MBS Bancaja 2, 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 June 2005. 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
[30 June 2005]

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RATINGS

Series	Rating	Amount	% of Total	Legal Final Maturity	Maturity Expected
A	(P)**Aaa**	€754,400,000	93.23	Feb 2038	Jan 2035
B	(P)**Aa2**	€13,200,000	1.63	Feb 2038	Jan 2035
C	(P)**A1**	€10,400,000	1.29	Feb 2038	Jan 2035
D	(P)**Baa1**	€8,800,000	1.09	Feb 2038	Jan 2035
E	(P)**Ba2**	€13,200,000	1.63	Feb 2038	Jan 2035
F	(P)**C**	€10,000,000	1.14	Feb 2038	Jan 2035
Total		**€810,000,000**	**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
- Good historical performance of the loans included in the provisional pool
- Reasonably low borrower concentration
- Extensive historical information provided by Bancaja

Weaknesses and Mitigants

- Partial hedging of the interest rate risk. Moody's has established a penalty based on the amount of spread needed on each payment date to hedge the transaction against the interest rate risk not covered through the swap agreement.
- Geographical concentration in the region of Valencia, 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 Series B, C, D and E leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which interrupt the pro-rata amortisation of the notes should the performance of the transaction deteriorate.
- The deferral of interest payments on each of Series B, C, D and E benefits the repayment of the series senior to each of them, but increases the expected loss on Series B, C, D and E themselves. The reserve fund and the subordination have been sized accordingly to account for this deterioration on the expected loss.

STRUCTURE SUMMARY

Issuer:	MBS Bancaja 2, Fondo de Titulización de Activos
Structure Type:	Senior/Mezzanine/Subordinated floating-rate notes
Seller/Originator:	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja, **A1**/**P-1**)
Servicer:	Bancaja
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Pass-through on each payment date
Payment Dates:	25 February, 25 May, 25 August and 25 November First payment date: 25 August 2005
Issue Price:	100%
Credit Enhancement/Reserves:	Pool spread Reserve fund Subordination of the notes GIC account
GIC Account Provider:	Bancaja
Hedging:	Interest rate swap partially covering the interest rate risk
Interest Rate Swap Counterparty:	Barclays Bank Plc (Barclays, **Aa1**/**P-1**)
Paying Agent:	Bancaja
Trustee (Management Company):	Europea de Titulización, SGFT, S.A. (Europea de Titulización)
Arranger:	Bancaja Europea de Titulización J.P. Morgan Securities Ltd. (JP Morgan)
Lead Manager:	Bancaja JP Morgan

PROVISIONAL POOL (AS OF 30 APRIL 2005)

Receivables:	Loans granted to individuals and secured by a first-lien mortgage
Total Amount:	€873,172,517
Number of Contracts:	8,800
Number of Borrowers:	8,710
Geographic Diversity:	Region of Valencia (59.5%), Madrid (11.2%), Catalonia (8.3%)
WA LTV:	66.0%
WA Remaining Term:	21.38 years
WA Seasoning:	1 year
Interest Basis:	100% floating
WA Interest Rate:	3.28%
Delinquency Status:	No loans more than 30 days in arrears at the time of securitisation
Historical Loss Experience:	Default and recovery data provided

OVERVIEW

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

MBS Bancaja 2, FTA (the "*Fondo*") is the second securitisation fund created with the aim of purchasing a pool of mortgage loans granted by Bancaja to individuals with different types of mortgage properties and loan purposes. In this sense, the deal cannot be considered as a pure RMBS transaction.

The *Fondo* will issue six series of notes to finance the purchase of the loans (at par). The capital structure consists of:

- A subordinated Series F, rated **C**
- A mezzanine Series E, rated **Ba2**
- A mezzanine Series D, rated **Baa1**
- A mezzanine Series C, rated **A1**
- A mezzanine Series B, rated **Aa2**
- A senior Series A, rated **Aaa**

Each series of notes is supported by the series subordinated to itself, the cash reserve funded up-front and the transaction excess spread. The transaction incorporates a swap agreement that will partially hedge the *Fondo* against the risk derived from having different index reference rates and reset dates on the assets and on the notes.

In addition, the *Fondo* will benefit from a €[2.35] million subordinated loan provided by Bancaja to fund the up-front expenses and the costs of issuing the notes.

