

RMBS/CMBS/Spain
Presale Report

MBS Bancaja 3, Fondo de
Titulización de Activos

Expected Ratings*

Class	Amount (EURm)	Legal Maturity	Rating	CE (%) ¹
A1	100.0	Sep 2007	AAA	5.25
A2	668.0	Dec 2043	AAA	5.25
B	13.2	Dec 2043	AA	3.60
C	11.6	Dec 2043	A	2.15
D	7.2	Dec 2043	BBB+	1.25
E ²	9.8/11.2	Dec 2043	CC	n.a.

¹ CE figures assume the final size of the class E notes is equivalent to 1.25% of the original collateral balance (see *Reserve Fund*)

² Uncollateralised note issued to fund the creation of the reserve fund at closing date

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* Expected ratings do not reflect final ratings and are based on information provided by the fund as of 21 March 2006. Final ratings are contingent on final documents conforming to information already received as well as on satisfactory legal opinion. Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other offering material should be reviewed prior to any purchase.

Related Research

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

- "Spanish Residential Mortgage Default Model III - Amended", 15 September 2005
- "Spanish Performance Bulletin 2005 (Spain/RMBS)", 14 September 2005
- "A Guide to Cash Flow Analysis for RMBS in Europe", 20 December 2002
- "Fitch Issuer Report Grades", 25 November 2004

■ Summary

This transaction is a cash flow securitisation of a EUR800 million static pool of first-ranking residential and commercial mortgage loans ("the collateral") granted by Caja de Ahorros de Valencia, Castellón y Alicante ("Bancaja", rated 'A+/F1'). Fitch Ratings has assigned expected ratings to the notes to be issued by MBS Bancaja 3, Fondo de Titulización de Activos ("MBS Bancaja 3" or "the fund") as indicated at left.

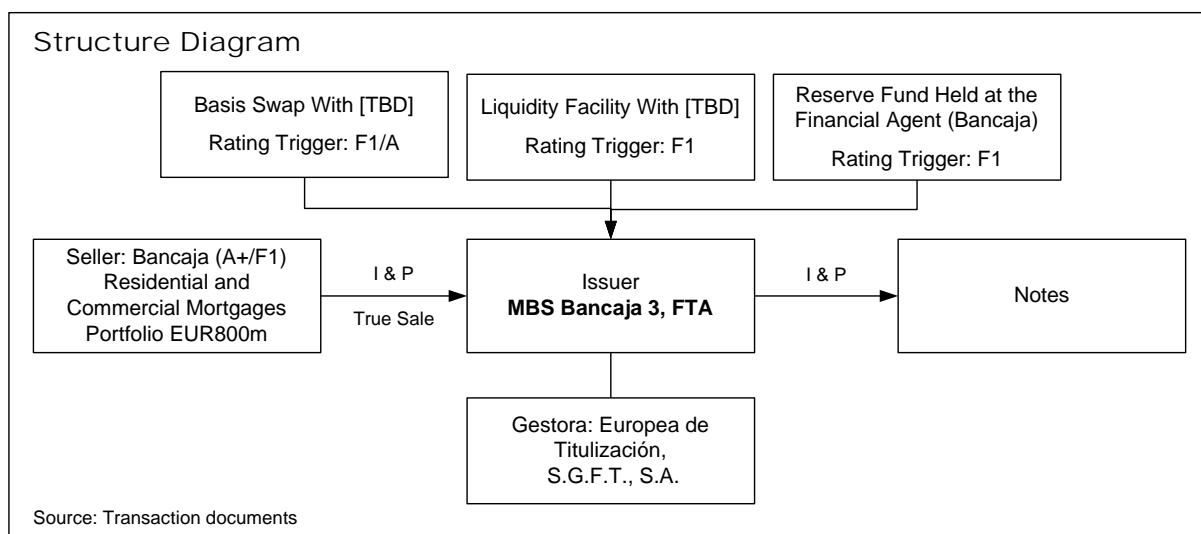
The fund will be regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to convert mortgage transmission certificates (*certificados de transmisión de hipoteca* or "CTHs") from the seller into mortgage backed securities ("MBS"). The CTHs will be subscribed by Europea de Titulización, S.G.F.T., S.A. ("the *Sociedad Gestora*"), on behalf of the fund, whose activities are limited to the management of securitisation funds.

