Other Mortgage & Real Estate-Related Residential Assets
Spain
New Issue

MBS Bancaja 7, Fondo de Titulizacion de Activos

Analysts

Carlos Masip
+34 91 702 5773
carlos.masip@fitchratings.com

Covadonga Aybar
+34 91 702 5775
covadonga.aybar@fitchratings.com

Surveillance
Mirella Tinti
+44 20 3530 12 41
mirella.tinti@fitchratings.com

Related Research

Applicable Criteria

- *EMEA Residential Mortgage Loss Criteria Addendum - Spain (February 2010)*
- *EMEA RMBS Cash Flow Analysis Criteria (May 2009)*
- *Counterparty Criteria for Structured Finance Transactions: Derivative Addendum (October 2009)*
- *Counterparty Criteria for Structured Finance Transactions (October 2009)*
- *Criteria for Interest Rate Stresses in Structured Finance Transactions (February 2010)*

Contents

Ratings

Class	Amount (EURm)	Final Maturity	Rating	LSR	CE (%)	Outlook
A	472.5	May 2063	AAAsf	LS2	51.00	Stable
B	402.5	May 2063	NR	NR	5.00	n.a.
Total Issuance	**875.0**					

Closing occurred on 26 July 2010. The ratings assigned above are based on the portfolio information as of 25 March 2010 provided by the originator

Transaction Summary

This transaction is a cash flow securitisation of a EUR875m static pool of amortising mortgages to individuals. The mortgages are backed by first and second homes and commercial assets granted by Caja de Ahorros de Valencia, Castellon y Alicante (Bancaja, or the seller, ‘A–’/Stable/‘F2’) to individuals resident in Spain. The ratings address the timely payment of interest on the notes according to the terms and conditions of the documentation as well as the repayment of principal by the notes’ legal final maturity date.

Key Rating Drivers

- **Multiple high-risk portfolio characteristics:** Fitch Ratings considers the portfolio to be of poor credit quality due to a high concentration of the following: refinanced loans, high loan-to-value (LTV) loans, loans originated via brokers, and extended maturities beyond 30 years. The agency believes the portfolio will perform well below average.
- **Extremely high credit enhancement:** Fitch believes the exceptionally high level of credit enhancement (51%) will provide robust protection to the rated notes despite the risky nature of the portfolio.
- **High LTV loans increase portfolio credit risk:** the portfolio has a concentration of high LTV loans; 86% of the collateral has original LTVs (OLTVs) between 80% and 100%. Fitch views the weighted-average (WA) OLTV of 91% as the primary risk driver to the transaction.
- **Refinanced loans at higher risk of default:** Fitch believes the 29% of the portfolio that comprises refinanced loans is at increased risk of default. The agency doubled its base-case WA foreclosure frequency (WAFF) assumption for these loans.
- **Extended maturities and grace period loans:** In Fitch’s view, loan maturities beyond 30 years indicate stretched affordability and payment capacity. 80% of the collateral has a remaining term to maturity above 30 years.
- **Reserve fund used as liquidity line:** given the position of the reserve fund (RF) in the waterfall, it only serves as a liquidity line to cover for the timely payment of interest on the class A notes.
- **Unhedged basis and reset risk:** Fitch believes the unhedged basis and reset risk may cause liquidity stress. It stressed both of these in its cash flow analysis.
- **Margin reduction possible:** 50.5% of the pool may see a margin reduction if the borrowers contract additional financial products with Bancaja; this may represent a potential liquidity stress for the transaction.

Rating Sensitivity[1]

This section of the report provides a greater insight into Fitch's Spanish residential mortgage default model criteria. It provides an analysis of the implied sensitivities the transaction faces when one risk factor is stressed while holding others equal. The results below should only be considered as one potential outcome, given that the transaction is exposed to multiple risk factors that are all dynamic variables.