The provisional pool consists of 8,710 debtors and 8,800 loans. In line with the pattern observed in previous Bancaja transactions, it is concentrated in the Region of Valencia. All the loans are secured by a first-lien mortgage guarantee over different types of properties (residential, commercial, industrial and rural land).

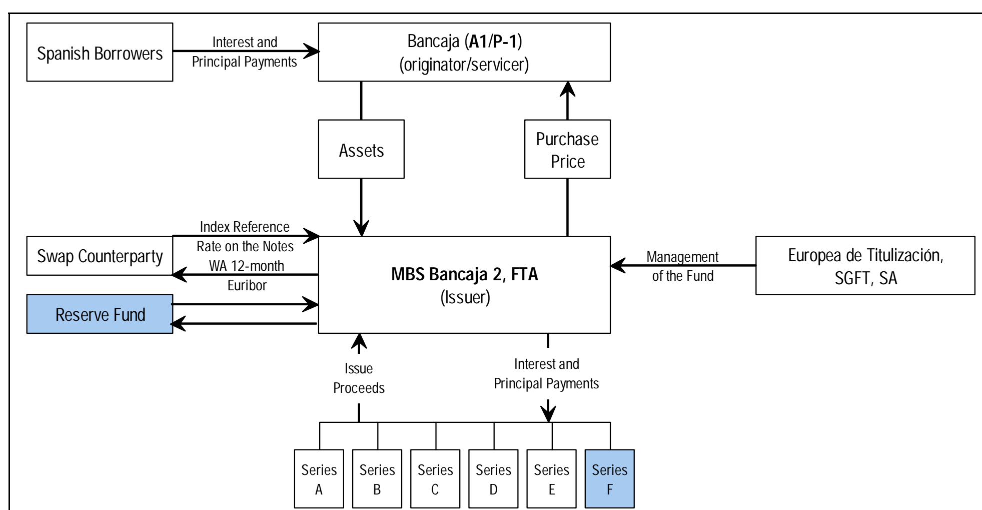
Moody's based the provisional ratings primarily on: (i) an evaluation of the underlying portfolio of loans; (ii) historical performance information; (iii) the swap agreement partially hedging the interest rate risk; (iv) the credit enhancement provided through the GIC account, the pool spread, the cash reserve and the subordination of the notes; and (v) the legal and structural integrity of the transaction.

Moody's ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date on 25 February 2038.

The ratings do not address full redemption of the notes on the expected maturity date.

STRUCTURAL AND LEGAL ASPECTS

Structure incorporating the following key features: a partial hedging of the interest rate risk, deferral of interest based on the amount of written-off loans, and funding of the reserve fund through the issuance of a series of notes



Interest rate swap partially hedging the interest rate risk

To hedge the risk derived from the interest rate risk (potential mismatch risk derived from the different index reference rates and reset dates on the assets and on the notes), the *Fondo* will enter into two swap agreements with Barclays.

The floating-rate loans (all referenced to 12-month Euribor or 12-month Mibor) have been divided into two groups according to their reset frequency (annual, or semi-annual), resulting in two different swap agreements. For each of these swap agreements:

- The notional will be the outstanding amount of the loans included in each of the two groups not more than 18 months in arrears.
- Over the notional, on each payment date:
  - Barclays will pay the index reference rate of the notes plus a variable spread.
  - The *Fondo* will pay a weighted average of the 12-month Euribor over the past months for each of the groups, where the weights are fixed for each month on the closing date. This payment is aimed at replicating the amount of interest corresponding to the index reference rates that the *Fondo* receives for each of the groups between payment dates.

It is worth pointing out that this type of swap does not fully hedge the transaction against the interest rate risk, to the extent that the weighted average 12-month Euribor that the *Fondo* is committed to pay is not an exact replication of the index reference rates of the pool. Moody's has considered this partial hedging in its analysis by assuming that part of the transaction spread is used to hedge the transaction against the interest rate risk not covered through the swap agreement.

In the event of Barclays's long-term rating being downgraded below **A1**, it will have to (1) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the notes; and/or (2) find a suitably rated guarantor or substitute.

Reserve fund fully funded upfront with proceeds from the issuance of the Series F notes

Initially funded with the benefits from the issuance of the Series F notes, the reserve fund will be used to cover any potential shortfall on items (1) to (12) of the order of priority on an ongoing basis.

