RMBS/Spain
Presale Report

MBS Bancaja 4, Fondo de Titulización de Activos

Expected Ratings*

Class	Amount (EURm)	Final Maturity	Rating	CE[a] (%)
A1	300.0	July 2050	AAA	4.97
A2	1,182.1	July 2050	AAA	4.97
A3	300.0	July 2050	AAA	4.97
B	30.5	July 2050	AA	3.32
C	18.9	July 2050	A+	2.30
D	18.5	July 2050	BBB+	1.30
E[b]	24.1	July 2050	CCC	0.00

[a] CE figures assume the final size of the RF is equivalent to 1.30% of the original note balance (see *Reserve Fund*)
[b] Uncollateralised notes issued to finance the creation of the reserve fund at closing date (see *Reserve Fund*)

Analysts
Alvaro Gil
+34 91 702 5777
alvaro.gil@fitchratings.com

Natalia Bourin
+33 1 4429 9176
natalia.bourin@fitchratings.com

Performance Analytics
Charlotte Eady
+44 20 7417 3523
sf_surveillance@fitchratings.com

* Expected ratings do not reflect final ratings and are based on information provided by the issuer as at 28 February 2007. Final ratings are contingent on final documents conforming to information already received as well as on satisfactory legal opinion. Ratings are not recommendations to buy, sell or hold any security. The prospectus and other briefing material should be reviewed prior to any purchase.

Related Research

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

- "*Spanish Mortgage Default Model III*", dated 15 September 2005
- "*A Guide to Cash Flow Analysis for RMBS in Europe*", dated 20 December 2002
- "*Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)*", dated 7 August 2006
- "*Fitch Issuer Report Grades May 2006 Update*", dated 5 June 2006

Summary

This transaction is a securitisation of a EUR1.85bn static pool of first-ranking residential mortgage loans ("the collateral"), originated by Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja, or the seller, rated 'A+/F1'), and secured on properties in Spain. Fitch Ratings has assigned expected ratings to the notes to be issued by MBS Bancaja 4, Fondo de Titulización de Activos (MBS Bancaja 4 or the fund) as indicated at left.

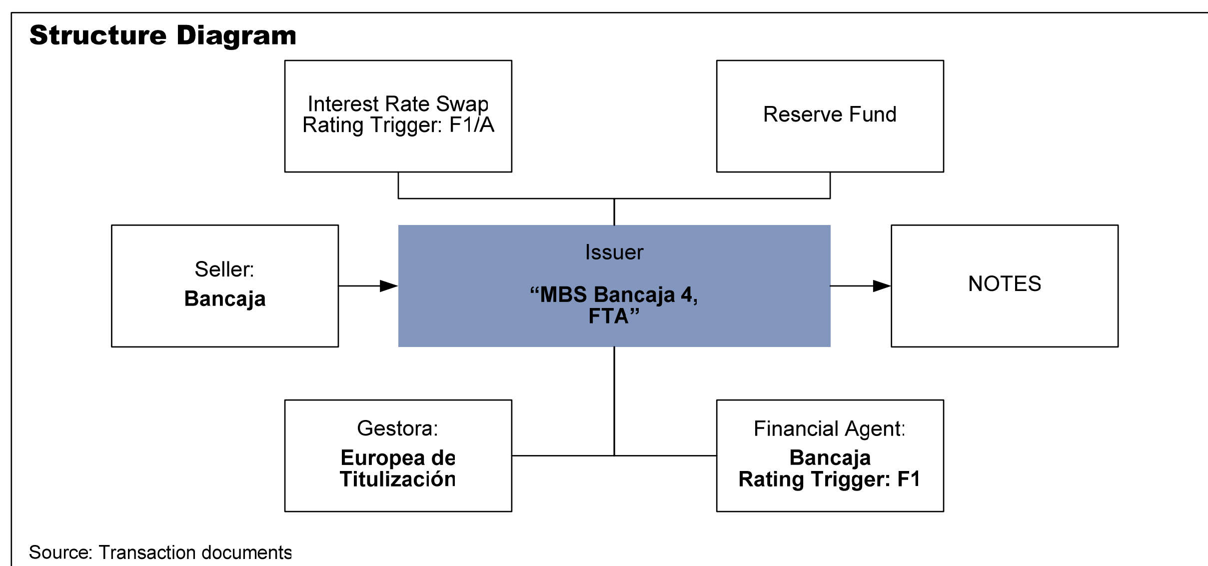
This is the fourth MBS securitisation transaction to be brought to the market by Bancaja. The main characteristics of the collateral and most structural features of MBS Bancaja 4 are similar to those of its predecessors. The fund will be regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to convert mortgage certificates (certificados de transmisión de hipoteca, or CTHs) acquired from the seller into mortgage-backed securities (MBS). The CTHs will be subscribed by Europea de Titulización S.A. S.G.F.T. (the sociedad gestora), whose activities are limited to the management of securitisation funds.

The expected ratings are based on the quality of the collateral, the underwriting and servicing capabilities of Bancaja, the available credit enhancement (CE), the sound legal and financial structure of the transaction and the sociedad gestora's administrative capabilities. The expected ratings 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 on each note by legal final maturity.

To verify that 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 spread using the stress scenarios determined by its default model.

