STANDARD & POOR'S

STRUCTURED FINANCE

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MBS Bancaja 5 Fondo de Titulización de Activos

€1.85 Billion Mortgage-Backed Floating-Rate Notes

Analysts: Alvaro Astarloa, Madrid (34) 91-389-6964, alvaro_astarloa@standardandpoors.com and José Ramón Torá, Madrid (34) 91-389-6955, jose_tora@standardandpoors.com
Surveillance analyst: Rocio Romero Madrid, (34) 91-389-6968, rocio_romero@standardandpoors.com
Group e-mail address: StructuredFinanceEurope@standardandpoors.com

This presale report is based on information as of May 8, 2008. The credit ratings shown are preliminary. This report does not constitute a recommendation to buy, hold, or sell securities. Subsequent information may result in the assignment of initial credit ratings that differ from the preliminary credit ratings.

Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support¶ (%)	Interest	Step-up margin	Optional call date	Legal final maturity
A	AAA	1,780.6	5.40	Three-month EURIBOR plus a margin	N/A	N/A	August 2051
B	A	37.0	3.40	Three-month EURIBOR plus a margin	N/A	N/A	August 2051
C	BBB	18.5	2.40	Three-month EURIBOR plus a margin	N/A	N/A	August 2051
D	BB	13.9	1.65	Three-month EURIBOR plus a margin	N/A	N/A	August 2051

**The rating on each class of securities is preliminary as of May 8, 2008, and subject to change at any time. Initial credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely interest and principal.*
¶This credit support uses current figures.
EURIBOR—European interbank offered rate.
NR—Not rated.
N/A—Not applicable.

Transaction Participants	
Originator	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)
Arrangers	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) and Europea de Titulización S.G.F.T., S.A.
Mortgage administrator/servicer	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)
Seller	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)
Security trustee	Europea de Titulización S.G.F.T., S.A.
Interest swap counterparty	BNP Paribas
Transaction account provider	Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja)

Supporting Ratings	
Institution/role	Ratings
Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) as transaction account provider	A+/Negative/A-1
BNP Paribas as interest swap counterparty	AA+/Stable/A-1+

Transaction Key Features	
Expected closing date	May 12, 2008
Collateral	First-lien mortgage loans backed by residential properties (89.3%) and commercial properties (10.7%)
Principal outstanding (€)	2,030,090,975.91
Country of origination	Spain
Concentration	46.22% of the pool is concentrated in the Valencia region, 9.39% in Catalonia, and 7.39% in Madrid
Weighted-average LTV ratio (%)	60.63
Average loan size balance (€)	123,597
Loan size range (€)	1,039 to 982,808
Weighted-average seasoning (months)	14
Weighted-average asset life remaining (months)	300
Weighted-average mortgage interest rate (%)	5.37
Weighted-average margin at closing (%)	0.88
Redemption profile	100% of the loans are amortizing
Excess spread at closing	0.98%-0.78% (depending on the swap scenario at closing)
Cash reserve	1.35%-1.85% (depending on the swap scenario at closing)
Mortgage priority	100% of pool are first-ranking mortgages
Maximum LTV ratio (%)	100
Jumbo loans (>€400,000) (%)	6.87

Transaction Summary

Standard & Poor's Ratings Services has assigned preliminary credit ratings to the €1.85 billion mortgage-backed floating-rate notes to be issued by MBS Bancaja 5 Fondo de Titulización de Activos.

At closing, the originator Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja) will sell to MBS Bancaja 5 a €1.85 billion closed portfolio of secured loans granted to Spanish and non-Spanish individuals on properties in Spain.

To fund this purchase, Europea de Titulización, S.G.F.T., S.A., as trustee, will issue four classes of floating-rate, quarterly paying notes on behalf of MBS Bancaja 5.

The preliminary ratings on the notes to be issued by MBS Bancaja 5 reflect the subordination of the respective classes of notes below them, the reserve fund, the presence of the interest rate swap, comfort provided by various other contracts, and the rating on Bancaja (A+/Negative/A-1).

Notable Features

This will be Bancaja's fifth mortgage-backed securities (MBS) transaction. It has already issued 12 residential mortgage-backed securities (RMBS) and six (SME) transactions.

As in previous Bancaja MBS transactions, a small percentage of the loans from the preliminary pool will not be backed by residential properties, but by commercial properties.

In this transaction, Bancaja will act as originator, servicer, and transaction accounts provider.

A basis swap agreement between Europea de Titulización, on behalf of the issuer and BNP Paribas will convert the reference index on the loans to three-month EURIBOR from 12-month EURIBOR.

As in other Spanish transactions, interest and principal will be combined into a single priority of payments, with some triggers in the payment of interest to protect senior noteholders.