The initial required reserve fund and the amount requested under it throughout the life of the transaction will be determined by the management company immediately prior to the closing date, taking into account the weighted average margin of the swap as indicated in the following table:

	WA SWAP MARGIN (in bppa)		
At any point in time, the amount requested under the reserve fund will be the lesser of the following amounts:	**(-7.5) – (-2.5)**	**(-2.5) – (2.5)**	**(2.5) – (7.5)**
1) Initial reserve fund amount	10,000,000	9,200,000	8,400,000
2) The higher of:			
- The outstanding notional balance of Series A to E notes multiplied by	2.50%	2.30%	2.10%
- Reserve fund floor	5,000,000	5,000,000	5,000,000

The amount requested under the reserve fund will not be reduced on any payment date on which either of the following scenarios occurs:

- The arrears level (defined as the percentage of non-written-off loans that are more than 90 days in arrears) exceeds 1%.
- The reserve fund is not funded at its required level on the previous payment date.

Treasury Account held at Bancaja

The treasury account will be held at Bancaja. The proceeds from the loans, amounts 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 a possible downgrade of Bancaja's short-term rating. Should Bancaja's short-term rating fall below **P-1**, it will have to perform one of the following actions in the indicated order of priority within 30 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.

Renegotiation of the loans subject to the management company's approval

Any renegotiation of the terms and conditions of the loans is subject to the management company's approval. Exceptionally, the management company may authorise Bancaja as servicer to renegotiate the spread over the index reference rate or the maturity of any loan without requiring its approval. However, Bancaja will not be able to (1) renegotiate the spread of any loan if the weighted average spread of the pool is below 80 bppa, or (2) extend the maturity later than 15 January 2035. 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 or 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 account) will be applied in the following simplified order of priority:

1) Cost and fees
2) Any amount due under the swap agreement and swap termination payment, if the *Fondo* is the defaulting or the sole affected party
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) Interest payment to Series E (if not deferred)
8) Retention of an amount equal to the principal due under the notes
9) Interest payment to Series B notes (if deferred)
10) Interest payment to Series C notes (if deferred)
11) Interest payment to Series D notes (if deferred)
12) Interest payment to Series E notes (if deferred)
13) Replenishment of the reserve fund
14) Interest payment to Series F
15) Principal payment to Series F
16) Termination payment under the swap agreement (except in the cases contemplated in 2) above)
17) Junior expenses

In the event of liquidation of the *Fondo*, the payment structure is modified with the sole aim of ensuring that any amount due to a series is repaid before any payment to a subordinated series is made.

Interest deferral mechanism based on the amount of written-off loans

The payment of interest on Series B, C, D and E will be brought to a more junior position if, on any payment date, and for each of these series, the following conditions are met:

- The principal deficiency (as defined below) exceeds the sum of (1) 85% of the outstanding amount of the relevant series and (2) 100% of the outstanding amount of the subordinated series to it.
- The senior series to it are not fully redeemed.

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 the principal due under the notes, which is calculated as the difference between (1) the outstanding amount of the notes and (2) the outstanding amount of the non-written-off loans (the "written-off loans" being defined as those loans with any amount due but unpaid for more than 18 months (or earlier, if 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 larger (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost). Therefore, 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 (the difference between these two amounts being the principal deficiency).

Principal due allocation mechanism

The amount retained as principal due on item 8) of the order of priority will be dedicated to the amortisation of Series A, B, C, D and E, according to the following rules:

1) Until the payment date on which the outstanding amount of Series B, C, D and E exceeds 3.3%, 2.6%, 2.2% and 3.3% of the outstanding amount under Series A to E, respectively, the amount retained as principal due will be used for the amortisation of Series A.
2) Once Series B, C, D and E start to be amortised, the amount retained as principal due will be pro-rata distributed between Series A to E, so that the percentages indicated above for Series B to E are maintained on any payment date thereafter.
3) Nevertheless, amortisation of Series B to E will not take place on the payment date on which any of the following events occurs:
    - The arrears level exceeds 1.5%, 1.25%, 1% and 0.75% for Series B, C, D and E, respectively.
    - The cash reserve is not funded at its required level.
    - The outstanding amount of the pool is lower than 10% of its initial amount

Series F amortisation

The Series F notes will amortise, on each payment date, for an amount equal to the difference between the outstanding amount of the Series F notes and the reserve fund required amount on the current payment date.