Rating Sensitivity to Defaults

The results from the model suggest that when the portfolio default rate is increased by 10% and 25%, the rating of the class A notes does not migrate. However, an increase of 40% in the WAFF results in a single-notch downgrade. This is due to the credit enhancement in place, which makes the structure sufficiently resilient to withstand additional stresses in terms of WAFF.

Rating Sensitivity to Default Rates

	Class A
Original rating	AAAsf
10% increase in default rates	AAAsf
25% increase in default rates	AAAsf
40% increase in default rates	AA+sf

Source: Fitch

Rating Sensitivity to Recovery Rates

Model results, when instantaneously decreasing the portfolio recovery rate by 10%, 25% and 40%, show no migration because of the protection offered by the credit enhancement levels (which are sufficient to support the stresses modelled for a 'AAAsf' scenario).

Rating Sensitivity to Recovery Rates

	Class A
Original rating	AAAsf
10% decrease in recovery rates	AAAsf
25% decrease in recovery rates	AAAsf
40% decrease in recovery rates	AAAsf

Source: Fitch

Rating Sensitivity to Shifts in Multiple Factors

The Rating Sensitivity to Default Rates and Recovery Rates table summarises the rating sensitivity to stressing multiple factors concurrently. The combination of the two factors has a higher impact in terms of rating migration, but notes will remain investment grade even with an increase of 40% in the WAFF and weighted-average recovery rate (WARR).

Rating Sensitivity to Default Rates and Recovery Rates

	Class A
Original rating	AAAsf
Scenario 1: 10% increase in default rates, 10% decrease in recovery rates	AAAsf
Scenario 1: 25% increase in default rates, 25% decrease in recovery rates	AA+sf
Scenario 2: 40% increase in default rates, 40% decrease in recovery rates	Asf

Source: Fitch

[1] These sensitivities only describe the model-implied impact of a change in one of the input variables. This is designed to provide information about the sensitivity of the rating to model assumptions. It should not be used as an indicator of possible future performance

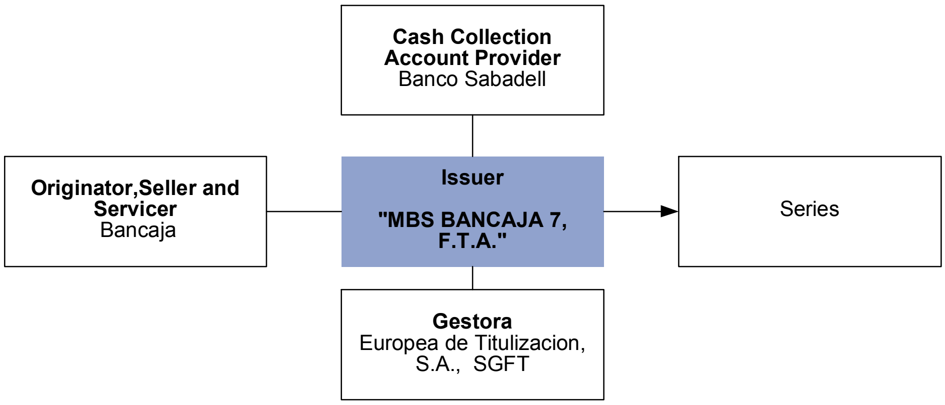
Model, Criteria Application and Data Adequacy

Fitch was given static historical delinquency and recovery data as well as dynamic delinquencies (based on loans more than 90 days in arrears), for the overall portfolio of the seller. The agency received loan-by-loan information for nearly all the field data under its updated RMBS data requirements. For missing or incomplete fields — eg the income field was missing for 20.85% of the pool — Fitch has applied conservative assumptions.

Fitch has analysed the obligor default risk using its proprietary Spanish RMBS default model (see "*EMEA Residential Mortgage Loss Criteria Addendum-Spain*", dated February 2010, in *Related Research*). The agency's proprietary cash flow model has been used to complete the rating analysis and simulate the transaction cash flows and capital structure. Fitch's cash flow model has been customised to account for the specific features of the deal.