Credit Committee Highlights

- The class A1 notes will start amortising from the first payment date in July 2007. Class A2 will start amortising on the latest of January 2009 or once the class A1 notes have been fully amortised. In the event of class A1 fully amortising prior to January 2009, all further available funds for class A amortisation will be kept in an amortisation account held at Bancaja until being applied for class A2 amortisation on January 2009. From July 2013 inclusive, funds for class A amortisation will be applied to the class A2 and A3 notes on a 25% and 75% basis, respectively. All notes have the same legal maturity of July 2050. (See *Redemption of the Notes* and *Amortisation Account* below).



Source: Transaction documents

- Some 36.2% of the pool by value consists of loans granted to obligors without a long-term fixed employment contract (for example, the self-employed). *Comparison:* In MBS Bancaja 3, 38.6% of the collateral was granted to obligors without long-term fixed employment contracts. *Mitigated By*: For such loans, Fitch increased the base default probabilities by 20%.

- MBS Bancaja 4 has low OLTV and CLTV ratios at 63.9% and 61.0%, respectively. *Comparison:* MBS Bancaja 4 has the lowest OLTV of all previous MBS Bancaja deals and lower CLTV than MBS Bancaja 2 and MBS Bancaja 3.

- According to Fitch calculations based on the pool information provided by the arranger, approximately 21% of the collateral was granted for the purpose of debt consolidation. *Mitigated By*: For such loans, Fitch increased the base default probabilities by 15%.

- According to Fitch calculations based on the pool information provided by the arranger, approximately 10% of the collateral was granted for commercial purposes, representing a higher risk as the use of these funds is for business-related activities rather that being for the purchase, refurbishment or construction of the property used as a guarantee. *Mitigated By*: For such loans, Fitch increased the base default probabilities by applying a Class 5 debt-to-income (DTI) stressed by 30%.

- Loans representing 18% of the pool are guaranteed by more than one asset, including both residential and commercial assets. *Mitigated by:* In cases where both residential assets and commercial assets guarantee the same loan, Fitch considered for default and recovery purposes the total loan amount to be guaranteed by the commercial asset.

- Some 80.3% of the collateral comprises second homes (this figure includes 6.3% of the pool where detailed information was unavailable). This results from the fact that Bancaja securitised first homes in its RMBS deals while leaving second home assets for MBS deals. *Comparison:* MBS Bancaja 3 had 34.6% of second homes. *Mitigated by:* Fitch applied a 20% default probability hit on these second homes.

- The pool has 9.1% of commercial assets as guarantees. These include retail, offices, industrial assets and plots of land. *Mitigated by:* Fitch applied specific MVDs for commercial properties.

- Bancaja, as in previous deals, will close the interest hedging agreements during the final stages of the marketing process. Since the margin charged by the swap provider will not be known until this later stage, Fitch has provided three different scenarios in which the respective initial reserve fund is adjusted to account for the difference in swap costs. Upon closing of the swap agreement, the reserve fund amount will be fixed according to one of the three alternatives indicated. See *Swap Agreement* for details.

- Some 6.7% of the collateral comprises CUSTOM loans, which allow the borrower to reduce the margin of the mortgage loan by up to 30bp subject to their salary being paid into a

Key Information

Structure

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

Servicer of the Collateral: Bancaja

Financial Agent: Bancaja

Fund: MBS Bancaja 4, Fondo de Titulización de Activos (MBS Bancaja 4)

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

Swap Counterparty: TBC

Final Legal Maturity: July 2050

Provisional Portfolio Characteristics

Total Amount at Closing: EUR2.1bn (of which EUR1.85bn will be selected at closing)

WA Original LTV per borrower: 63.9%

WA Current LTV per mortgage: 61.0%

WA Indexed Current LTV per mortgage: 60.6%

WA Remaining Maturity: 22.3 years

WA Seasoning: 14.5 months

Concentration in Valencia: 46.5%

Bancaja account, and contracting both life insurance and a pension fund with Bancaja, subject to a minimum at 70bp. *Comparison:* In MBS Bancaja 3, 6.5% of the collateral consisted of CUSTOM loans. *Mitigated By*: In its cash flow analysis, Fitch has taken the margin reduction possibility of the CUSTOM loans into account.

- The class E notes will be issued to finance the cash reserve fund. As the class E notes are likely to default, Fitch conducted a sensitivity analysis using its cash flow model to stress the variables that will affect the cash available to pay down these notes and, in turn, to calculate their expected recovery rate based on the present value of interest and principal payments. The expected rating assigned to these notes is supported by the expected recovery rate for noteholders. The expected recovery rate on the class E notes reflects the amounts that investors are likely to receive during the life of the transaction (see *Reserve Fund* and *Credit Analysis*).

Financial Structure

The fund will be a limited liability, special-purpose vehicle incorporated under the laws of Spain, whose sole purpose is to acquire CTHs from Bancaja as collateral for the issuance of the floating-rate notes. All the notes will pay interest quarterly in arrears based on three-month Euribor plus a margin.

In the structure, Bancaja will act as the financial agent, and servicer of the collateral. However, for the protection of investors, if Bancaja is unable to continue to service the collateral, the sociedad gestora will appoint a replacement administration company, in accordance with the Spanish securitisation law.