COLLATERAL – REFERENCE PORTFOLIO

Pool of loans granted to Spanish individuals and secured by a first-lien mortgage guarantee over different types of properties

As of April 2005, the provisional portfolio comprised 8,800 loans and 8,710 borrowers. The loans have been originated by Bancaja in its normal course of business, and comply with the following criteria:

- All the loans have been formalised under public deed.
- All the mortgage properties are fully developed.
- 100% of the principal of the loans has been drawn.
- The loans are repaid by direct debit through monthly instalments, and have accrued at least 2 instalments.
- No loan incorporates any type of balloon payments or deferred payments of interest.
- The pool will not include loans granted to real estate developers or lease contracts.
- Obligors are committed to sign an insurance contract for the mortgaged property.
- None of the loan agreements provides a cap on the applicable interest rate.
- All the loans reset annually or semi-annually and have been reset at least once during the past year.

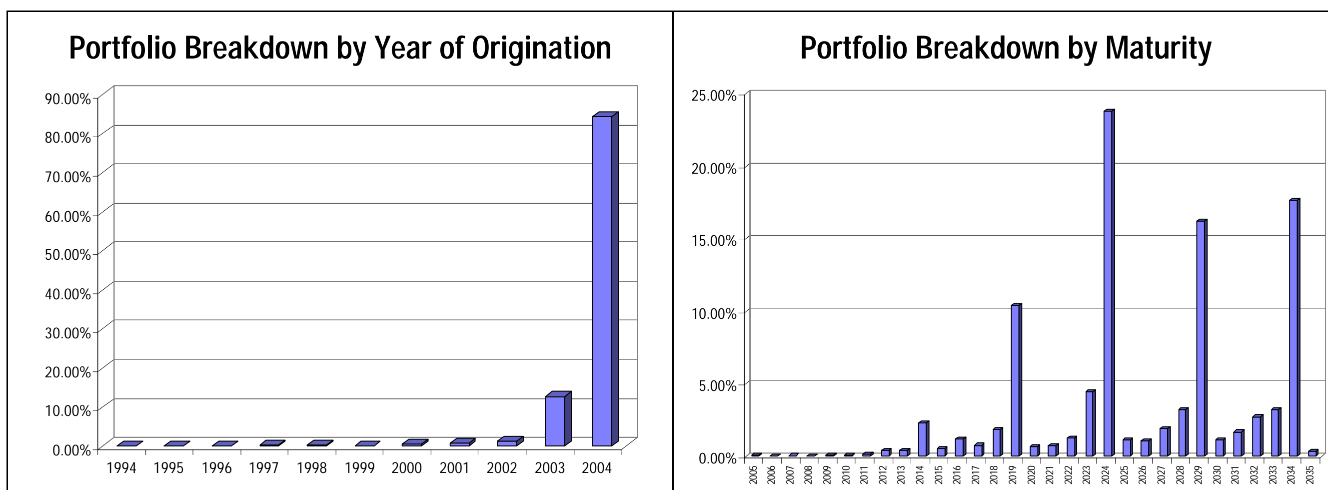
The loans have been originated between 1994 and December 2004, with a weighted average seasoning of 1 year and a weighted average remaining term of 21.38 years. The longest loan matures in January 2035.

All the loans are secured by a first-lien mortgage guarantee, mainly based on residential properties. The total weighted average loan to value is 66.0%:

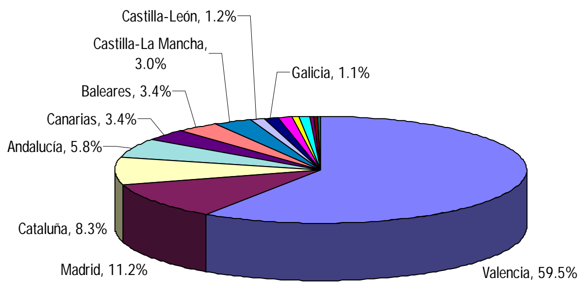
	%	Weighted Average Loan-to-Value
Commercial	7.8%	62.2%
Industrial	2.7%	59.6%
Residential	87.9%	66.7%
Rural land	1.0%	49.2%
Other	0.6%	75.9%

In terms of debtor concentration, the pool is reasonably granular: the highest exposure is 0.23% of the amount of the issuance, and the sum of the 100 highest debtors represents only 7.19% of the same amount.