Transaction and Legal Structure

Transaction and Legal Structure



Source: Transaction documents

Legal Framework

The issuer is a limited-liability SPV incorporated under the laws of Spain — Spanish Securitisation Law 19/1992 and Royal Decree 26/1998 — the sole purpose of which is to acquire the mortgage loans from Bancaja as collateral for the issuance of quarterly-paying notes. However, under Spanish law, mortgage loans are not actually transferred as this would entail a lengthy process of re-registering the mortgages at the property registry. Instead, mortgage originators are permitted to issue mortgage participations (PH) and mortgage certificates (CTH).

At closing, both the PHs and the CTHs were acquired from the seller on behalf of the fund by Titulización de Activos, S.G.F.T., S.A. (the management company), a limited liability company incorporated under the laws of Spain, the activities of which are limited to the management of securitisation funds.

The cash bond administration (CBA) function for this transaction will be carried out by Europea de Titulización, S.G.F.T., S.A. The management company, which is supervised by the Comisión Nacional del Mercado de Valores (CNMV), is 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 interests of the noteholders, such as the replacement of the servicer, account bank or swap counterparty.

Representations and Warranties — Market Standard

The seller has provided the issuer with specific representations and warranties concerning the features of the mortgages, as well as the general and legal circumstances of the loans and the properties in each portfolio, including those listed below.

1. Mortgage loans exist, are valid and enforceable in accordance with current legislation, and all of the applicable legal provisions have been respected in the granting thereof.
2. All mortgage loans are first lien and secured by real estate properties, without any ownership constraints.
3. All mortgage loans have been originated in accordance with the procedures Bancaja normally uses in servicing mortgage loans.
4. None of the mortgagors holds any credit right against the seller that entitles the mortgagor to a set-off that could adversely affect the rights conveyed by the certificates.
5. At closing, none of the loans included in the pool was in arrears by more than 30 days.
6. All debtors are individuals resident in Spain, none of them employed by Bancaja.
7. All properties are situated in Spain. All residential properties that make up the collateral are finished dwellings and have been appraised by valuation companies registered with the Bank of Spain.
8. All mortgage loans pay by direct debit to the issuer bank account, with interest and capital payments made monthly.
9. No loan has the right to change interest or principal payments during the life of the transaction, other than the initial grace period in place at closing.

Substitution

Like most Spanish RMBS transactions, only those loans that do not comply with the representations and warranties will be allowed to be substituted. Such substitution must follow the rules laid out in the transaction documentation and Spanish Securitisation Law.

Loans that have breached the representations or warranties will either be fully amortised or substituted with a mortgage similar in amount and characteristics. The substitution will have to be approved by the management company. The substitution cost will be paid by the originator.

Permitted Variations — Market Standard

As stipulated in Article 25 of Royal Decree 685/1982, the seller, in administering the mortgage loans, may not, without the consent of the managing company, voluntarily cancel the mortgages forming the collateral for reasons other than the full amortisation of the loan.

Additionally, it will not renounce the mortgage loans, modify or restructure them, cancel them in whole or in part, or permit an extension, or in general take any action that diminishes the legal effectiveness or the economic value of the mortgage loans, except for the modifications listed below.

- The contracts allow subrogation of mortgage loans only in cases where the characteristics of the new debtor are similar to those of the original debtor and are originated under the same guidelines and upon approval by the gestora.
- Changes in mortgage loan margins will be limited to the WA margin of the collateral and will not fall below 70bp. To reflect this possibility, when Fitch modelled the transaction, the WA margin of the collateral has been capped at 0.70% from closing.

- The servicer may agree to decrease or increase the remaining life of the mortgage loan in question by changing the amortisation profile. Any extension is limited to the final maturity of the certificates. In no case will the extension exceed the final maturity of the last securitised mortgage loan. The outstanding amount of the mortgage loans on which the extension of maturity could be allowed will not exceed 10% of the initial aggregate pool principal balance transferred to the fund.