Strengths, Concerns, And Mitigating Factors

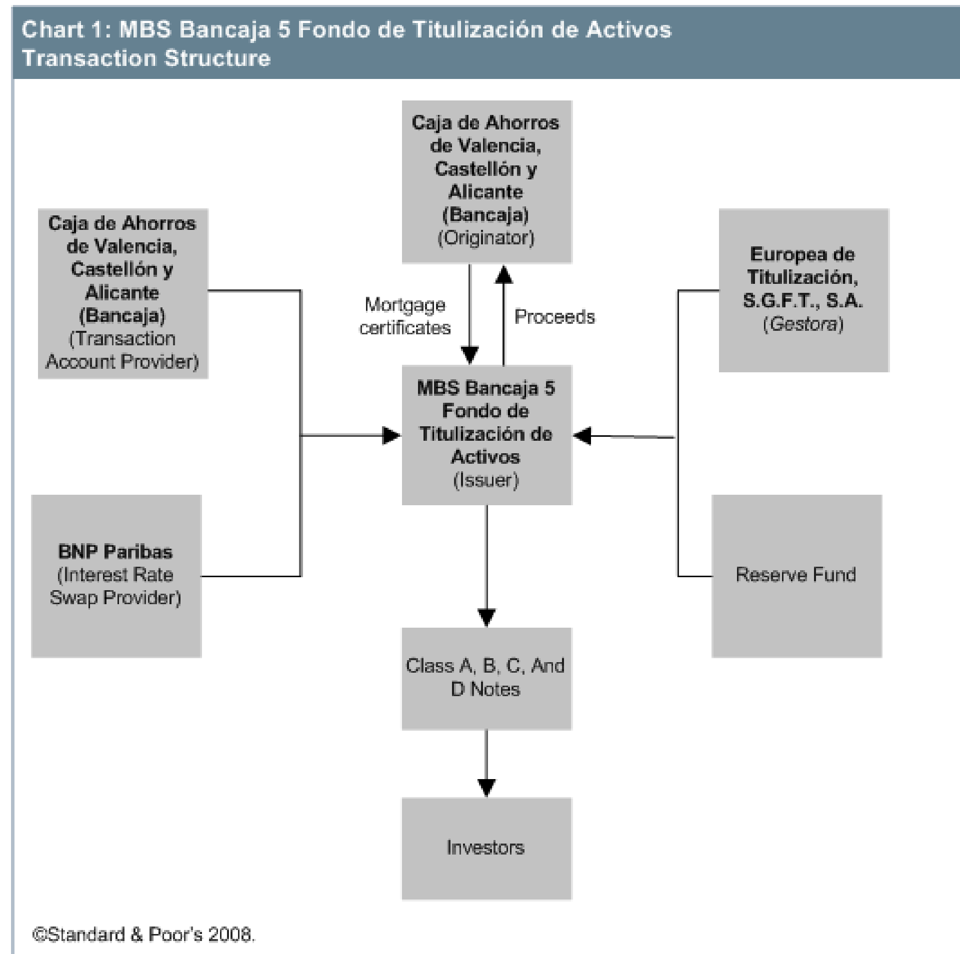
Strengths
• There is currently a low weighted-average loan-to value (LTV) ratio of 60.63%, and the weighted-average seasoning is 14.38 months. • There is adequate credit enhancement for the target ratings. The cash reserve, which will be fully funded at closing by the issuance proceeds of a subordinated loan, and the excess spread, will both be available to cover any interest or principal shortfalls. • Bancaja has good servicing and securitization experience; this will be its fifth MBS transaction. • There will be a swap agreement between the issuer and BNP Paribas to mitigate interest rate basis risk in the transaction.

Concerns and mitigating factors

- Of the loans in the preliminary pool, 10.74% are secured by non-residential properties, most of which are commercial properties. Standard & Poor's has taken this into account in its credit analysis of the pool by increasing the market value decline of these properties.
- Of the preliminary pool, 14.13% of the loans have been granted to non-Spanish residents, Standard & Poor's considers this group of borrowers to have a higher probability of default and has taken this into consideration in the credit analysis.
- Second-home concentration in the pool could be very high. Of the 89.36% of loans with a residential property as a guarantee, Bancaja confirmed that 37.23% were second homes, but was unable to determine if the other 52.13% were first or second homes. Standard & Poor's has considered this in its credit analysis.
- Approximately 46% of the mortgage loans in the preliminary pool have been granted by Bancaja for purposes other than residential property acquisition. Standard & Poor's considers that these loans have a higher probability of default and has taken this into consideration in its credit analysis.
- The excess spread of the pool may decrease from its current margin of 88 basis points (bps) due to the margin charged by the swap counterparty under certain scenarios. The preliminary pool also contains 0.74% of "custom" loans that allow the borrower to reduce the margin of the loan by up to 30 bps, with a margin floor of 70 bps. All this has been taken into consideration in Standard & Poor's cash flow analysis.
- The pool has geographical concentration: 46.2% of the pool is concentrated in the Valencia region. The presence of any regional concentrations has been taken into account in Standard & Poor's analysis of the portfolio.
- Of the preliminary pool, 6.89% of the loans have a balance over €400,000 ("jumbo loans"). Standard & Poor's credit analysis penalizes this type of loan with higher levels of weighted-average foreclosure frequency (WAFF).

Transaction Structure

At closing, the originator will issue mortgage certificates ("*certificados de transmission hipotecaria*"; CTHs) that will be purchased by Europea de Titulización, the trustee, on the issuer's behalf (see chart 1).



Each CTH will represent an amount and interest rate equal to the securitized mortgage loans. The CTHs will entitle MBS Bancaja 5 to any rights and proceeds due under principal and interest on the mortgage loans.