The expected ratings on the class A to D notes address payment of interest on the notes according to the terms and conditions of the documentation, subject to a deferral trigger on the class B, C and D notes, as well as the repayment of principal by legal final maturity for each note. The class E notes will be issued to finance the cash reserve fund. The class E notes are ultimately likely to default, and their expected ratings are supported by the expected recovery rate for noteholders, this is, the amounts investors are likely to receive during the life of the transaction.

Bancaja is an active player in the Spanish securitisation arena, bringing to the market a total of 11 single seller RMBS and MBS transactions and five SME CDOs to date. Details of some of these transactions' performance are available at www.fitchresearch.com.

■ Credit Committee Highlights

- The class A1 notes have a defined legal maturity in September 2007, 18 months after the closing date, which is different to the legal maturity date of the other notes in December 2043. The 'AAA' expected rating assigned to the A1 notes was sized using conservative constant prepayment rate ("CPR") scenarios (see *Cash Flow Analysis*). Additionally, a sole purpose liquidity facility provided by a counterparty still to be determined (rated at least 'F1') and sized at 3.2% of the original collateral balance, will be in place to guarantee that these notes are redeemed in their entirety at their final legal maturity date in case the cash flow from the collateral is not sufficient (see *Liquidity Facility*).
- An interest rate hedging mechanism will be in place to mitigate the basis and reset risks arising from the mismatch between the reference indices and reset frequencies for the mortgages (mainly 12-month Euribor with annual reset frequencies) and the notes, which are indexed to three-month



Euribor and reset quarterly (see *Swap Agreements*). However, as the hedging mechanism is not covering the risk of potential margin compression of the collateral, Fitch has accommodated conservative assumptions within its cash flow model to stress the potential reduction of excess spread during the life of the deal.

- Around 34.6% of the loans in the pool by value finance second homes, while 38.6% is linked with obligors without a long-term fixed employment contract (for example, self-employed borrowers). To guard against potential additional risks on the abovementioned portions of the collateral, Fitch has increased the base default probability for such loans by 20% and 15%, respectively.
- The pool characteristics of this transaction and its two most recent predecessor of a similar kind, Bancaja 9 and MBS Bancaja 2 (which closed in February 2006 and June 2005, respectively), are shown in the table below. Note that loan-to-value (“LTV”) ratios in this portfolio are lower than in the previous transactions.

Bancaja’s Most Recent RMBS Transactions: Comparison Table

(%)	Bancaja 9	MBS Bancaja 2	MBS Bancaja 3
WA OLTV	77.05	69.0	67.0
WA CLTV	74.75	66.0	64.7
WA Indexed CLTV	74.30	61.6	60.6
Seasoning (Mnths)	11.2	13.0	12.0
Residential Loans	100.0	67.0	63.2
Concentration in C. Valenciana	37.7	64.0	48.2

Pool information as of the closing date
Source: Fitch/ Europea de Titulización

- According to Fitch calculations, approximately 64.0% of the collateral by outstanding amount is linked with loans used to purchase or refurbish residential properties, while the remaining 36.0% with other purposes such as acquisition of commercial properties, capital expenditures, or working capital funds. To mitigate the incremental risk associated with the loans that are linked with commercial purposes, or those that are secured on commercial properties (e.g., offices, retail outlets or industrial land) which represent c.25.0% of the collateral, the agency increased the base case default probability assumptions by 30%, and it estimated a market value decline (“MVD”) factor suitable for commercial properties. Please see the *Credit Analysis* section for further details.

■ Financial Structure

The fund is a limited-liability SPV incorporated under the laws of Spain, whose sole purpose is to acquire CTHs from Bancaja as collateral for the issuance of floating rate quarterly paying securities. In the structure, Bancaja acts, among other things, as the servicer of the collateral and account bank. However, for the protection of investors, if Bancaja is unable to continue to service the collateral, the Sociedad Gestora must appoint a replacement administration company in accordance with the Spanish securitisation law.

Interest and principal collections are handled jointly through the combined priority of payments, which is described below. A treasury account, held in the name of the fund at Bancaja, will receive all the incoming cash flows of the mortgage pool seven days after collection, where it will receive a guaranteed return equal to three-month Euribor. This account will also be used to maintain the reserve fund (see *Reserve Fund*).