Historically, limited loan modifications or restructurings have been reported for existing RMBS transactions. However, given the downturn in the housing market and macroeconomic conditions, many lenders have expanded their loan modification and restructuring programmes as part of loss mitigation strategies. Fitch expects that all loan modifications or restructurings will be conducted within the above limits.

Disclaimer

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Asset Analysis – Multiple Risk Characteristics

As of July 2010, Fitch's rating assignment, the portfolio had an outstanding balance of EUR1,105m comprising 6,471 mortgage loans. The aggregate portfolio had a WA OLTV of 91.4% and a current LTV (WA CLTV) of 87.5%, calculated based on each individual loan amount as a percentage of the guaranteeing asset value, as indicated by the seller. In line with Fitch's criteria, the agency gave credit to 50% of positive house price indexation and to 100% of negative house price indexation. Considering the very limited seasoning of the pool and the decreasing house price environment, the resulting WA indexed CLTV is 90.2%. This is the first Bancaja MBS transaction securitised so far with a higher OLTV profile.

With regards to the vintage of the portfolio, the loans have been originated throughout the period Q202–Q110. However, the highest concentration is from the period Q106-Q409.

Lender Adjustment — No Adjustment Based on Bancaja's Performance

Fitch's base default probabilities assume that origination, underwriting and servicing practices and procedures are in line with those of a standard Spanish lender with market expertise, financial stability and relevant management experience. As part of its analysis, the agency performs an operational review of the originator to assess the origination, underwriting and servicing capabilities of the seller. The agency also considers certain elements not factored into the loan-by-loan analysis, either because they are not available or because they are only applicable on an aggregate basis, such as: (i) historical performance of the mortgage loans originated by the lenders; (ii) length of historical performance observation period; (iii) performance of previously securitised deals; and (iv) undisclosed information.

When comparing historical information provided for the issuer's portfolio with the WAFF resulting from the loan-by-loan analysis, Fitch concluded that no further adjustment was needed. This indicates that the risk attributes of the portfolio have already been captured by the overall probability-of-default matrix and the adjustments made in light of the loan and borrower characteristics.

Affordability is Poor — Stressed Further by Fitch Interest Rate Assumptions

Fitch was provided with loan-by-loan debt-to-income (DTI) information for 80% of the pool in a consistent manner for this transaction. For those loans for which no monthly income was provided, the maximum DTI category was applied. To apply long-term average interest rate stresses to the floating-rate mortgage loans, the agency has conducted its own DTI calculations. These are based on the information provided about the monthly net income of the borrowers, the length of the loan, and the average long-term interest rate.

DTI Class Distribution According to Fitch Calculations

DTI class/% of the pool	Fitch calculation	Data provided
Class 1	5.67	8.59
Class 2	12.23	20.08
Class 3	23.21	32.80
Class 4	27.48	17.71
Class 5	31.41	0.00
No info		20.82

Source: Fitch

Borrowers — Stable Employment Profile

The seller provided employment data on a loan-by-loan basis for 88.7% of the loans in the portfolio. 74.2% of the borrowers are either employees of a third party or public workers; 12.7% are self-employed borrowers and 1.3% are unemployed. For loans without such information, the base foreclosure frequency (FF) has been increased by 25% for self-employed and unemployed borrowers, according to Fitch's criteria (see "*RMBS Residential Mortgages Criteria Addendum - Spain*" in *Related Research*).

Nationality — Higher than Average Exposure to Non-Spanish Borrowers

A high 9.75% of the loans are granted to non-Spanish borrowers. This is 70% above Bancaja's average non-Spanish concentration. The risk profile of foreigners has been updated in Fitch's recent RMBS Spanish addendum criteria (see "*RMBS Residential Mortgages Criteria Addendum - Spain*" in *Related Research)*. Given the weak social links of the immigrant population and their different historical performance, a 100% incremental FF hit was applied to these loans.