The total outstanding amount of the mortgage credits and mortgage loans purchased for the final pool will be €1.85 billion. To fund the purchase of collateral, MBS Bancaja 5 will issue four classes of rated notes.

The collateral will be serviced by Bancaja, which will collect the amounts due under the mortgages. It will then transfer weekly the collected installments into the treasury account.

The issuer will enter into two basis swap agreements with BNP Paribas to hedge any basis risk resulting from the differences between the index rate on the mortgages in the pool and the reference interest rate on the notes. The issuer will pay 12-month EURIBOR from the collateral. The swap counterparty will pay three-month EURIBOR.

On each quarterly interest payment date (IPD), the issuer will pay, in arrears, the interest due to the noteholders. To make the payments, the issuer will have as available funds the proceeds of the interest swap, interest earned on the transaction accounts, the reserve fund, and, if necessary, principal received under the mortgage loans and any other proceeds received in connection with the mortgage loans.

All interest and principal received can be mixed to pay principal and interest due under the notes. There will be a trigger so that in a stressful economic environment the more senior notes will amortize before interest on the subordinated classes of notes is paid (see "*Priority Of Payments*").

Caja de Ahorros de Valencia, Castellón y Alicante (Bancaja), Originator And Servicer

Bancaja's dominant position in its home market, a well-executed diversification strategy, excellent operating efficiency, and a sound asset quality track record support the ratings on the company. The ratings also account for the bank's meaningful exposure to the real estate sector, significant market risk, high reliance on wholesale funding, and modest capital measures.

Bancaja enjoys a strong business profile (it is the third-largest savings bank in Spain) and strong retail banking franchise, servicing primarily individuals and SMEs. The bank has successfully maintained its stronghold in its core market (the Autonomous Community of Valencia), while increasing its presence in other areas in Spain and expanding its business diversification.

Bancaja benefits from excellent operating efficiency, despite branch expansion during the past few years (which is quite an achievement). This competitive advantage provides the institution with high flexibility to withstand both potential earnings pressures and higher credit charges, which are likely in a weakened economic environment. Historically, Bancaja's bottom-line profitability has been below that of similarly rated peers, given the institution's comparatively narrow spreads.

Bancaja has enjoyed sound and better-than-average asset quality in past years, and benefits from a strong cushion of loan-loss reserves to face future asset quality problems. Nonetheless, Bancaja has swiftly increased its exposure to the real estate development segment during the past few years. As a result, its exposure to the real estate developers' sector is high and poses challenges in the context of a more abrupt adjustment in the industry than we originally expected. Bancaja also has a high share of (in our view, more risky) land financing in its book and higher-than-average exposure to coastal areas, which should have a higher component of second and nonresidence housing developments.

Bancaja's market risk is higher than that of its similarly rated peers in Spain, particularly following the acquisition of a large stake of Iberdrola S.A. in 2007. This heightened Bancaja's risk profile, given current uncertainties in the market and despite part of the equity risk being shared with minority shareholders and investments that still carry latent gains. Strong loan growth during the past few years has resulted in an increased reliance on wholesale funding. We believe the savings bank has adequate funding and liquidity management and will successfully fulfill its funding needs, but the fact that it faces higher refinancing needs than similarly rated peers increases the challenges for Bancaja in the context of the persistently tight global capital markets liquidity (including managing a potential shift to short-term funding in its mix).

Rapid loan growth has eroded Bancaja's capital position during the past few years. In our view, capital measures are modest, although less loan growth should help stabilize capital leverage.

Collateral Description

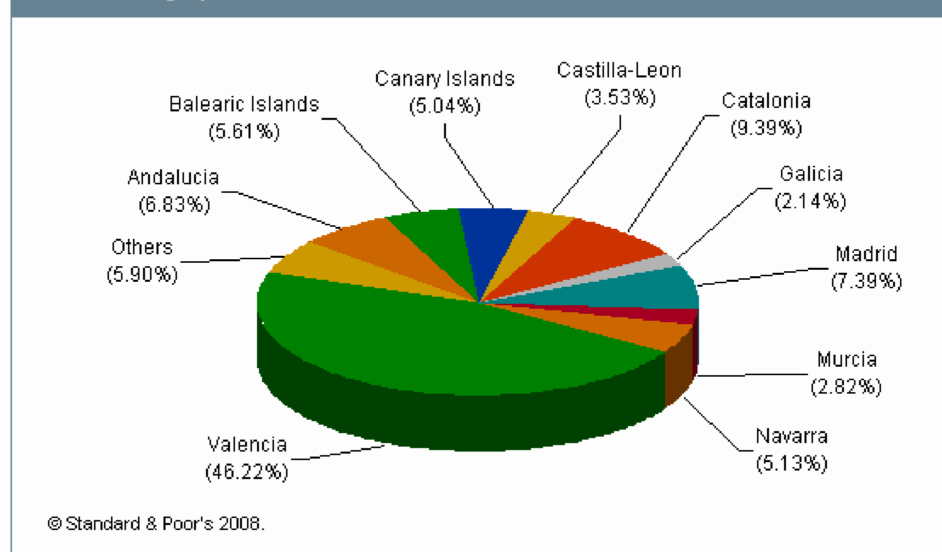
As of March 31, 2008, the pool comprised 16,425 amortizing mortgage loans secured by first-ranking mortgages over residential owner-occupied, second-home, commercial properties, land, and industrial facilities in Spain (see table 1).

