.6
BBB	5.3	97.4	27.6	36.4

Recovery time (years): interest accrued on contractual rate for three year
Foreclosure cost: 10%
* Weighted Average Foreclosure Frequency
** Weighted Average Recovery Rate

Source: Fitch

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 and the WA frequency of foreclosure 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 assumed 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. As with many other Spanish originators, this information was not available on a loan-by-loan basis for MBS Bancaja 1. However, the bank has a strong focus on a borrower's ability to pay, implements comparatively strict origination guidelines in this area and allows a maximum DTI of only 40%. Therefore, Fitch assumed that borrowers generally have an average ability to pay.

Fitch took the specific characteristics of the loans into consideration in its default probability analysis of the portfolio. The agency increased the default probability for commercial loans, self-employed borrowers with residential loans, loans used for second homes and those originated in the Comunidad of Valencia to reflect the additional risk implicit in this transaction.

Recoveries

Market Value Decline

To estimate recoveries on the mortgage loans, Fitch examined house price movements in Spain on a regional basis from 1987-2003 and found significant differences, most notably between Madrid, Cataluña and País Vasco, and the other regions. Cities in 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 MVDs for certain regions, as well as for some large urban areas. Although price growth was stable in the period examined, it was slower in the regions of Valencia and Murcia. However, MVDs for these regions have tended to be lower than for the more highly populated areas of Spain.

Appropriate MVD adjustments were implemented for the commercial part of the pool, reflecting the property type, the region-specific market and asset value volatility.

High-Value Properties

Approximately 32.4% of the reference pool is considered by Fitch to be secured on high-value (“jumbo”) properties, which face a risk of greater MVD because liquidity is lower at this end of the market. The agency increased the MVDs of these loans by 10%-25% based on the indexed value of the property.

Recovery Rate

To determine the recovery rate for each loan, Fitch employed the following calculation:

The minimum of: a) 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 b) the current balance plus accrued interest for a period of three years.

No credit was given for property price appreciation on the commercial properties.

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 the 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, starting straight 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 36 months. Variable interest rates are stressed upwards over time, although the effect of this increase is limited by the swap.

The cash flow analysis assumes a high level of annual 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, although in the case of the Class B, C and D notes, this will be subject to the deferral triggers and the terms and conditions of the notes.

■ Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance surveillance team ensures that the assigned ratings remain, in the agency’s view, an appropriate reflection of the issued notes’ credit risk.

Details of the transaction’s performance are available to subscribers at www.fitchresearch.com. Further information on this service is accessible at www.fitchratings.com.

Appendix I: Rating Methodology

To determine appropriate levels of credit enhancement, Fitch analyses the collateral for Spanish residential transactions using a loan-by-loan mortgage default model. The model subjects the mortgage loans to stresses resulting from its assessments of historical home price movements and defaults. Fitch's study showed that the LTV, reflecting the size of the borrower's down payment, and the borrower's income multiple (original loan advanced divided by income) are the primary indicators of default risk in Spain. Fitch also modelled the cash flow contribution from excess interest using stress scenarios determined by its default model. The cash flow test showed that each class of rated notes, taking available credit enhancement into account, can withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make the mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch's model assumes higher default probabilities for high-LTV loans and lower default probabilities for low-LTV loans. The main reason is that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low-LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property.

The ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. Historical data available for Spain show low levels of default. Base default probabilities are determined 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 around 27%-33%.

Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for individual loan characteristics of the collateral across all rating levels.

- **Product Type:** Fitch increases default probability assumptions by 0%-10% for the index volatility experienced by variable-rate mortgage holders.
- **Repayment Type:** Fitch will increase base default rates by 5%-10% for loans to be paid by *cuota creciente*, whereby the amortisation of capital is always the same and the interest payment 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, the agency 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 10%-100%.
- **Borrower Profile:** Fitch increases default probability on loans to self-employed borrowers by 10%-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%.

Recovery Rate

To estimate recovery rates on mortgage loans in Spain, Fitch examined home price movements there on a regional basis from 1987–2001. The agency found significant differences in price development across regions, mainly between the regions of Madrid, Cataluña, País Vasco, 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 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 due 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. Fitch also incorporates the fact that the length of time of the foreclosure process might be longer than the actual one in a recession period. To calculate carrying costs, Fitch uses a worst-case scenario analysis, which assumes that the borrower pays no pay 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. The threshold rate calculation is designed to guarantee the issuer a minimum level of excess spread. . Due to the swap agreement between MBS Bancaja 1 and Bancaja this doesn't apply to this transaction.