Origination — Exposure to Non-Traditional Channels

The originator provided Fitch with a loan-by-loan breakdown of the origination channels under which the securitised loans were sourced. According to the information provided, up to 25% of its mortgage originations have traditionally been sourced via brokers and other intermediaries. However, during 2008 and 2009 — key years as regards originations in the securitised pool — that percentage fell to 9%. The concentration of broker-originated loans in this pool is above average for the entity in the same period. Fitch applied a 100% incremental FF to the 22% of the securitised portfolio originated via brokers.

Affordability Features — High Presence of Grace Period Loans and Extended Maturities

At origination, 38.4% of the pool by volume benefited from a principal grace period. Taking into consideration the weaker borrower profile that usually demands this type of affordability product, Fitch has applied a 20% incremental FF hit. Currently, only 5.1% of the loans have grace periods above 36 months, 62% do not have any grace period and 32.9% have a grace period below 36 months.

With regards to the extended maturities, 80% of the collateral has a remaining term to maturity above 30 years (considered standard in Spain). The Original Term to

Maturity (Months) table displays the breakdown of the remaining term to maturity for the loans in the pool in months.

Given that a term to maturity above 30 years is indicative of a weaker payment capacity and that the general underwriting guidelines of Bancaja's origination policies also set a maturity limit of 40 years, an incremental FF of up to 30% has been applied to such loans.

Original Term to Maturity (Months) (%)

<61	0.0
61-120	0.3
121-180	1.6
181-240	3.5
241-300	4.7
301-360	10.9
361-420	11.9
421-480	54.6
481-540	4.0
541-600	8.4
Total	**100.0**

Source: Fitch

Purpose of the Loan Other than Home Acquisition — Low for an MBS Transaction

2% of the portfolio is made up of consumer loans or loans for commercial finance purposes. A 20% incremental FF has been applied to such loans.

Refinance Loans — Key Risk in the Transaction

29.87% of the collateral balance comprises re-mortgage loans. Fitch has requested information on the arrears status of such loans prior to the re-mortgage (see Previous Arrears Status/% Re-Mortgages Sub-Segment table).

Previous Arrears Status/% Re-Mortgages Sub-Segment

	Over refinance balance	Over total pool balance
Not in arrears	24.16	7.39
Up to 30 days	16.65	5.16
From 30-60 days	17.82	5.53
From 60-90 days	19.02	5.90
Over 90 days	22.35	6.93

Source: Fitch

For those loans that prior to being refinanced did not have a delinquency status, Fitch has applied a 100% incremental FF hit. This reflects the increased likelihood of the default of such loans owing to payment capacity constraints. For loans that were in arrears prior to being refinanced, this has been taken into account and Fitch has applied an FF in accordance with its criteria.

Foreclosure Frequency for Loans in Arrears

(%) WAFF	0-30	30-60	60-90
AAAsf	40	55	70
AAsf	34	49	64
Asf	28	43	58
BBBsf	22	37	52
BBsf	16	31	46
Bsf	10	25	40

Source: Fitch

The Foreclosure Frequency for Loans in Arrears table above has been applied both to the previous arrears status of refinanced loans and loans in arrears up to 30 days (ie 10.29% of the analysed pool).

Property Type — Collateral Includes Commercial Properties and Second Homes

The pool comprises mortgages to individuals on first and second homes and commercial assets in Spain. The originator has provided a breakdown by number of properties backing each loan, the type of each property and the value of each property.

82.1% of the loans in the pool are backed by residential properties only; 13% are backed by a residential property plus a garage or storage room; 1.1% are backed by a residential property and a commercial property; while 3.8% are backed by properties other than residential.

If the breakdown of the portfolio is conducted by property type, houses represent 94.6% of the collateral.