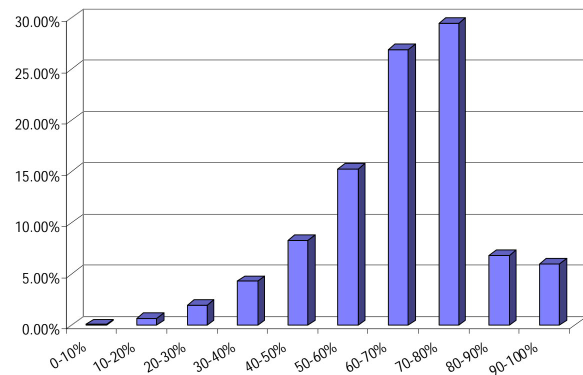
We have also been provided with historical arrears information on the loans included in the reference pool. The performance of these loans has been relatively good, as shown by the fact that, during the past two years, only 0.42% of the pool has been more than 90 days in arrears at any point in time.



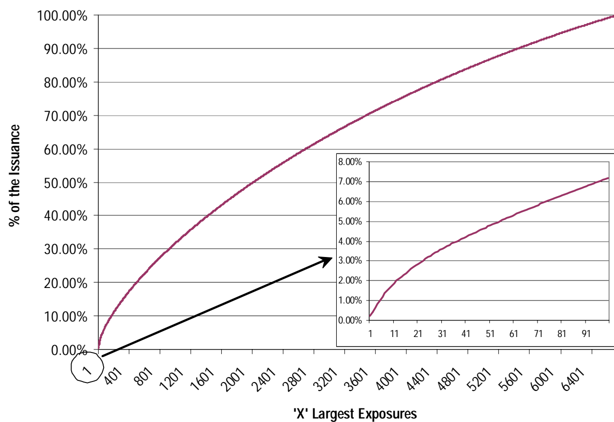
Portfolio Breakdown by Geographic Diversity



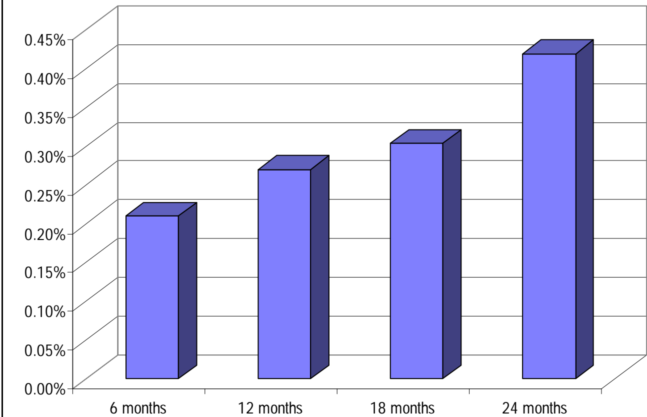
Portfolio Breakdown by LtV



Debtor Concentration



Percentage of the Pool in Arrears during the last…



The originator represents and guarantees that, as of the date of the transfer:

- There will be no amounts more than 30 days past due under any of the loan agreements.
- There has been no breach of any of the loan agreements.

ORIGINATOR, SERVICER, PAYING AGENT AND MANAGEMENT COMPANY

Bancaja, the sixth-largest financial institution in Spain by assets and with an active presence in the Spanish securitisation market, is the originator and servicer 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 €43.4 billion at the end of 2004, 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 66% 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 2004, non-performing loans as a percentage of total loans improved its 2003 level from 0.6% to 0.54%.

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, failing to perform its obligations as servicer or being affected by a deterioration in its financial situation, either 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 a new servicer. Otherwise, the management company itself would step in as servicer of the loans.

Likewise, the management company may require Bancaja, upon an insolvency process of Bancaja or because the management company considers it appropriate, to notify the transfer of the loans to the *Fondo* to the relevant debtors. Should Bancaja fail to comply this obligation within 5 business days, the notification would then be carried out by the management company.