Interest and principal collections will be handled jointly through the combined priority of payments, (see *Priority of Payments* below). Amounts received on the mortgages will be transferred by Bancaja into the fund's treasury account seven days after collection. Amounts standing to the credit of the treasury account will receive a guaranteed interest rate of three-month Euribor.Regarding the treasury account, if Bancaja is downgraded below 'F1', the sociedad gestora will take one of the following actions within 30 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';
3. if unable to effect either of the above, it will pledge assets with a rating equal to that of the Kingdom of Spain ('AAA/F1+'); or
4. if none of the previous options is achievable, the sociedad gestora could also invest the balance of the treasury account temporarily, and until the next payment date, in fixed-income assets (qualified investments). An 'F1' rating is sought by Fitch for qualified investments maturing within 30 calendar days, and a rating of 'F1+' for longer investments.

Moreover, if Bancaja is downgraded below 'F1', it will transfer incoming cash flows to the treasury account within two business days, and in the event of a further downgrade of its Short-term rating below 'F2', Bancaja will create a cash deposit in favour of the Fund in an amount consistent with Fitch criteria as documented in *"Commingling Risk in Structured Finance Transactions"*, dated 9 June 2004 and available at www.fitchratings.com.

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 July 2007, the combined ordinary priority of payments will be applied, as follows:

1. ordinary and extraordinary expenses of the fund;

2. net payments under the swap agreement (other than swap termination payments due to a default or breach of contract by the swap counterparty);
3. interest payments on the class A1, A2 and A3 notes;
4. interest on the class B notes (when not deferred);
5. interest on the class C notes (when not deferred);
6. interest on the class D notes (when not deferred);
7. principal in order of seniority on the A to D notes (see *Redemption of the Notes*);
8. interest on the class B notes (when deferred);
9. interest on the class C notes (when deferred);
10. interest on the class D notes (when deferred);
11. replenishment of the cash reserve;
12. interest payments on the class E notes;
13. principal payments on the class E notes; and
14. other subordinated amounts, including payments due under the swap in the event of a swap counterparty default.

Interest due on the class B notes will be deferred if the cumulative amount of defaults (ie. loans in arrears over 18 months) reaches 9.0% of the original collateral balance. Similarly, interest due on the class C and D notes will be deferred if the cumulative amount of defaults reaches 7.40% and 5.70% of the original collateral balance, respectively.

Redemption of the Notes

Principal redemption of the notes will be allocated sequentially, beginning with the class A1 notes and only moving through the remaining classes once they have been redeemed in full. Legal final maturity for all the notes will be in July 2050.

Class A1 will start to amortise from the first payment date. Class A2 will start amortising on the latest of January 2009 or once the class A1 notes have been fully amortised. In the event of Class A1 fully amortising prior to January 2009, all funds available for class A amortisation will be kept in an amortisation account held at Bancaja until being applied for class A2 amortisation on January 2009. From July 2013, funds for class A amortisation will be applied to the class A2 and class A3 notes on a 25% and 75% basis, respectively.

However, the class A1, A2 and A3 notes will amortise pro rata among themselves if the ratio between the balance of outstanding loans (excluding delinquent loans) plus the available funds for amortisation for the period, and the outstanding principal balance of class A1, A2 and A3 is below or equal to 1.

In addition, the documents allow the B, C and D notes to amortise on a pro rata basis with the class A1, A2 and A3 notes if the following conditions are met:

a. the required reserve fund is fully funded on the previous payment date;
b. the CE level of class A1, A2 and A3 has doubled since closing;
c. the total outstanding notes balance is equal to or higher than 10% of the initial notes balance; and
d. the current balance of loans more than 90 days in arrears, excluding losses, is less than 1.25% of the outstanding balance of the collateral for class B, 1.00% for class C and 0.75% for class D.

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. Note that the reserve fund is subject to a floor and will be released to the class E noteholders at legal final maturity, (or before, if the 10% clean-up call is exercised). See *Reserve Fund*.

Exceptionally, Bancaja is allowed by the transaction documents to modify the definition of available funds for amortisation for the class E notes, effectively incorporating any excess spread remaining in the waterfall after replenishing the reserve fund (if any) and reimbursing the subordinated loan to cover initial expenses. This option will become effective if the seller is not the sole holder of such notes, or if it decides to exercise the abovementioned option, in both cases after informing the sociedad gestora. Within the cash flow analysis conducted by Fitch, only the most conservative amortisation scenario has been considered, which restricts the principal amortisation to the funds released by the reserve fund.

All the notes (including the class E notes) will be subject to a clean-up call, in favour of the sociedad gestora, when less than 10% of the initial collateral remains outstanding.

Amortisation Account

An amortisation account, held in the name of the Fund at Bancaja, will receive all funds available for class A amortisation in the event of the class A1 notes amortising in full prior to January 2009. These funds will be applied to class A2 amortisation on the January 2009 payment date. The amortisation account will receive a guaranteed return equal to three-month Euribor plus the weighted-average interest of the class A to D notes payable on a quarterly basis. Interest received on the amortisation account will be paid into the treasury account.