Type of Property

	(%)
House	94.6
Garage/storage room	1.1
Commercial facility	3.3
Industrial facility	0.5
Office	0.0
Rural land	0.3
Urban land	0.1

Source: Fitch

The recovery rate (RR) has been calculated by assigning to each property the market value decline (MVD) corresponding to its type. For residential properties, the Spanish MVD assumption has been applied. For non-residential properties, the MVD assumption for SME CDOs has been applied.

Title: MVD for SMEs

MVD (%)	CCCsf	Bsf	BBsf	BBBsf	Asf	AAsf	AAAsf
Other	45.0	50.0	55.0	60.0	65.0	70.0	75.0
Underdeveloped land	60.0	60.0	65.0	70.0	100.0	100.0	100.0

Source: Fitch

The pool also includes 8.4% of second homes, for which an incremental FF of 25% was applied, in line with Fitch's criteria.

3.6% of properties in the portfolio have values that are above or below the market average for their respective regions. Fitch has therefore applied a jumbo haircut according to its criteria.

Geographical Concentration

The pool benefits from moderate geographical diversification. However, Fitch has noted an element of regional concentration in the Autonomous Community of Valencia, representing 41.7% of the pool. Fitch applied a regional concentration probability of default hit of 15% on all loans backed by assets located in the Autonomous Community of Valencia.

Default Model Output

Fitch Default Model Output

Rating level (%)	WAFF[a]	WARR[b]	MVD[c]
AAA	54.21	37.52	57.94
A	42.45	46.00	64.12
BBB	33.66	50.12	45.86

[a] Weighted-average foreclosure frequency
[b] Weighted-average recovery rate
[c] Market value decline
Source: Fitch

The Fitch Default Model Output table illustrates the asset analysis results across different rating scenarios. Fitch has used these WAFF and WARR levels when modelling the transaction's cash flows. As can be seen in the table, the risk characteristics of the portfolio are reflected in the high WAFF levels in all rating scenarios.

Financial Structure and Cash Flow Modelling

The notes issued by the fund are floating-rate quarterly-paying securities, based on three-month Euribor plus a margin. Interest and principal collections are handled jointly through a combined priority of payments.

Banco Cooperativo Espanol ('A'/Stable/'F1') acts as paying agent. A treasury account, held in the name of the fund at Banco de Sabadell, receives all incoming cash flows from the mortgage pool every two days. The reserve fund will also be held at the treasury account. All amounts held in the treasury account receive a guaranteed interest rate equal to three-month Euribor.

Credit Enhancement — Robust Levels Counter Negative Portfolio Selection

At July 2010, credit enhancement (CE) for the class A notes, equivalent to 51% of the original collateral balance, was provided by the subordination of classes B (46%), plus an RF of 5% (used to support the payment of class A interest). The RF therefore works like a liquidity line.

Fitch expects CE to build up due to the sequential amortisation rules that govern principal repayments. Unless there is a rapid accumulation of non-performing loans, the structure should allow the class A notes to increase the CE, given the substantial overcollateralisation in place. This should result in the rapid amortisation of the class A notes. The CE provided by the RF is also expected to remain stable, given the static nature of the RF and its place in the waterfall (which prevents it from being used for anything other than class A interest rate payments).

Reserve Fund — Provides Support for Class A Interest Only

At closing, the RF — which supports interest payments on the class A notes — was EUR43,750,000. It was deposited in the treasury account held at Banco Cooperativo Espanol.

Contrary to most Spanish RMBS transactions, the RF is not permitted to amortise. Therefore, once the class A notes start to amortise, the relative size of the RF — and therefore the protection of class A interest payments — should increase.

Excess Spread — Limited Potential Benefit from Basis Differential

The only excess spread available in the transaction is generated from the different reference interest rate and margins on the portfolio versus the collateral (given the unhedged nature of the transaction).

The WA margin of the notes (0.484%) is lower than the WA margin of the collateral. This remains the case even if Fitch assumes the WA margin of the collateral will be reduced to the maximum possible from day one.