Key Information

Structure

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

Servicer of the Collateral: Bancaja

Lead Managers: Bancaja, Deutsche Bank AG and Societe Generale

Fund: MBS Bancaja 3, Fondo de Titulización de Activos ("MBS Bancaja 3")

Sociedad Gestora: Europea de Titulización, S.G.F.T., S.A. ("EdT")

Swap Counterparty: To be determined

Liquidity Facility Provider: To be determined

Final Scheduled Maturity: December 2040

Final Legal Maturity: December 2043

Provisional Portfolio Characteristics

Total Amount: EUR897.6m as of 28 February 2006 (of which EUR800.0m will be selected at closing)

WA Original LTV: 67.0%

WA Current LTV: 64.7%

WA Indexed Current LTV: 60.6%

WA Remaining Maturity: 274 Months

WA Seasoning: 12.0 Months

With regard to this account, if Bancaja's Short-term rating was downgraded below 'F1', the Sociedad Gestora would be required to take one of the following steps within 30 days:

1. find a third party to guarantee its obligations;
2. transfer the treasury account to another entity rated at least 'F1';
3. if unable to effect either of the above, provide a guarantee of financial assets rated at least on a par with the Kingdom of Spain; or
4. if unable to effect the above options, invest the balance of the treasury account temporarily and until the next payment date in fixed-income assets issued by entities rated at least 'F1' or 'F1' when the remaining time to maturity is 30 days or more, respectively.

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

Priority of Payments

On each quarterly payment date, commencing in June 2006, the combined ordinary priority of payments will be in the order shown below:

- expenses, taxes and servicing fees;
- payment under the swap agreement (if applicable);
- interest due on (i) the class A1 and A2 notes, and on (ii) disbursed amounts under the liquidity facility (if any);
- class B interest (if not deferred);
- class C interest (if not deferred);
- class D interest (if not deferred);
- principal in order of seniority for the class A to D notes (see *Amortisation of the Notes*), and reimbursement of any amounts drawn under the liquidity facility (if any);
- class B interest if deferred, which will occur if the principal deficiency ledger ("PDL") exceeds 85% of the outstanding balance of the class B notes, plus 100% of the class C and D notes;
- class C interest if deferred, which will occur if the PDL exceeds 85% of the outstanding balance of the class C notes, plus 100% of the D notes outstanding balance;
- class D interest if deferred, which will occur if the PDL exceeds 85% of the outstanding balance of the class D notes;
- reserve fund top-up, if required;
- class E interest and principal (see *Class E Notes* below); and
- subordinated amounts.

A PDL amount is defined on every payment date as the difference between, the outstanding balance of the class A to D notes plus the drawn amount under the liquidity facility (if any), minus the non-defaulted collateral (i.e., loans less than 18 months in arrears) and funds available for amortisation. The structure will cover ordinary and extraordinary expenses using excess spread provided by the collateral. Initial expenses will be covered via a subordinated loan agreement granted to the fund by Bancaja before the closing date.

Amortisation of the Notes

As opposed to most previous Spanish RMBS transactions that included the same legal maturity for all the notes, the class A1 notes will have a legal maturity date of September 2007 rather than December 2043 that is applicable for all the other notes.

The A2 notes will commence to amortise after the A1 notes are redeemed in full. Nevertheless, if the cumulative balance of defaulted loans exceeds 15.0% of the original collateral balance, the outstanding balances of the A1 and A2 notes will amortise pro rata among themselves.

The class B, C, D and E notes will amortise sequentially on a pass-through basis after the class A

notes (including A1 and A2) have been redeemed in full. However, the class B, C and D notes will be redeemed pro rata with the class A notes if: (i) credit enhancement (“CE”) for the class A notes has more than doubled since closing; (ii) the outstanding balance of mortgages more than 90 days in arrears does not exceed 1.5%, 1.25% and 1.0% of the then-outstanding collateral balance for the B, C and D notes respectively; (iii) the reserve fund is at its required level; and (iv) the outstanding balance of mortgage loans is greater than 10% of their original balance.

The amortisation profile for the class E notes has been structured to mirror the amortisation profile of the reserve fund. Principal funds available for the amortisation of the class E notes will be limited to the cash released from the reserve fund. The reserve fund is subject to a floor (0.625% of the initial class A to D notes balance) and will be released to the class E noteholders at legal final maturity, (or before if the 10% clean-up call is exercised).

All the notes (excluding the class E notes) are subject to a clean-up call when less than 10% of the initial collateral remains outstanding.

Liquidity Facility

A liquidity facility will be provided by an entity still to be determined to the fund, in an amount equivalent to 3.2% of the original collateral balance. This facility is in place to ensure the class A1 notes are redeemed in full by their respective final legal maturity date in September 2007, in case the cash flow received from the collateral is not sufficient.