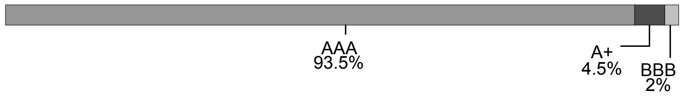
MBS Bancaja 1, Fondo de Titulización de Activos

MBS/Spain

Capital Structure

Class	Rating	Size (%)	Size(EURm)	CE (%)	Spread	PMT Freq	Maturity	Coupon	ISIN
A	AAA	91.4	630,600	10.0	[•]	Qtrly	Nov 2035	Euro Floater	[•]
B	AAA	2.1	14,500	7.9	[•]	Qtrly	Nov 2035	Euro Floater	[•]
C	A+	4.5	31,100	3.4	[•]	Qtrly	Nov 2035	Euro Floater	[•]
D	BBB	2.0	13,800	1.4	[•]	Qtrly	Nov 2035	Euro Floater	[•]

	Size (%)	Size (EURm)
Cash Reserve	1.4	9,660
Liquidity	n.a.	n.a.



Step Up Date	November 2017
Swap	Total return, 55bps guaranteed margin, paying WA margin notes
Excess Spread (Closing)	n.a.

Key Information

Closing Date	[•]	**Parties**	
Country of Assets	Spain	**Seller/Originator**	Bancaja
Issuance Date	May 2004	**Servicer**	Bancaja
Structure	Pass through	**Joint Lead Managers**	Bancaja, J.P. Morgan, Société Générale
Bloomberg	[•]	**Fund**	MBS Bancaja 1, Fondo de Titulización de Activos
Settlement	IBERCLEAR	**Sociedad Gestora**	Europea de Titulización
Listing	AIAF	**Swap Counterparty/ Account Bank**	Bancaja
Analyst	Christian Moor Christian.moor@fitchratings.com +44 20 7862 4054		

Others (Summary)

Short Term Rating Triggers (Minimum)

Account Bank	F1
Swap Counterparty	A+

Credit Enhancement

Excess Spread, Reserve Fund, Subordination

PDL Mechanism

100% principal outstanding debited for loans 18 months in arrears

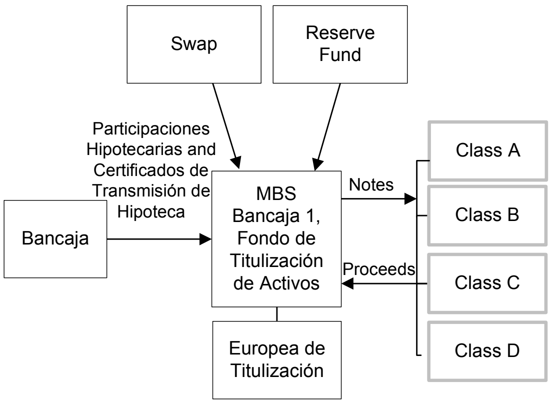
Credit Committee Highlights

Established and experienced underwriter
31% commercial loans included in pool
73.6% concentration in Comunidad Valencia
Self employed and second houses are included in the pool
Gross excess spread guarantees 55bps per annum
Seasoning is 31.1 months
Pro rata amortisation of notes subject to certain conditions

Fitch Default Model Output

Rating Level	AAA	AA	A	BBB
WAFF (%)	13.2	10.5	7.9	5.3
WARR (%)	72.9	78.3	83.5	87.4
Loss Severity (%)	42.3	36.7	31.5	27.6
MVD	48.0	43.8	39.6	36.4

Structure Diagram



Source: Transaction documents

Collateral

Pool Characteristics

Original Principal Balance (EUR)	916,940,699
Current Principal Balance (EUR)	728,283,810
Average Original Loan per Borrower (EUR)	65,286
Average Current Loan per Borrower (EUR)	51,861
Number of Loans	14,045
Seasoning (Months)	31.1
Loan to Value (LTV) (%)	
WA OLTV	65.7
WA CLTV	56.1
WA Indexed CLTV	53.0
Mortgage Characteristics	
Annuity (%)	100
Residential Loan (%)	69.0
Commercial Loan (%)	31.0
Interest Rate Type	
Floating Rate Loans (%)	100
WA Interest Rate (%)	3.5
WA Interest Margin (%)	0.9
Interest Index (EURIBOR)	EURIBOR/others

Regional Concentration (%)	
Madrid	7.2
Comunidad Valenciana	73.6
Cataluña	1.1
Lien Position (%)	
First Ranking	100
First & Subsequent Ranking	100
Jumbo (%)	32.4
Payments	
Payment Frequency	Monthly:96.5
Payment Method	Direct Debit
Performing Loans (%)	100
DTI Distribution (%)	
Class 1	0.0
Class 2	0.0
Class 3	100.0
Class 4	0.0
Class 5	0.0

Source: Fitch, Bancaja