The mismatch between the reference interest rate of the underlying mortgage loans (12-month Euribor) and that on the notes (three-month Euribor) is currently favourable to the SPV. However, the agency has taken a conservative approach when modelling the reset and basis risk, given the unhedged nature of the transaction. To assess the possible impact of the basis risk evolution, the agency took into account the reset mechanism for loans and notes, the payment distribution of loans and notes, and the historical evolution of the three-month Euribor and 12-month Euribor curves over the past decade. To avoid the possible liquidity stress derived from changes in the relationship between the reference interest rates, Fitch assumed a negative difference between indexes from transaction closing.

Note Amortisation — Designed to Protect the Class A Notes

On each quarterly payment date, the combined ordinary priority of payments will be:

1. ordinary and extraordinary expenses of the fund;
2. interest payments on the class A notes;
3. replenishment of the cash reserve;
4. principal on the class A notes;
5. interest on the class B notes;
6. principal on the class B notes; and
7. other subordinated amounts, including payments due under the swap in the event of a swap counterparty default, as well as interest and principal on the start-up loan.

Principal Redemption — Purely Sequential Structure Benefits Class A Notes

Principal redemption on the notes is allocated sequentially, beginning with the class A notes and only moving through the subordinated class once they have been redeemed in full. Once the class A notes have been fully redeemed, class B will start to amortise until fully repaid.

Normally, Spanish RMBS transactions include pro-rata amortisation clauses. However, given the current structure — which aims to maximise the discountable class A notes — such pro-rata amortisation rules have not been included.

The legal final maturity date for the notes is May 2063, which is three years after the final scheduled maturity date for all loans in the collateral pool. This delay has been deemed adequate to ensure that collections from the mortgages will be sufficient to redeem the obligations of the fund for any defaulted loans.

Call Option

All notes are subject to a clean-up call option in favour of the management company, when less than 10% of the initial collateral balance remains outstanding.

Scenario Testing

Fitch has tested the structure under the default distributions described in its criteria report, "*EMEA RMBS Cash Flow Analysis Criteria*", published on 6 May 2009. Different default vectors have been tested, combined with different prepayments (high/low) and different interest-rate environments (rising/stable/decreasing). Assumptions used under individual scenarios were in accordance with Fitch's cash flow analysis criteria for RMBS.

To evaluate the contribution of structural elements, such as excess spread, the RF and other factors, Fitch modelled the cash flows from the mortgages based on the WARR and WAFF provided by the loan-by-loan collateral analysis.

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 and the RF must be sufficient to cover the cost of carry until recoveries are received after 48 months under a 'AAAsf' scenario.

Fitch ran various stress tests on the key variables affecting the cash flows generated by each mortgage portfolio, including prepayment speed, interest rates, default and recovery rates, the timing of recession, WA margin compression and delinquencies. The agency also modelled prepayments, which can affect certain components of a transaction (primarily, they lower the absolute amount of excess spread, which provides an important contribution to the total CE in the structure).

However, since the principal repayment is directed towards the rated notes, they benefit from higher CE as a result of the increase in subordination. Prepayments may also cause adverse selection, as the strongest obligors are likely to be most inclined to prepay, which would leave the pool dominated by weaker obligors as the collateral ages. The high level of prepayments peaks at 25.0% under a 'AAAsf' scenario. The low level of prepayments is modelled at 5.0% per year.

The breakeven point in the cash flow model in a 'AAAsf' scenario is, among others, driven by: a) the balance of performing loans decreasing very rapidly, due to the 'AAAsf' led assumptions such as high prepayments; while b) defaults continue increasing. This creates a high liquidity stress with very low cash flows received from the pool. The liquidity stress ends with the arrival of recovery proceeds from the loans.