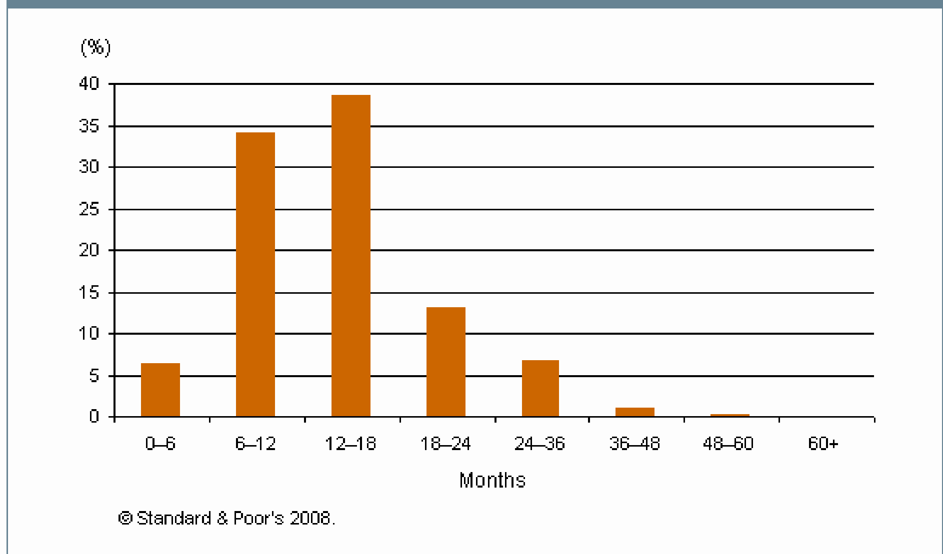
Table 1: Pool Composition By Guarantee				
	Loans	Percentage of pool	Loan amount (€)	Percentage of pool
Residential properties	15,015	91.42	1,813,329,955.14	89.32
Offices and retail properties	1,145	6.97	163,714,389.01	8.06
Rural and urban land	98	0.60	15,620,422.72	0.77
Industrial facilities	167	1.02	37,426,209.04	1.84
Total	16,425	100.00	2,030,090,975.91	100.00

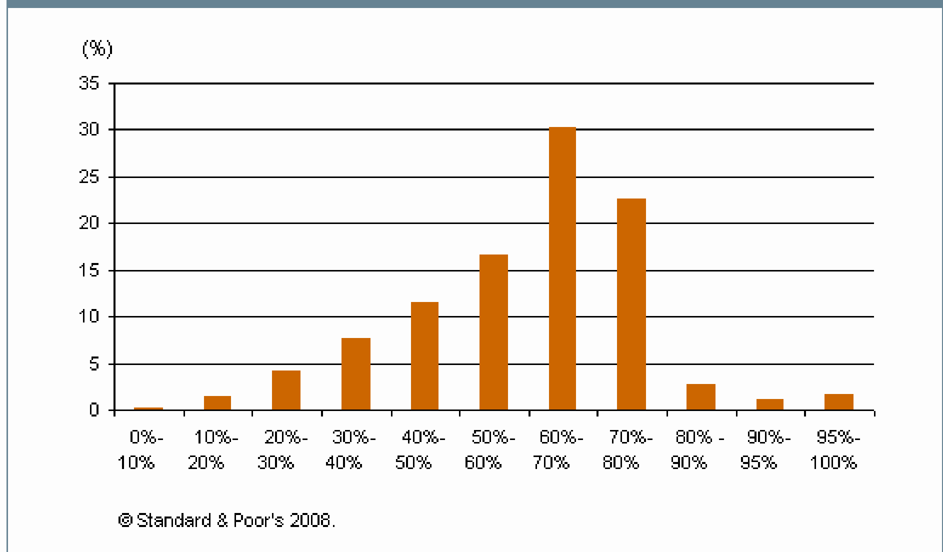
Other characteristics of the mortgage credits

Other features of the mortgage pool include:

- Of the pool, 63% is concentrated in Valencia, Catalonia, and Madrid (see chart 2).
- The pool was originated between 2000 and 2008. The weighted-average seasoning is 14.4 months, with 59.5% of the pool being originated more than 12.0 months ago (see chart 3).
- The weighted-average LTV ratio is 60.63%, with a minimum of 0.51%, and a maximum of 100.00% (see chart 4).
- In the preliminary pool, 10.74% of the loans are not secured by residential properties but by commercial and other type of properties (see table 1).
- The pool comprises floating-rate mortgage credits that are indexed to one-year EURIBOR. Mortgages in the pool have a weighted-average margin over the floating rate of 88 bps. The weighted-average interest rate is 5.37%. In addition, there are no caps or floors in the pool, and margins can be renegotiated down by up to 30 bps for a small percentage of loans in the pool (the "custom" loans), with a margin floor of 70 bps.







Credit Structure

Credit support for the notes will be provided by a combination of subordination, the reserve fund, and excess spread on the mortgages (see table 2).