Paying Agent

Bancaja will act as paying agent of the Fondo. In the event of Bancaja's short-term rating falling below **P-1**, it will within 30 days have to be replaced in its role of paying agent by a suitably rated institution.

Management Company

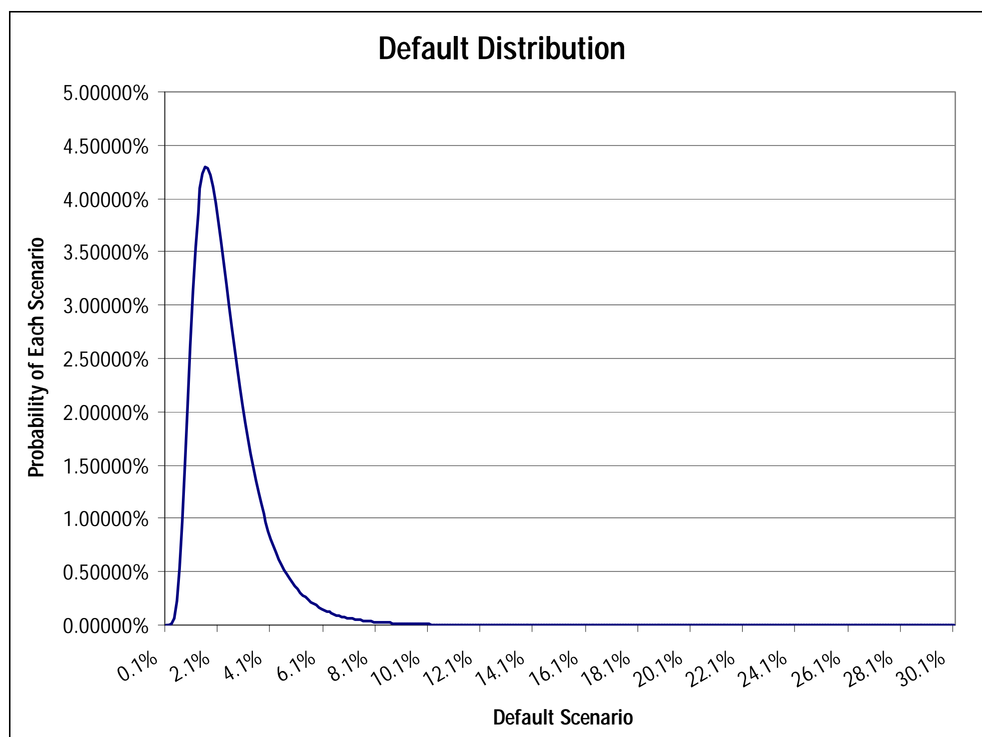
The management company (*gestora*), Europea de Titulización, is a company with substantial experience in the Spanish securitisation market. Its obligations within the structure are guaranteed by its shareholders, with respect to their proportion of the holding. BBVA accounts for 83% of the gestora's 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

Moody's used a lognormal approach based on mean default and recovery rates estimations

Moody's based its analysis on the historical performance of sample pools similar to the pool being securitised. The main parameters for the default rate (mean and standard deviation) were derived from 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 were also established.

Moody's 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 the purposes of this analysis, gross losses were assumed to be lognormally distributed, with a mean of 2.35% and a standard deviation of 1.29%.



On the basis of this distribution as well as other assumptions for recoveries, delinquency and prepayments, and in order to allocate losses to the notes in accordance with their priority of payment and relative size, Moody's built a cash flow model that reproduces all deal-specific characteristics. The sensitivity to a variation in the initial assumptions was also tested. Weighting each default scenario's severity result on the notes with its probability of occurrence, Moody's calculated the expected loss level for each series of notes which, combined with each series' expected average life, is consistent with the provisional ratings assigned.

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 verifies that the legal documents correctly reflect the structure of the deal, as well as the assumptions made in its analysis.

RATING SENSITIVITIES AND MONITORING

The rating of the notes depends on portfolio performance and counterparty ratings

Europea de Titulización, will, in its capacity as management company, prepare quarterly monitoring reports on 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: "The Lognormal Method Applied to ABS Analysis", July 2002
- SPECIAL REPORT: "Structural Features in the Spanish RMBS Market – Artificial Write-Off Mechanisms: Trapping the Spread", January 2004
- MBS BANCAJA 1 Pre-sale report + Performance Overview

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