Regarding the amortisation account, if Bancaja is downgraded below ‘F1’, the sociedad gestora will take one of the following actions within 30 days:

- appoint a counterparty rated at least 'F1' to guarantee Bancaja's obligations under the amortisation account agreement;
- transfer the amortisation account to a counterparty rated at least 'F1';
- if unable to effect either of the above, it will pledge assets with a rating equal to that of the Kingdom of Spain ('AAA/F1+'); or
- if none of the previous options is achievable, the sociedad gestora could also invest the balance of the amortisation account temporarily, and until the next payment date, in fixed-income assets (qualified investments). An 'F1' rating is sought by Fitch for qualified investments maturing within 30 calendar days, and a rating of 'F1+' for longer investments.

The amortisation account will be closed following the January 2009 payment date.

Fitch has taken the implications of the amortisation account into consideration in its cash flow modeling.

Swap Agreement

The fund will enter into two interest rate hedging agreements with a swap counterparty, rated at least 'A/F1' and to be determined prior to closing, to hedge the basis and reset risks arising from the mismatch between the reference indices and reset timings for the collateral (12-month Euribor and Mibor resetting annually and semi-annually) and the three-month Euribor payable on the notes updated every three months.

Under the swap agreements, the fund will pay the swap counterparty weighted-average (WA) 12-month Euribor, taking into account the distribution of annual and semi-annual reset dates on the collateral as at the closing date. In return, it will receive three-month Euribor adjusted by a margin to be determined at closing, and which is expected to be in one of the three ranges as indicated in the *Swap Margin* table over a notional defined as the balance of the non-defaulted collateral. The different swap margin alternatives will equate in different initial reserve fund sizes as indicated.

The swap agreements will not guarantee minimum excess spread to the fund during the life of the transaction. Therefore, any risk of margin compression on the collateral will be assumed by the fund. If the swap counterparty is downgraded below 'A/F1', it will, within 30 days, take one of the following steps:

- find a replacement counterparty with a rating of at least 'A/F1';
- find an entity rated at least 'A/F1' to guarantee its obligations under the swap agreements; or
- cash- or security-collateralise its obligations in an amount consistent with existing Fitch criteria.

More information on Fitch's standards for swaps can be found in the special report "*Counterparty Risk in Structured Finance Transactions: Swap Criteria",* dated 13 September 2004 and available at www.fitchratings.com.

Reserve Fund

Depending on the swap margin paid to the swap counterparty by the Fund, the potential amounts of the reserve fund can be summarised as the following table indicates. The reserve fund will be created at closing through the issue of class E notes, and will be held in the treasury account at Bancaja.

Swap Margins Paid to the Swap Counterparty and RF Amount

(%)	-0.10, -0.06	-0.059, -0.02	-0.019, +0.02
Initial reserve fund (% of original collateral balance)	1.38	1.30	1.25
Initial reserve fund amount (EURm)	25.5	24.1	23.1

Source: Transaction documents

Subject to the following conditions, the reserve fund will be permitted to amortise to the greater of; half the initial reserve fund percentage calculated based on the original note balance; and twice the initial reserve fund percentage calculated based on the outstanding note balance:

a. the ratio of delinquent loans to outstanding loans is equal to or less than 1.0%;
b. the reserve fund was at its required level on the current payment date;
c. the average margin on the loans is equal or higher than 66bp; and
d. the closing date for the transaction was more than three years earlier.

Legal Structure

At closing, the seller will transfer the mortgages to the sociedad gestora on behalf of the fund. However, under Spanish law, the mortgage loans are not actually transferred as this would entail a lengthy process of re-registering them at the property registry. Instead, the mortgage originators are permitted to issue mortgage participations (PHs) and, since the new Finance Act of December 2003, mortgage certificates (CTHs). Mortgages transferred in the form of PHs are subject to certain restrictions with which CTHs do not have to comply. In particular, PHs must be first-ranking mortgages with a current

Comparison with Previous MBS Bancaja Transactions – Pool Data at Presale

Transactions	MBS Bancaja 1	MBS Bancaja 2	MBS Bancaja 3	MBS Bancaja 4
Closing date	April 04	June 05	April 06	Expected May 07
Pool data				
Total pool current balance (EURm)	728.3	858.0	897.6	2,087.9
WA current term to maturity (months)	178.0	255.0	274.0	267.2
WA seasoning (months)	31.1	13.0	12.0	14.5
Residential assets (%)	69.0	67.0	63.2	90.9
Valencia (%)	73.6	64.0	48.2	46.50
LTV				
WA OLTV (%)	65.7	69.0	67.0	63.9
WA CLTV (%)	56.1	66.0	64.7	61.0

Source: Fitch

loan-to-value ratio (CLTV) below 80%, and the properties underlying the mortgage must be properly insured.

Representations and Warranties

The seller will provide representations and warranties in relation to the collateral, including the following:

- Each mortgage loan must be registered in the relevant property registry and represent an economic first-ranking claim on the corresponding property (on any second-ranking claims Bancaja has documentation proving that the respective first-ranking loan has been amortised and the registry cancellation of the loan is still pending).
- The seller must have full right and title to, and the power to sell and transfer, the mortgages.
- The seller is unaware that any of the underlying properties have been subject to a reduction in value of more than 20% since acquisition.
- All properties must be located in Spain.
- None of the mortgage loans may be more than 30 days delinquent at closing.
- All mortgages are fully drawn.
- All properties must have undergone a valuation process, as required by law.
- Any Viviendas de Protección Oficial (VPOs) backing the loans have been valued at the maximum legal value.