Table 2: Credit Support For The Notes

Class	Rating	Size of class (%)	Mil. € (equivalent)	Credit support for notes (%)	Credit support for reserve (%)	Total credit support (%)
A	AAA	96.25	1,780.6	3.75	1.60	5.35
B	A	2.00	37.0	1.75	1.60	3.35
C	BBB	1.00	18.5	0.75	1.60	2.35
D	BB	0.75	13.9	0.00	1.60	1.60

Cash collection arrangements and transaction account

Funds received at Bancaja from interest and principal payments on the loans in the pool will be transferred seven working days after receipt to the treasury account in the issuer's name. If Bancaja's credit quality deteriorates, the administrator will make daily sweeps instead of every seven days.

The rest of the amounts, e.g., the reserve fund, the guaranteed investment contract (GIC) returns, the subordinated loan for initial expenses, etc., will be deposited directly in the treasury account. The treasury account for MBS Bancaja 5 will be held at Bancaja and will have a guaranteed interest rate of three-month EURIBOR.

According to Standard & Poor's "*Revised Framework For Applying Counterparty And Supporting Party Criteria*" (see "*Related Articles*"), if the bank account provider is downgraded below 'A-1', it has 60 days until it becomes an ineligible counterparty and it must:

- Find a replacement with a short-term rating of at least 'A-1', or
- Find an adequate guarantor with a short-term rating of at least 'A-1'.

Any counterparty replacement or guarantee will be subject to rating confirmation. All the costs of the remedies will be borne by the downgraded counterparty.

Commingling reserve

If at any time Bancaja, as servicer, is downgraded below Standard & Poor's short-term rating of 'A-2', then:

- As soon as reasonably practicable, and in any event within 30 calendar days, the servicer, at its own cost, will procure an eligible and suitably rated guarantor with at least a short-term rating of 'A-1'. The guarantor will provide the issuer with a first-demand unconditional, irrevocable guarantee equal to the commingling reserve amount to be applied toward payment to the issuer of any amounts the servicer must pay or remit to the issuer for the loans, but fails to pay or remit. This amount, if required to be paid, will be deposited in an issuer bank account to be opened and maintained in accordance with the bank account agreement and the cash management agreement. The guarantee will be subject to Standard & Poor's review and approval at the time the downgrade occurs; or
- As soon as reasonably practicable, and in any event within 10 calendar days, the servicer will deposit in an issuer bank account with a short-term rating of at least 'A-1' (to be opened in the issuer's name and maintained in accordance with the bank account agreement and the cash management agreement) an amount equal to the commingling reserve amount to be applied toward payment to the issuer of any amounts the servicer must pay or remit to the issuer for the loans, but fails to pay or remit due to the servicer's insolvency.

Alternatively, the servicer will request Standard & Poor's written confirmation that the ratings on the notes will not be adversely affected.

The commingling reserve amount will initially be equal to one month of interest and principal collections, having stressed the historical conditional prepayment rate of this type of mortgage loans from the originator.

Reserve funds
The structure will benefit from a cash reserve fund, which will be fully funded by a subordinated loan at closing. Depending on the margin of the swap determined by the trustee at closing, a different reserve fund level will be required. In a +4 bps to +10 bps scenario, the initial required amount will be 1.35% of the initial balance of the securitized assets, or €24,975,000. In a -1.9 bps to +3.9 bps scenario, the initial required amount will be 1.45% of the initial balance of the securitized assets, or €26,825,000. In a -5.9 bps to -2 bps scenario, the initial required amount will be 1.65% of the initial balance of the securitized assets, or €30,525,000, and in a -10 bps to -6 bps scenario, the initial required amount will be 1.85% of the initial balance of the securitized assets, or €34,225,000.

The reserve fund will be fixed for the first three years.

The reserve fund required on each IPD, will be the minimum of:
- 1.35, 1.45%, 1.65%, or 1.85% of the initial balance of the notes; or
- The higher of: (i) 2.7%, 2.9%, 3.3%, or 3.7% of the outstanding principal balance of the notes, respectively, and (ii) 0.675%, 0.725%, 0.825%, or 0.925% of the initial balance of notes, respectively.

After the third anniversary of the closing date and on each IPD, the cash reserve account will amortize if the following conditions are met:
- The outstanding balance of the loans in the pool with any payment in arrears for more than 90 days is higher than 1% of the outstanding balance of the non-doubtful loans in the pool;
- The reserve fund is below its required level; or
- The margin of the outstanding balance of the loans is equal to or lower than 70 bps.

Amortization of the notes
Amortization will occur for the:
- Class A notes, from the first IPD until fully amortized;
- Class B notes, once the class A notes are fully amortized;
- Class C notes, once the class A and B notes are fully redeemed; and
- Class D notes, once the class C notes are fully redeemed.

The available amortization fund on each IPD will be equal to the balance of the capital repayment fund. The capital repayment fund, on each IPD, will be the difference between:
- The principal outstanding balance under all the series of notes (classes A to D); and
- The principal outstanding balance of all outstanding non-doubtful loans (no more than 18 months in arrears).