Should the liquidity facility provider’s Short-term rating fall below ‘F1’, within 30 days, the Sociedad Gestora, will take one of the following steps:

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

If neither of the two options above is completed in time, the Sociedad Gestora will draw the full amount available under the facility and will credit it to the treasury account. Any drawdown amounts (if any) will accrue an interest rate equivalent to the coupon paid to the A1 notes, while no commitment fee will be charged. Note that these items have been accommodated within the cash flow model.

Swap Agreements

The fund will enter into two interest rate hedging agreements with an entity still to be determined (“the swap counterparty”), which will hedge the basis and reset risks arising from the mismatch between the reference indices and reset frequencies for the collateral (e.g., 12-month Euribor mainly reset annually) and the three-month Euribor rate, quarterly resetting, that is payable on the notes.

Under the swap agreements, the issuer will pay the swap counterparty a weighted-average (“WA”) 12-month Euribor rate that takes into account the distribution of annual and semi-annual reset dates on the collateral as of the closing date. In return, it will receive the three-month Euribor plus or minus a spread that will be determined shortly before the closing date, and which is expected to be in the range of +2bp and -13bp over a notional defined as the balance of the non-defaulted collateral.

If the swap counterparty is downgraded below ‘A/F1’, this entity will, within 30 days, take one of the following steps:

- find a replacement counterparty with a Short-term rating of at least ‘A/F1’;
- find an entity rated at least ‘A/F1’ to guarantee its obligations under the swap agreement; or
- cash- or security-collateralise its obligations in an amount sufficient to satisfy existing Fitch criteria.

Reserve Fund

Depending on the final WA excess spread payable by the swap counterparty to the fund (see below), the potential amounts of the reserve fund can be summarised as the table on the next page indicates.

The reserve fund will be fully funded at closing, and will be held in the treasury account at Bancaja. The amortisation of the reserve fund is subject to:

- the balance of loans more than 90 days in arrears not exceeding 1.0% of the non-defaulted collateral;
- on the previous payment date the reserve fund being replenished to its required amount;
- the WA spread of the collateral being above 0.6%; and
- the closing date being more than three years earlier.

Swap Margins Paid in by the Swap Counterparty

(%)	-0.13, -0.08	-0.08, -0.03	-0.03, +0.02
Initial Reserve Fund (% of Original Collateral Balance)	1.40	1.25	1.225
Thereafter, the Higher of a Multiple of the Outstanding Collateral Balance, or	2.80	2.50	2.45
Reserve Fund Floor (% of Original Collateral Balance)	0.70	0.625	0.625

Source: Transaction documents

■ Collateral

As of 28 February 2006, the reference portfolio consisted of 7,669 mortgage loans originated by Bancaja in the normal course of its business. All were first-ranking loans secured by residential or commercial properties in Spain. Security for the loans took the form of mortgages registered in the *Registro de la Propiedad* (the official register).

Portfolio Summary

Pool Characteristics	
Current Principal Balance (EURm)	897.6
Average Current Loan per Borrower (EUR)	117,040
Average Original Loan per Borrower (EUR)	119,723
Oldest Loan in Portfolio	January 1995
Most Recent Loan in Portfolio	November 2005
Interest Rate Type	
Floating-Rate Loans (%)	100
WA Interest (%)	3.34
Payments	
Payment Method	Direct Debit
Regional Concentration (%)	
Region of Valencia	48.2
Region of Madrid	10.4
Lien Position (%)	
First-Ranking	100

Source: Fitch

The portfolio has an original WAOLTV of 67.0% and a WACLTV of 64.7%. In its recovery calculations, Fitch used an indexed valuation of the underlying properties based on regional residential indices. Giving 50% credit to increases in property prices; the WAICLTV of the pool is 60.6%.

The portfolio has a WA seasoning of 12.0 months and a WA current remaining maturity of 274 months. All of the loans by value bear a floating interest rate linked to 12-month Euribor and Mibor rates. At closing, none of the mortgage loans will be more than one month in arrears.

Servicing of the Collateral

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

Royal Decree 685/82, which governs the issuance of the CTHs that will be subscribed by MBS Bancaja 3, stipulates that the issuer of the mortgage participations and mortgage transfer certificates must service the mortgage loans (which, in turn, back the notes), and does not envisage the possibility of replacing the CTH issuer as servicer of these loans. However, the transaction has certain mechanisms in place whereby the Sociedad Gestora may be able to replace the servicer upon any breach of the terms of the servicing contract regulated by the issuer's deed of incorporation, if current legislation makes this possible.