Following an irremediable breach of any of the representations or warranties, Bancaja will replace or repurchase the loan(s) in question.

Set-Off Risk

In case of Bancaja's default, the fund could be affected by the set-off rights of borrowers with deposits in an account held with Bancaja. However, this risk is mitigated as the seller (Bancaja) commits in the documentation that, if this situation arises, it will pay to the fund the amount set off plus the accrued interest. According to Spanish law, the set-off rights should cease to be applicable following the notification of the assignment of the receivables to the other party. In the event of the bankruptcy of one of the parties, set off rights would be applicable if the set off prerequisites exist prior to the declaration of bankruptcy.

■ Cash Bond Administration

The cash bond administration (CBA) function for this transaction will be carried out by the sociedad gestora, a company regulated and supervised by the Comisión Nacional del Mercado de Valores (CNMV) whose activities are limited to the management of securitisation funds. Europea de Titulización, SGFT SA, incorporated under the laws of Spain in 1993 and currently managing 67 securitisation funds approximately, has been actively involved in the pre-closing phase of the deal.

After closing, the sociedad gestora will be responsible for cash reconciliation, waterfall calculations and their reporting, including the monitoring of applicable triggers. It will also be responsible for taking any action in the interest of the noteholders, such as the replacement of the servicers, account bank or swap counterparty according to the terms and conditions of the documentation.

■ Collateral

As at 28 February 2007, the reference portfolio had an outstanding balance of EUR2.1bn, and consisted of 18,959 mortgage loans originated by Bancaja in the normal course of its business. All were first-ranking loans secured by residential properties in Spain.

The portfolio has a WA OLTV per borrower of 63.9% and a WA CLTV of 61.0%, which are lower than in the previous MBS Bancaja transactions. See *Comparison Table*.

In its recovery calculations, Fitch used an indexed valuation of the underlying properties based on regional residential indices; the WA indexed CLTV of the pool is 60.6%.

The portfolio has a WA seasoning of 14.5 months, comparing positively with the 12.0 and 13.0 months in MBS Bancaja 2 and MBS Bancaja 3, respectively.

All loans are variable rate and linked to 12-month Euribor or 12-month Mibor, with annual and semi-annual reset dates. The WA margin of the portfolio over 12-month Euribor is 0.91%. The originator will have the right to change the margins on CUSTOM loans, which represent 6.7% of the pool, by up to 30bp capped at 70 bp.

Bancaja will have the right to make certain modifications, at the borrower's request, on the conditions of the mortgages on the underlying pool. These include the possibility to renegotiate margins (excluding the possibility to change to fixed rate) subject to the weighted-average margin on the outstanding pool being above or equal to 70bp; and the possibility to renegotiate the loan term on mortgages representing up to 10% of the initial principal balance.

Credit Analysis

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

Provisional Portfolio Summary

Pool characteristics	
Current principal balance (EURm)	2,088
Number of loans	18.959
Average original loan balance (EUR)	120,742
Average current loan balance (EUR)	113,264
WA original LTV per borrower (%)	63.9
WA current LTV per mortgage (%)	61.0
WA indexed CLTV per mortgage (%)	60.6
Oldest loan in portfolio	July 2000
Most recent loan in portfolio	December 2006
WA original term to maturity (years)	23.5
WA current term to maturity (years)	22.3
WA seasoning (months)	14.5
Interest rate type	
Floating-rate loans (%)	100.00
WA interest rate (%)	4.30
Interest index	12 month Euribor/Mibor
WA margin (%)	0.91
Payments	
Payment method	Direct debit
Monthly payment frequency (%)	99.2
Loans up to 30 days in arrears (%)	5.4
Regional concentration (%)	
Region of Valencia	46.50
Region of Catalonia	10.27
Region of Madrid	8.01
Second homes (%)	80.3
Commercial assets (%)	9.1
First-ranking	100.00

Source: Fitch – based on the provisional portfolio dated 28 February 2007

Default Probability

Generally, the two key determinants of default probability are the willingness and ability of a borrower to make their mortgage payments. Willingness to pay is usually measured by 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 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 to the borrower's net income, a ratio called debt-to-income (DTI). Fitch takes into consideration the specific characteristics of the product in its default probability analysis.

Once base-case default probabilities were calculated using these LTVs and DTIs as parameters, Fitch adjusted them on a loan-by-loan basis to account for the following loan or borrower characteristics.

Affordability

DTI information was available on a loan-by-loan basis for 79.3% of the pool by value (see DTI definitions in *Appendix 1*). For the remaining 20.7%, Fitch adopted conservative assumptions based on the DTI distribution of those loans where the information was provided. Following Fitch adjustments, the WA DTI of the pool is 29.3%.

On loans granted for commercial puposes, Fitch assumed for default probability calculations a DTI equivalent to Class 5 stressed by a further 30%.