Key Parties

- **Originator, Seller and Servicer of the Collateral:** Bancaja, 'A–'/Stable/'F2'
- **Account Bank:** Banco de Sabadell, 'A'/Stable/'F1'
- **Paying Agent:** Banco Cooperativo Espanol, 'A'/ Stable/'F1'
- **Fund:** MBS Bancaja 7, Fondo de Titulización de Activos
- **Management Company:** Europea de Titulización S.G.F.T

Counterparty Risk – Servicer Exposed to Commingling

The transaction is not significantly exposed to a single counterparty, given the unhedged structure and the role of Banco de Sabadell as bank account provider. Exposure to Bancaja in its role as servicer is mitigated by a commingling deposit being in place.

Seller/Servicer

The seller will perform the role of servicer of the loans, as is the case for all Spanish RMBS transactions. To protect investors, if the seller is unable to continue servicing the collateral, the management company must appoint a replacement servicing company in accordance with Spanish securitisation law. The situations envisaged for servicer replacement are bankruptcy, intervention by the Bank of Spain or liquidation of the entity.

Commingling Risk — Mitigated by Deposit in Place

The payments made by the mortgagors, as well as any other amounts to which the fund is entitled as holder of the mortgage certificates, will be placed in the treasury account every two days and will consist of the income received from the certificates during the previous collection period.

The size of the deposit will be recalculated every month. The six-week period covered by the deposit was viewed as sufficient to cover the notification period upon Bancaja's substitution (should it no longer be able to service the portfolio). However, it should be noted that the Spanish market has never experienced servicing disruption, even when financial institutions have intervened.

Set-Off Risk

The issuer could be affected by the set-off rights of the borrower with deposits in accounts held with Bancaja. However, this risk is mitigated as the seller commits itself in the documentation to remedying such circumstance if it arises at any point during the life of the transaction. The documents indicate that any amounts set off by the borrowers will be compensated by the seller. Hence, no loss is expected to be borne by the issuer.

However, if the seller becomes insolvent, it cannot be relied upon to continue to compensate the fund for set-off amounts. Fitch derives comfort from Spanish law, where, upon the insolvency of the seller (or the borrower), or upon notification to the borrower of the assignment of the receivable, set-off is not valid. Hence, the only risk remaining is that of set-off being invoked and claimed prior to insolvency, but where the seller became insolvent before compensating the fund. Note that amounts that can be set-off do not relate to the entire mortgage loan amount, but rather to the payments then becoming due, ie the monthly instalments. The risk therefore remains limited and presents a very mild liquidity stress.

Account Bank

Banco de Sabadell acts as paying agent and the sociedad gestora, on behalf of the fund, has opened a treasury account and a reinvestment account.

The treasury account, held in the name of the fund at Banco de Sabadell, receives all incoming cash flows from the mortgage pool every two days. Amounts held at the treasury account receive a guaranteed interest rate equal to three-month Euribor.

Concerning the treasury account and the reinvestment account, if Banco de Sabadell's Short-Term Issuer Default Rating is lowered below 'F1', or its Long-Term IDR is lowered below 'A', the management company will be required to take one of the following steps within 30 days: (i) obtain from an entity rated at least 'F1', a first demand guarantee as security for the amounts deposited in the treasury accounts; or (ii) transfer the treasury accounts to an entity rated at least 'F1'.

Please refer to the report, "*Counterparty Criteria for Structured Finance Transactions*", dated October 2009, under which Fitch-compliant remedial actions for the reinvestment account and treasury account are governed. The report is available at www.fitchratings.com.

Performance Analytics

The ratings reflect the current risks to the transaction, while performance outside of expectations or the occurrence of certain events may trigger positive or negative rating actions. Indications that cumulative defaults could rise above the estimated base-case assumption of 20% for the life of the transaction could potentially trigger rating actions by Fitch, if the level of CE built up is not sufficient at the time of performance deterioration.

For more details, please refer to "*EMEA RMBS Surveillance Criteria*", published on 9 April 2009. To ensure that the structure is adequately protected, Fitch will also monitor the credit ratings of the various counterparties.

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