The conditions for the pro rata amortization of the class B, C, and D notes are that they will amortize pro rata with the class A notes if:
- The ratio of the aggregate balance of delinquent loans to the aggregate balance of non-doubtful loans is below 1.25% for the class B notes, below 1.00% for the class C notes, and below 0.75% for the class D notes;
- The total outstanding principal balance of the class B, C, and D notes represents at least 4.00%, 2.00%, and 1.50% of the outstanding principal balance of all the notes;
- The cash reserve is at the required amount after the previous payment date; and
- The total outstanding balance of the loan portfolio is equal to or greater than 10% of the initial balance of the loan portfolio.

Priority of payments—pre-enforcement interest payments
On each quarterly IPD, the issuer will pay in arrears the interest due to the noteholders. To make the payments, the issuer's available funds will include the interest swap proceeds, the reserve fund, and, if necessary, principal received under the loans and any other proceeds received in connection with the loans.

All interest and principal received can be mixed to pay principal and interest due under the notes in the following order:

- Ordinary and extraordinary expenses of the fund;
- Net payments under the swap agreement (other than swap termination payments due to a default or breach of contract by the swap counterparty);
- Interest on the class A notes;
- Interest on the class B notes (if not deferred);
- Interest on the class C notes (if not deferred);
- Interest on the class D notes (if not deferred);
- Principal on the class A notes;
- Principal on the class B notes;
- Principal on the class C notes;
- Principal on the class D notes;
- Interest on the class B notes if deferred;
- Interest on the class C notes if deferred;
- Interest on the class D notes if deferred;
- Reserve fund replenishment;
- Swap termination payments due to a default or breach of contract by the swap counterparty;
- Interest on the subordinated loan (reserve fund);
- Principal on the subordinated loan (reserve fund);
- Interest on the start-up loan;
- Amortization of the start-up loan;
- Payment of the administration fee; and
- Cash paid back to Bancaja.

Interest deferral triggers
A trigger will ensure that in a stressful economic environment, the more senior notes will amortize before interest on the subordinated classes of notes is paid:

- Interest on the class B notes will be deferred if the cumulative gross default rate as a percentage over the initial balance of the pool exceeds 8.0%;
- Interest on the class C notes will be deferred if the cumulative gross default rate as a percentage over the initial balance of the pool exceeds 6.0%; and
- Interest on the class D notes will be deferred if the cumulative gross default rate as a percentage over the initial balance of the pool exceeds 4.2%.

Hedging Risk

Interest swap agreement
To hedge the reset and basis risk from the mismatch between resetting timings of the collateral and the reference indices, MBS Bancaja 5 FTA will enter into two interest rate swap agreements with BNP Paribas.

Under the two swap agreements MBS Bancaja 5 FTA will pay to the swap counterparty weighted-average 12-month EURIBOR distinguishing between the annual and semiannual reset dates of the loans in the pool. In return, MBS Bancaja 5 FTA will receive from the swap counterparty three-month EURIBOR plus a margin that will be determined at closing. This margin of the swap could adopt four different ranges of spread, -10 bps to -6 bps, -5.9 bps to -2 bps, -1.9 bps to +3.9 bps, or +4 bps to +10 bps. Depending on the margin determined a different reserve fund amount will be sized.

According to Standard & Poor's "*Revised Framework For Applying Counterparty And Supporting Party Criteria*," if the swap counterparty is downgraded to 'A-2', it will still be an eligible counterparty if it is agreed within 10 days of the downgrade that it will collateralize 100% of the contract's mark-to-market.

If this option is not taken, then the swap counterparty will become ineligible and within 60 days it should:

- Find a replacement with a short-term rating of at least 'A-1'; or
- Find a guarantor with a short-term rating of at least 'A-1'.

If the swap counterparty is downgraded to 'A-3', it will become an ineligible counterparty and it should agree in 10 days to deliver additional collateral, no less than 25% of the mark-to-market obligation, complying with Standard & Poor's requirements.

In the meantime, and after having complied with the previous steps, within 60 days it should:

- Find a replacement with a short-term rating of at least 'A-1'; or
- Find an adequate guarantor with a short-term rating of at least 'A-1'.

If an ineligible counterparty is not replaced within the remedy period, the ratings on the notes may be lowered to levels that could be supported by the counterparty's then-current rating. The amount of collateral will be taken into consideration in analyzing the transaction after the counterparty is downgraded.

Any counterparty replacement or guarantee will be subject to rating confirmation. All the costs of the remedies will be borne by the downgraded counterparty.

Credit And Cash Flow Analysis

We stressed the transaction cash flows to test both the credit and liquidity support provided by the assets, subordinated tranches, cash reserve, and any external sources (such as a liquidity facility). We implemented these stresses to the cash flows at all relevant rating levels.

For example, we subject a transaction that incorporates 'AAA', 'A', and 'BBB' rated tranches of notes to three separate sets of cash flow stresses. In the 'AAA' stresses, all 'AAA' rated notes must pay full and timely principal and interest, but this will not necessarily be the case for the 'A' or 'BBB' rated tranches as they are subordinated in the priority of payments. In the 'A' case, all 'AAA' and 'A' rated notes must receive full and timely principal and interest, but not necessarily so for the 'BBB' rated tranche, as it is subordinated to both 'AAA' and 'A'.