Origination and Servicing

The origination and servicing strategies of Bancaja have not changed since the last time Fitch documented them in February 2006, within the scope of Bancaja's previous RMBS transaction. Please see new issue report "*Bancaja 9, FTA*" dated 15 February 2006 and available at www.fitchratings.com. Fitch reviewed Bancaja's origination and servicing procedures during an on-site visit where the agency met with the originator and servicer managers responsible for the mortgage loan department in February 2006. The main underwriting and servicing guidelines are summarised below:

- Bancaja is the parent bank of Spain's sixth-largest banking group and the third-largest savings bank (by total assets at end-2004). It holds a controlling 38% stake in Banco de Valencia (rated 'A/F1'). The group's operations are centred in the region of Valencia, where it had a market share of 25.05% on credit products and 32.69% for deposit products as of June 2005. As of December 2005, 60.8% of its 1,417 branches were located in Comunidad Valenciana. The group is increasingly diversifying its operations outside its home region and refinancing new mortgage loan production through securitisation.
- Irrespective of the purpose of the loan, the bank's credit analysis for mortgage loans to individuals is based on reactive and (for existing clients only) behavioural credit-scoring systems that Bancaja began developing 10 years ago.
- The analysis focuses on the borrower's ability to honour their debt payments in a timely fashion based on stresses of monthly instalments. The information analysed includes debt-to-income ("DTI") ratios (with a maximum allowable level

of 45%), data from CIRBE (a Bank of Spain database that gathers information on borrower exposure and non-payments from all Spanish entities and individuals) and Experian or RAI (the Registro de Aceptación de Impagados).

- The majority of the properties are valued by TINSA, Tasaciones Inmobiliarias S.A., Spain's largest valuation company, which is registered with and regulated by the Bank of Spain.
- Mortgages in arrears are managed by branches for the first 30 days, and thereafter by ACINSA, a dedicated primary servicing company subsidiary of Bancaja. Several letters, automatically originated by the bank's system, are sent and calls made, their frequency and content depends on the level of exposure to the borrower. After 75 days, ACINSA, together with the branch office and the credit risk department, decide whether to take the case to court or start a friendly recovery process. The documentation and procedures required for the foreclosure process are prepared as soon as is deemed necessary (even before 75 days of delinquency) to enable the lawyers to start proceedings within 24 hours of a decision to do so. In the event it is decided to take the case to court, during the next 30 days, ACINSA will continue the out-of-court recovery procedure. According to Bancaja, the foreclosure process will take 12 months.

■ Credit Analysis

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

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

Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make their mortgage payments. The willingness of a borrower to pay is usually measured by LTV. Fitch assumes higher default probabilities for high-LTV loans and lower default probabilities for low-LTV loans. The main reason for this is that, in a severe negative equity situation, borrowers in financial

distress but with equity in their homes (low-LTV loans) have an incentive to sell and maintain/protect their equity, thereby eliminating the need for the lender to repossess the property.

Ability to pay is usually measured by the mortgage payment in relation to the borrower's net income. Fitch received DTI information and has therefore identified that most borrowers in the pool fall into Fitch's "Class 3".

Fitch took the specific characteristics of the loans into consideration when assessing the default probability of the collateral. It increased the default probability for commercial-purpose loans by 30%, self-employed borrowers with residential loans by 15%, loans used for second homes by 20% and those originated in the Comunidad de Valencia by 10% to reflect the additional risks implicit in this transaction.

Recovery Proceeds

To estimate recoveries on mortgage loans in Spain, Fitch examined house price movements on a regional basis from 1987-2001. The agency found significant differences, most notably between Madrid, Catalonia and the Basque Country, and the other regions in Spain. Cities in these three regions have experienced higher price increases than regions elsewhere in Spain. Based on its analysis of the real estate market, Fitch assumed slightly larger MVDs for certain regions, as well as for some large urban areas.

To derive MVDs for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with those of markets in other European countries. As with its other European mortgage default models, the agency has increased MVDs for higher-value properties. These are generally subject to higher declines in a deteriorating market than houses with average or below-average market values owing to limited demand.

In connection with loans secured on commercial properties, MVDs were calculated in accordance with Fitch's standard analytical approach to CMBS, which uses rental value decline ("RVD") indicators and income capitalisation rates for specific property classes. RVDs are based on historical volatility observations for the real estate market in Europe: the higher the volatility of a particular property type, the lower the potential stressed rent achieved in the future and, therefore, the higher its RVD.

The income capitalisation rate of a property can be expressed as the yield generated in the market by properties with similar features and use (e.g., hotels will normally return a different yield from retail units). More information on Fitch's CMBS methodology can be found in the special report

“European Property Income Model – “The Logic”” dated 9 June 2004 and available at www.fitchratings.com.