Employment Status

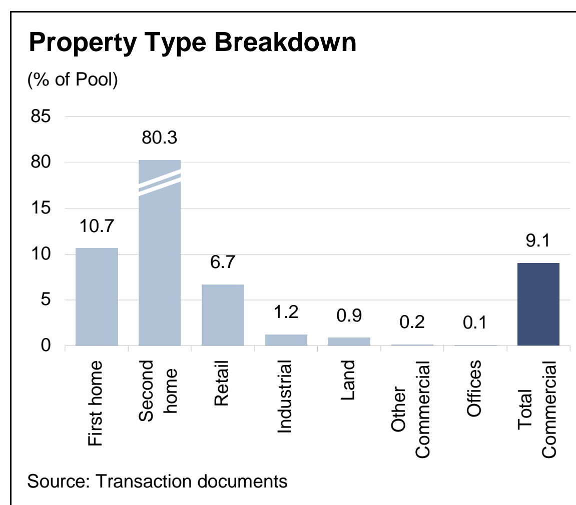
Bancaja provided employment information for 100% of the pool. According to Fitch calculations, 63.8% of the pool by value includes loans granted to employed obligors including civil servants. For the remainder of the loans, which included the self-employed, pensioners and obligors in unknown employment, Fitch increased the base default probabilities by 15%. **Non-Spanish Residents:** The originator confirmed that all obligors were Spanish residents.

Loans Arrears
Some 5.4% of the total balance is up to 30 days in arrears. Fitch has increased the base default probability for those loans by 20%. Loans more than 30 days in arrears were not hit since they will not be included in the final pool.

Grace Period Loans
Some 2.8% of the total balance has a principal repayment grace period. Fitch has increased the base default probability for loans with a grace period by 5%. This is to account for the potential payment shock that borrowers may experience on these mortgage loans when the grace period ends.

Regional Concentration
The fund's regional concentration in Valencia is significant at 46.5%. Fitch has applied a 10% increase on default probability on loans originated in Valencia and to loans in Murcia (2.2%) to reflect the higher risk aspect of these regions, especially taking into account the high second home element of the pool.

Property Type
The pool has the following breakdown by property type: 9.06% of the pool is represented by loans backed by commercial assets and 80.3% by second homes (this figure includes 6.3% of the pool where detailed information was unavailable). For second homes, Fitch applied a 20% increase to default probability.



Source: Transaction documents

Recovery Proceeds
To estimate recoveries on the mortgage loans, Fitch examined house price movements in Spain on a regional basis from 1987-2005. 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 elsewhere in Spain. Based on its analysis of the real estate market, Fitch assumed larger MVDs for certain regions, as well as for some large urban areas. The agency's MVD assumptions are largely a function of historical regional volatility and sustainable growth in property prices.

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 and lower-value properties because these are generally subject to greater MVDs in a deteriorating market for reasons of limited demand. Some 12.1% of the provisional pool by value is considered by Fitch to be secured on high-value ("jumbo") properties. Fitch has applied to these loans the appropriate jumbo hits according to the current Fitch methodology (see *"Spanish Mortgage Default Model III",* dated 15 September 2005). The high percentage of jumbo properties is partly explained by the existence of commercial assets in the pool. Fitch has calculated that the 10 largest assets in the pool represent less than 1% of the overall pool by volume.

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 entitled "*European Property Income Model – "The Logic""*, dated 9 June 2004 and available at www.fitchratings.com.

When calculating recoveries, Fitch's model reduces each property's value by the MVD, external foreclosure expenses and the cost to the servicer of carrying the loan from delinquency through to default. The carrying cost will depend on the time to foreclosure as well as the interest rate applied, which Fitch assumes to be 10%. Although Bancaja currently reports a recovery period of 18 months, Fitch assumes a time to foreclosure of three years. The resulting recovery rate is weighted by the loan

outstanding balances and default probability. This is defined as the WA recovery rate (WARR).

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 WA foreclosure frequency (WAFF) 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 seven years following 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 cost of carry until recoveries are received after 36 months.

Fitch ran various tests on the key variables affecting cash flows generated by the portfolio, including prepayment speed, interest rates, default and recovery rates, recession timing, WA margin compression and delinquencies. The agency also modelled cash flows according to the particular features of this transaction, as detailed below:

- 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, interest on the B, C, and D notes may be deferred for a period but will ultimately be paid prior to the legal maturity date.

- The cash flow analysis assumes a high level of annual prepayments on the mortgages, up to 25%, 21% and 18% under the 'AAA', 'A', and 'BBB' scenarios, respectively. For the low prepayment stress, Fitch applied an annual level of prepayments of 5.0%.

- The issuer will enter into an interest rate swap agreement, which will cover basis and reset risk on the performing and delinquent loans.

Class E Notes

Because funds available for the amortisation of the class E notes will be limited to those released from the reserve fund (if any), the performance of these notes will be highly dependent on very favourable conditions for the collateral backing the class A to D notes. Furthermore, as typically seen in other RMBS deals, the reserve fund is subject to a floor as a percentage of the initial class A to D note balance, and will be released to the class E noteholders only at the legal final maturity date.

Fitch calculated an average recovery rate after testing several cash flow scenarios commensurate with speculative-grade rating levels, including the following assumptions:

- 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 'CCC' expected rating on the class E notes is supported by the expected recovery rates, whose distribution Fitch assessed because default on this class of notes appears probable. The rates were calculated based on the present value of interest and principal payouts on the class E notes, measured as a proportion of the original outstanding note balance.

■ Origination and Servicing

The mortgages will continue to be serviced by Bancaja in its role as servicer. As part of its analysis, Fitch visited Bancaja and reviewed and analysed its origination and servicing guidelines.