Amount of defaults and recoveries

For each loan in the pool, we estimated the likelihood that the borrower will default on its mortgage payments (the foreclosure frequency), and the amount of loss on the subsequent sale of the property (the loss severity, expressed as a percentage of the outstanding loan). We assume the total mortgage balance to default. We determine the total amount of this defaulted balance that is not recovered for the entire pool by calculating the WAFF and the weighted-average loss severity (WALS).

The WAFF and WALS estimates increase as the required rating level increases, because the higher the rating required on the notes, the higher the level of mortgage default and loss severity they should be capable of withstanding. This credit analysis is based on the characteristics of the loans and the associated borrowers. We have applied market-specific criteria in our assessment of the WAFF and the WALS for this portfolio, which are shown in table 3.

Table 3: Portfolio WAFF And WALS

Rating level	WAFF (%)	WALS (%)	Market value declines (%)
AAA	14.18	13.30	37
AA	9.46	8.99	32
A	7.09	6.13	28
BBB	4.73	4.04	24
BB	3.55	3.24	22

Timing of defaults

The WAFF at each rating level specifies the total balance of the mortgage loans assumed to default over the life of the transaction. We assume that these defaults occur over a three-year recession. We assess the effect of the timing of this recession on the ability to repay the liabilities, and choose the recession start period based on this assessment.

Although the recession normally starts in the first month of the transaction, the 'AAA' recession is usually delayed by 12 months. The WAFF is applied to the principal balance outstanding at the start of the recession (e.g., in a 'AAA' scenario, the WAFF is applied to the balance at the beginning of month 13). We assume defaults occur periodically in amounts calculated as a percentage of the WAFF. The timing of defaults in Spanish transactions follows one path, referred to here as "equal" defaults. This timing is shown in table 4.

Table 4: Default Timing Equal Default Curve

Percentage of WAFF	'AAA' (recession month)	Rest of rating scenarios (percentage of WAFF)
1/3	13	1
1/3	25	13
1/3	37	25

Timing of recoveries

We assume that the issuer would regain any recoveries 30 months after a payment default in Spanish transactions. The value of recoveries at the 'AAA' rating level will be 100% minus the WALS given above.

Note that the WALS used in a cash flow model will always be based on principal loss, including costs. We assumed no recovery of any interest accrued on the mortgage loans during the foreclosure period. After the WAFF is applied to the balance of the mortgages, the asset balance is likely to be lower than that on the liabilities (a notable exception is when a transaction relies on overcollateralization). The interest reduction created by the defaulted mortgages during the foreclosure period will need to be covered by other structural mechanisms in the transaction.

Delinquencies

We model the liquidity stress that results from short-term delinquencies, i.e., those mortgages that cease to pay for a period of time but then recover and become current for both interest and principal. To simulate the effect of delinquencies, we assume a proportion of interest receipts equal to one-third of the WAFF to be delayed. We apply this in each month of the recession and assume full recovery of delinquent interest will occur 18 months after it is removed from the transaction. Thus, if in month five of the recession the total collateral interest expected to be received is €1 million and the WAFF is 30%, €100,000 of interest (one-third of the WAFF) will be delayed until month 23.

Interest and prepayment rates

We modeled one interest rate scenario—rising—using both high and low prepayment assumptions. Interest rates were 4.5% at the time of modeling and were modeled to rise by 2% a month to a high of 12% for EURIBOR amounts. In the 'AAA' scenario, the interest rate increase was not modeled to begin until month 13. Interest rate scenarios will be revised if there is sufficient evidence to warrant it.

Transactions are stressed according to two prepayment assumptions, high (24%) and low (0.5%). In a 'AAA' scenario, a prepayment rate of 10% is modeled before the recession for the first year of the transaction for both the high and low prepayment scenarios, to ensure that the WAFF is applied to a consistent asset balance in month 13, when the recession is assumed to start in the 'AAA' scenario.

We assume prepayment rates to be static throughout the life of the transaction and apply them monthly to the decreasing mortgage balance. We reserve the right to increase the high prepayment assumption if historical prepayment rates are at high levels, or the transaction is particularly sensitive to high prepayments (e.g., the transaction relies heavily on excess spread).

It should be noted that in a 'AAA' scenario we will model an expected prepayment rate of approximately 12% before the recession for the first year of the transaction. This is applied for both the low and high prepayment scenarios, to ensure that the WAFF is applied to a consistent asset balance in month 13 (the 'AAA' scenario recession start month).

In combination, the default timings, interest rates, and prepayment rates described above give rise to two different scenarios (see table 5). The ratings we have assigned mean that the notes have all paid timely interest and ultimate principal under each of the scenarios at the proposed rating level.

Table 5: RMBS Stress Scenarios

Scenario	Prepayment rate	Interest rate	Default timing
1	Low	Up	Equal
2	High	Up	Equal

Commingling

Standard & Poor's did not model any commingling stress, as there is downgrade language that sets up a contingent commingling reserve if the administrator is downgraded below 'A-2' (see "*Commingling reserve*").

Sectoral Credit Highlights

It is a difficult time for the economies of Europe. But while the environment is difficult for the region as a whole, the ability of individual economies to withstand the conditions will depend on their current health in terms of household debt and savings, corporate debt, and international competitiveness. Against these benchmarks, Standard & Poor's considers that Spain looks to be one of the most exposed to a pronounced slowdown.