When calculating recovery value, the agency’s model reduces each property’s worth by the MVD, external foreclosure expenses and the cost to the servicer of carrying the loan from delinquency through to default. This cost depends on the time to foreclosure as well as the applied interest rate, which Fitch assumes to be 10%.

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 (“WARR”) and WA frequency of foreclosure (“WAF”) 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 calculated the cost of carrying defaulted loans as the difference between the performing balance of the collateral and the notional note balance until all the recovery proceeds are collected. Excess spread, the reserve fund and principal collections must be sufficient to cover the carrying cost until all recoveries are received.

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

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

The agency accommodated in the cash flow model the potential margin compression risk of the collateral, as the pool consists of variable-rate amortising loans, and the hedge agreements do not guarantee a minimum level of spread. For each rating scenario, Fitch has assumed that 80% of the prepayments refer to loans with spreads on the higher range of the distribution.

The analysis showed that the CE levels provided for each of the tranches would be sufficient to withstand the default hurdles and losses determined by the agency for the individual ratings.

Class E notes

The performance of the class E notes requires very favourable conditions for the collateral backing the class A to D notes. Fitch calculated an expected recovery rate after testing several cash flow scenarios commensurate with speculative grade rating levels. The sensitivity analysis performed consisted of testing several variables that affect the release of the reserve fund and consequently the availability of interest and principal payments on the class E notes. Fitch ran multiple stress scenario assumptions, including:

- alternative timing of default assumptions: back-loaded, front loaded as well as evenly spread defaults;
- alternative interest rates: increasing, low, and constant interest rate scenarios;
- prepayment speeds: high, low and average historical prepayment rates;
- different WA margin compression rates on the mortgage loans: the agency modelled high and low margin compression rates assuming the percentage of prepayments are allocated to the higher margin loans in the portfolio; and
- exercise of the clean up call by the originator.

The ‘CC’ expected rating on the class E notes is supported by the expected recovery rates. As default on the class E notes appears probable, a distribution of possible recovery rates was obtained. The recovery rate has been calculated as the present value of the class E notes’ expected interest and principal payouts. Based on Fitch’s calculation, the expected recovery rate was 45%-65% of the initial note balance.

■ Performance Analytics

Fitch affirmed its ratings on MBS Bancaja 1, FTA on 12 September 2005. The structure of this transaction (ie. MBS Bancaja 1) is such that, until 17 November 2005, no principal was repaid on the notes. From that date, principal receipts from the collateral are paid into the amortisation account to be

used for redemption of the A notes. The negative carry created by the fact that the note balance does not decrease while the mortgage balance does, is covered by the swap agreement.

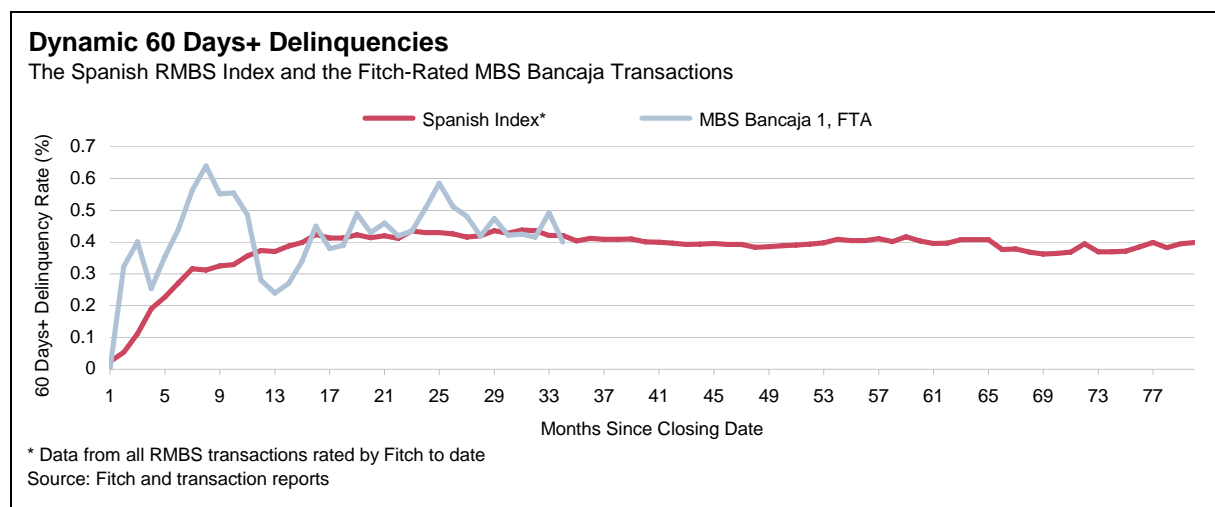
Delinquencies, defined as more than 90 days in arrears, are performing in line with the overall Spanish delinquency index. At the end-January 2006, they account for 0.24% of the outstanding mortgage balance. Meanwhile, delinquencies in the younger transaction, MBS Bancaja 2, account for 0.06% of the outstanding balance.