Bancaja is the parent bank of Spain's sixth-largest banking group (and third-largest savings bank) by total assets at end-2005. It holds a controlling 38.4% stake in Banco de Valencia (rated 'A/F1'). Its activities are originally concentrated on the Autonomous Community of Valencia but in recent years it has expanded outside this region. For more information on Bancaja see the credit analysis "*Caja de Ahorros de Valencia, Castellón y Alicante*", dated 7 August 2006 and available at www.fitchratings.com.

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 (Posicionamiento Clientes Particulares or PCPs) that Bancaja began developing over 10 years ago and on Bancaja's traditional scoring system for those clients not eligible for the PCP. Currently, an average of 35% of loans is eligible for analysis via PCP while 65% go directly to the traditional scoring system. Of the PCP loans, only 2% of mortgage loans are directly approved by the PCP system; the rest are then sent to be approved by the traditional credit-scoring system.

Of all loans sent to the traditional scoring system, approximately 45% are directly approved by the scoring system. The remainder are either rejected or if in doubt sent to be manually analysed by Bancaja staff to decide whether to finally approve or reject them.

The credit approval process is based on different approval levels, the first being the branches, which base their decisions on the PCP and traditional scoring systems, and with their respective approval levels. The next is the business unit level, and the third, the risk committees at business area level, of which there are two – the traditional area (Castellon, Valencia and Alicante) and the external area, which comprises the rest of Spain. The highest approval level is the management board risk committee, which meets weekly to approve deals over EUR9m.

In terms of affordability, a maximum 45% DTI is calculated based on the borrower's net income divided by their total debt service obligations. Furthermore, Bancaja determines an affordability ratio, which is based on a calculation of stressed net income divided by living expenses plus debt service costs, with a result of more than one indicating a suitable loan affordability ratio.

Furthermore, Bancaja uses data from the CIRBE (a Bank of Spain database that gathers information on borrower exposure and non-payments from all Spanish entities and individuals) and Experian databases, as well as carrying out a credit check on previous delinquent loans on the RAI (the Registro de Aceptación de Impagados), in addition to other credit parameters that evidence the applicant's financial stability.

The credit limit for self-employed individuals is based on the tax declaration presented to the tax authority. The scoring assigns a minimal weighting to other sources of income declared by the applicant.

With regards to valuations, Bancaja uses two valuers, TINSA and Sociedad de Tasacion, on a 80% and 20% basis. Valuations are allocated between the two randomly. With regards to borrowers referred by prescriptors, Bancaja has shortlisted five valuers whose valuations it accepts.

The maximum LTV for first homes is 80%, although loans up to 100% can be approved based on the applicant's score or on additional guarantees. LTVs for second homes and commercial assets are limited to 70%.

Almost 100% of all loans are paid via direct debit into a Bancaja account.

Arrears Management

At Bancaja, the arrears management department employs 21 people. Mortgages in arrears are managed by the branches for the first 30 days.

From day 30 to day 90, the process is externalised to ACINSA – a dedicated primary servicing company that is partly owned by Bancaja. From day 30, the branch has no involvement with the delinquent borrower. During days 30 to 60, ACINSA makes phone calls to borrowers, from days 60 to 75 ACINSA carries out a more personalised follow up, including personal visits if so required. Some 62 people in ACINSA work almost exclusively on Bancaja loans.

At day 75, it is decided either to start legal proceeding or to continue to reach an agreement with the borrower; by day 90 legal proceeding are started on all loans.

Letters are sent on days 26, 40, 50, 75 and 80 and a telegram is sent on day 60.

Bancaja's legal department, which comprises five internal lawyers, takes over the management of the process at this stage. In the event of starting legal proceedings, ACINSA will continue to try to reach an agreement with the borrowers during the 30-day period it takes for the legal documentation to be fully prepared.

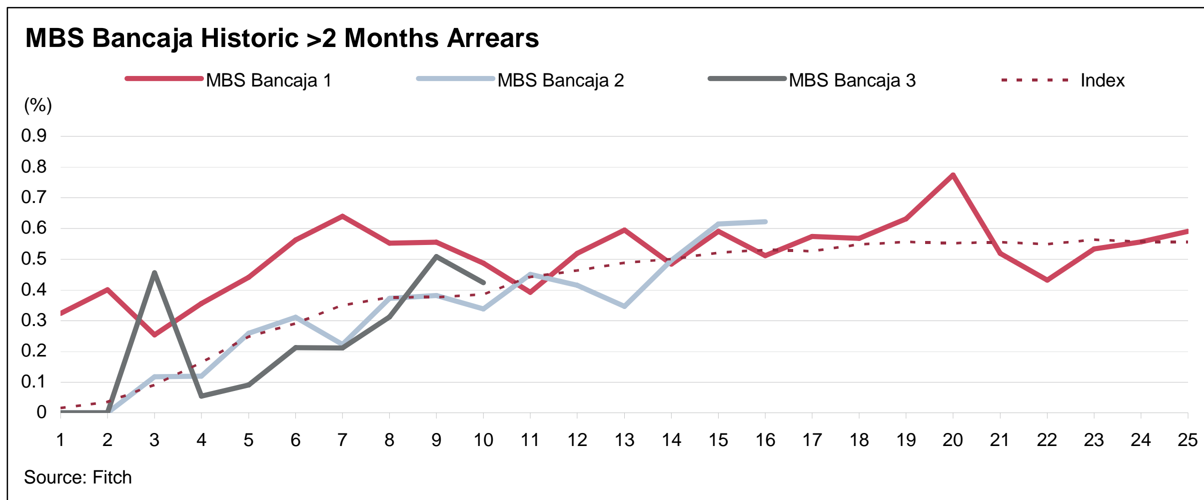
According to Bancaja, the foreclosure process can last for between nine to 22 months.