This slowdown would be hardly surprising given the systemic economic problems that are affecting the region: The U.S. is on the brink of recession; the credit crunch triggered by the subprime situation has dried up liquidity and made financial institutions far more reluctant to lend to households and corporates; and housing markets across Europe are easing back after years of spectacular growth, raising concerns for the construction sector and the jobs it has steadily generated in the past 10 years. Consumer price inflation is accelerating, curtailing real income growth. In addition, the euro exchange rate has risen to its highest level against the dollar since its launch in 1999.

From the consumers' standpoint, the new economic environment is characterized by falling asset prices (stocks and houses in most countries), accelerating retail price inflation, and more uncertainty regarding the employment outlook. Consumers' ability to spend in this new context depends in turn on their current level of indebtedness, the savings cushion they can draw on, and their real income growth prospects. Spain has seen a sharp increase in household debt over the past seven years, to 81% of GDP.

The second fundamental point to consider is the level of savings. When asset prices fall, households tend to raise their precautionary savings. The negative effects on consumer spending are likely to be stronger in economies where the overall level of personal savings was already historically low. Spain is interesting because the household savings rate, while trending down, still appears relatively high, at 9.9% in the third quarter of 2007 (10.2% a year earlier). This is because Spanish households continued to benefit from rapid growth in their overall disposable incomes (3.8%) last year, thanks to robust gains in pay (7.2%) on the back of strong employment and wage growth. But over the same 12 months to September 2007, the considerable volume of investment made by the household sector (up 4.5%) increased its overall financing needs to 6.8% of GDP—another sign of the current overleveraging of the Spanish personal sector.

We have a revised our forecast for GDP growth in Spain this year to 1.8% from 2.3% (3.8% in 2007) and expect GDP growth to average 1.6% in 2009. The most recent data from the Spanish statistical office show that in 2007, 61,500 jobs were lost in the construction sector and 46,400 in the service sector—the two main pillars of the Spanish economy. As a result, the unemployment rate surged to 8.6%. We expect housing starts to drop to about 400,000 this year from 600,000 in 2007, a trend that is likely to cause more job losses. The temptation to use part of the fiscal surplus (about 2.3% of GDP) will be strong and could provide a temporary boost aimed at avoiding a rise in unemployment on the back of a stumbling construction sector. The government just announced that 35,895 new jobs would be created in the public sector this year, an 8% increase over 2007.

Surveillance

In table 6, we can see the main characteristics of the two last Bancaja transactions.

Table 6: Transaction Key Features

	MBS Bancaja 5	RMBS Bancaja 12
Preliminary pool features		
Principal outstanding (€)	2,030,090,975.91	2,426,193,872.40
Weighted-average seasoning (months)	14.38	13.67
Weighted-average LTV ratio (%)	60.63	74.85
Percentage with LTV ratios below 50%	25.05	9.92
Percentage with LTV ratios above 80%	5.48	35.36
Number of loans	16,425	16,397
Largest (€)	982,807.79	1,000,000
Average (€)	123,597.62	147,965
Weighted-average margin on the floating portfolio* (%)	0.88	0.85
Percentage of commercial loans	10.74	0.00
Percentage of residential loans	89.26	100.00
Percentage of jumbo loans	6.87	3.38
Percentage of floating-rate loan	100	100
Percentage of fixed-rate loans	0	0
Weighted-average foreclosure period (months)	30	30
Geographic distribution (%)		
Andalucia	6.83	10.16
Aragon	0.86	0.63
Asturias	0.50	0.66
Balearic Islands	5.61	5.62
Basque Country	1.82	1.59
Canary Islands	5.04	6.69
Cantabria	0.17	0.35
Castilla-La Mancha	1.97	2.40
Castilla-Leon	3.53	4.09
Catalonia	9.39	10.56
Extremadura	0.34	0.42
Galicia	2.14	2.41
La Rioja	0.22	0.24
Madrid	7.39	7.25
Murcia	2.82	3.29
Navarra	5.13	1.78
Valencia	46.22	41.84
Others	0.02	0.01
Structural features (%)		
AAA	96.25	94.25
A	2.00	2.75
BBB	1.00	2.00
BB	0.75	1.00
Cash reserve (%)	1.35 to 1.85	2.00
Commingling sized as liquidity loss	Yes (commingling reserve)	Yes (commingling reserve)

**Includes the optional loans that currently pay floating interest rates.*

Criteria Referenced

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Related Articles

- "*European RMBS Outlook 2008—Market Disruptions May Overshadow Collateral Performance*" (published on Jan. 31, 2008).
- "*Assessment Of The Basel II Framework: Residential Mortgages*"(published on Sept. 28, 2006).
- "*European Banks Manage Capital Through Recent Mortgage Risk Transfers*" (published on Dec. 9, 2005).
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- "*Spanish RMBS Index Report*" (published quarterly).

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Key Contacts	
SF Investor Hotline	(44) 20-7176-3223
Client Support Europe	(44) 20-7176-7176
Press Office Hotline	(44) 20-7176-3605 or media_europe@standardandpoors.com
Local media contact numbers	
Paris	(33) 1-4420-6657
Frankfurt	(49) 69-33-999-225
Stockholm	(46) 8-440-5914
Moscow	(7) 495-783-4017

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