Details of all Bancaja transactions' performance, including MBS Bancaja 1 and 2, are available at www.fitchresearch.com.

Fitch will monitor the transaction regularly and as warranted by events. Its structured finance performance analytics team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

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

Please call the Fitch analysts listed on the first page of this report for any queries regarding the initial analysis or the ongoing performance.



■ Appendix I: Rating Methodology

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

Default Probability

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

The ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. Historical data available for Spain shows low levels of default. Base default probabilities are determined using a matrix that considers each loan's affordability factor and LTV. The matrix classifies affordability into five classes, the lowest of which (Class 1) encompasses loans with debt-to-incomes ("DTIs") of less than 20% and the highest of which (Class 5) encompasses all loans with DTIs exceeding 50%. The average DTI for the mortgage market in Spain is circa 33%-37%.

Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for the individual loan characteristics of the collateral across all rating levels. In the absence of case-by-case specific mitigants, Fitch conducts the following adjustments:

- **Product Type:** Fitch may increase default probability assumptions by 0%-20% for loans that have riskier profile (i.e., flexible products) *vis-a-vis* standard variable rate amortising loans.
- **Repayment Type:** Mortgage payments by Spanish borrowers are generally made monthly by direct debit. Fitch will increase base default rates by 5% for quarterly payments and 10% for biannual or annual payment frequencies. Interest-only mortgages may be included in Spanish transactions at some point in the future. Fitch increases the default assumptions for these loans by up to 25% to take into account the balloon risk to the borrower and the strong reliance on the borrower's equity in the property.
- **Loan Purpose:** Fitch believes that a financially distressed borrower is more likely to default on a second home or investment property than on a primary residence. Accordingly, Fitch will increase the default probability by 15% to 50%. If the purpose of the loan is not the acquisition of a property in Spain, Fitch will increase the default probability by 50%-100%.
- **Borrower Profile:** Fitch increases the default probability on loans to self-employed borrowers by 20%-50% to account for their lack of a fixed annual salary and for non-Spanish residents as presumably such borrowers may have less incentive to repay a mortgage loan in periods of stress.
- **Arrears Status:** when rating portfolios combining current and arrears mortgages, Fitch increases base default rates for mortgages in arrears by 1-30, 31-60, and 61-90 days by 25%, 50% and 70%, respectively. Fitch assumes that mortgages over 91 days in arrears (non-performing status) will have a 100% probability of default.
- **Underwriting Quality:** Fitch's review and analysis of the origination process determines whether the agency decreases default rates by up to 25% or increases them by 0%-200%.

Loss Severity

To estimate loss severity on mortgage loans in Spain, Fitch examined house price movements on a regional basis from 1987–2004. The agency found significant differences in price development among the regions – mainly between the regions of Madrid, Catalunya, País Vasco and the rest of the regions in Spain. More recently, prices have increased significantly in certain coastal areas (including Cantabria, Valencia, Andalucía and Murcia). The cities of these regions have experienced higher price increases than other cities in Spain. As in most other countries, rural areas tend to develop on a more stable basis. Based on its analysis of the real estate market, Fitch assumed slightly higher MVDs for certain regions and for some large urban areas.

To derive MVDs for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with markets in other European countries. As with its other European mortgage default models, Fitch has increased MVDs for lower and higher-value properties. These properties are generally subject to larger MVDs in a deteriorating market than homes with average market values owing to limited demand for such properties.

When calculating recovery value, Fitch's model reduces each property value by the MVD, external foreclosure expenses, and the cost to the servicer of carrying the loan from delinquency through to default. For Spain, Fitch assumes that external foreclosure costs represent EUR6,500 plus 4% of the realised value of the collateral at the time of default. Loss severity also incorporates the fact that in a recession period, the length of time to foreclosure may be longer than is currently the case. To calculate carrying costs, Fitch uses a worst-case scenario analysis, which assumes that the borrower does not pay any interest and the collateral is not realised for three years.