In the event of assets being auctioned and not bought by third parties, Bancaja's 100% owned real estate company, Bancaja HABITAT, will purchase the asset at the auction determined price.As of February 2006, Bancaja has changed the way it treats repeat delinquent loans. If a loan has a history of previous delinquency and becomes delinquent again, on day 60 of delinquency, it automatically becomes treated, for internal purposes only, as being in default. This accelerates the recovery process and leads to the direct involvement of the legal department.

■ Performance Analytics

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.

Previous MBS Bancaja deals rated by Fitch have shown 60+ day arrears, which are mostly in line with the Spanish index.



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

■ Issuer Report Grade

Fitch updates Issuer Report Grades as part of an ongoing effort to improve the transparency of transaction performance to investors. Transactions are scored on a system ranging from one star (meets basic requirements) to five stars (outstanding).

Fitch has assigned four stars to both MBS Bancaja 1 FTA and MBS Bancaja 2 FTA.

For further information on the agency's Issuer Report Grades, please see the report "*Fitch Issuer Report Grades May 2006 Update*", dated 5 June 2006, available at www.fitchratings.com.

Appendix 1

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 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 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 an 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 in Spain on a regional basis from 1987–2004. The agency found significant differences in price development among the regions – mainly between the regions of Madrid, Catalonia, the Basque Country and the rest of the regions in Spain. More recently, prices have increased significantly in certain coastal areas (including Cantabria, Valencia, Andalusia 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 a period of 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 Protección Oficial) or in transactions where relatively strong geographical concentration and a large proportion of second home properties are observed.

Appendix 2

Summary

MBS Bancaja 4, Fondo de Titulización de Activos — **RMBS/Spain**

Class	Rating	Size (%)	Size (EURm)	Credit enhancement (%) based on 1.30% RF	Legal maturity	I/P PMT frequency	Coupon
A1	AAA	16.2	300.0	4.97	July 2050	Quarterly	3-month Euribor
A2	AAA	63.9	1,182.1	4.97	July 2050	Quarterly	3-month Euribor
A3	AAA	16.2	300.0	4.97	July 2050	Quarterly	3-month Euribor
B	AA	1.65	30.5	3.32	July 2050	Quarterly	3-month Euribor
C	A+	1.02	18.9	2.30	July 2050	Quarterly	3-month Euribor
D	BBB+	1.00	18.5	1.30	July 2050	Quarterly	3-month Euribor
E	CCC	1.30	24.1	0.00	July 2050	Quarterly	3-month Euribor

Key Information

Expected closing date	4 May 2007	Seller/originator	Bancaja
Country of assets	Spain	Structurer	Europea de Titulización SA, S.G.F.T.
Structure	Sequential/pass-through; pro rata under certain conditions	Issuer	MBS Bancaja 4, FTA
Type of assets	Residential and commercial mortgages		
Currency of assets	EUR	Gestora	Europea de Titulización SA, S.G.F.T.
Currency of notes	EUR	Swap provider	n.a.
Analysts	alvaro.gil@fitchratings.com natalia.bourin@fitchratings.com	Financial agent	Bancaja ('F1')
Performance analyst	sf_surveillance@fitchratings.com		

Source: Transaction documents

Fitch Default Model Outputs

Rating level (%)	AAA	AA	A+	BBB+
WAFF	10.78	8.62	7.2	5.0
WARR	67.22	73.85	78.0	83.3
WALS	47.79	41.15	37.0	31.7
WAMVD	51.03	45.96	42.6	38.2

Source: Transaction documents

Collateral as at 28 February 2007

Pool characteristics

Current principal balance (EUR)	2,087,999,810	**Regional concentration (%)**	
Average current loan per borrower (EUR)	113,264	Comunidad Valenciana	46.50
Average original loan per borrower (EUR)	120,742	Catalonia	10.27
Number of loans	18,959	Madrid	8.01
WA seasoning (months)	14.5		
Oldest loan in portfolio	July 2000	**Mortgage characteristics (%)**	
Most recent loan in portfolio	Sept 2006	First-ranking	100.00
Loans up to 30 days in arrears (%)	5.4	Second homes	80.3
		Commercial properties	9.1
Interest rate type (%)		Self-employed/unknown/pensioners	36.2
Variable	100.00		
Fixed	0.00	**Loan-to-value (LTV) (%)**	
WA margin	0.91	WA original LTV per borrower	63.9
Interest index	12 month Euribor/Mibor	WA indexed current LTV per mortgage	60.6
		WA current LTV per mortgage	61.0

Source: Transaction documents

Copyright © 2007 by Fitch, Inc., Fitch Ratings Ltd. and its subsidiaries. One State Street Plaza, NY, NY 10004.
Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. All of the information contained herein is based on information obtained from issuers, other obligors, underwriters, and other sources which Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of any such information. As a result, the information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed, suspended, or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of Great Britain, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.