Additional stresses to property values may be conducted vis-a-vis residential properties, on a case-by-case basis, if the mortgage loans are backed by commercial properties or subsidised properties (i.e., *Viviendas de Proteccion Oficial*) or in transactions where relatively strong geographical concentration and a large proportion of second home properties are observed.

■ Appendix II: Summary

MBS Bancaja 3, Fondo de Titulización de Activos

RMBS/CMBS/Spain

Capital Structure

Class	Rating	Size (%)	Size (EURm)	Credit Enhancement (%)**	I/P PMT Frequency	Legal Maturity	Coupon
A1	AAA	12.50	100.0	5.25	Quarterly	September 2007	3 Month Euribor + Spread
A2	AAA	83.50	668.0	5.25	Quarterly	December 2043	3 Month Euribor + Spread
B	AA	1.65	13.2	3.60	Quarterly	December 2043	3 Month Euribor + Spread
C	A	1.45	11.6	2.15	Quarterly	December 2043	3 Month Euribor + Spread
D	BBB+	0.90	7.2	1.25	Quarterly	December 2043	3 Month Euribor + Spread
E	CC***	1.225/1.40*	9.8/11.2	n.a.	Quarterly	December 2043	3 Month Euribor + Spread

* Final size to be determined prior to closing depending on the WA spread payable by the swap to the fund. The percentages are expressed as a proportion of the initial collateral balance. See Reserve Fund.

** CE figures assume the final size of the class E notes is equivalent to 1.25% of the original collateral balance. See Reserve Fund.

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

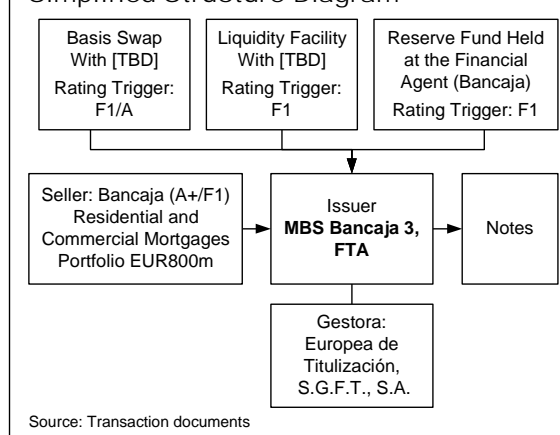
Key Information

		Role	Party (Trigger)
Expected Closing Date	6 April 2006	Seller/Originator	Bancaja
Country of Assets	Spain	Structurer	Bancaja
Structure	Sequential, pro rata under certain conditions	Issuer	MBS Bancaja 3, FTA
Type of Assets	Residential mortgages	Lead Managers	Bancaja, Deutsche Bank AG and Societe Generale
Currency of Assets	EUR	Trustee	Europea de Titulización, S.G.F.T., S.A.
Currency of Notes	EUR	Swap Provider	To be determined ('A+/F1')
Primary Analyst	juan.garcia@fitchratings.com	Account bank	Bancaja ('F1')
Secondary Analyst	henry.gallego@fitchratings.com	Financial Agent	Bancaja ('F1')
Performance Analyst	sf_surveillance@fitchratings.com	Liquidity Facility	To be determined ('F1')

Fitch Default Model Outputs

Rating Level (%)	AAA	AA	A	BBB
WAFB	12.4	9.9	7.4	5.0
WARR	68.7	74.7	80.3	84.6
WALS	37.7	31.4	25.6	21.3
WAMVD	48.8	44.0	39.3	35.5

Simplified Structure Diagram



Collateral

Pool Characteristics			
Current Principal Balance (EUR)	897,586,518	Regional Concentration (%)	
Average Current Loan per Borrower (EUR)	117,040	Valencia region	48.2
Average Original Loan per Borrower (EUR)	119,723	Madrid	10.4
Number of Loans	7,669	Catalunya	8.5
WA Seasoning (Months)	12.0	Mortgage Characteristics (%)	
Oldest Loan in Portfolio	January 1995	First Ranking	100.0
Most Recent Loan in Portfolio	November 2005	Second homes/Investment Properties	34.6
Interest Rate Type (%)		Linked with residential properties	75.0
Variable	100	Loan to Value (LTV) (%)	
Fixed	0	WA Original LTV	67.0
WA Interest	3.34	WA Indexed Current LTV	60.6
Interest Index	Euribor, Mibor	WA Current LTV	64.7
WA Spread	0.96		

Source: CAM

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