

# RURAL III Fondo de Titulización Hipotecaria

## Bonos de Titulización Hipotecaria

Spain

**CLOSING DATE:**

May 2002

**AUTHORS:****Spain**

Sandie A. Fernandez  
Associate Analyst  
(34) 91 702 6607

Sandie.

Fernandez@moodys.com

Juan Pablo Soriano  
Managing Director  
(34) 91 310 1454

JuanPablo.Soriano@moodys.com

**CONTACTS:****London/Frankfurt**

Detlef Scholz  
Managing Director  
(44) 20 7772-5398  
(49) 69 707 30 737

Detlef.Scholz@moodys.com

**New York**

Vernessa Poole  
Asset-Backed Securities  
and Collateralised Debt  
Obligations

(212) 553-4796

Vernessa.Poole@moodys.com

Karyn Keeley

Structured Finance Group  
(212) 553-4806

Karyn.Keeley@moodys.com

**WEBSITE:**

www.moodys.com

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provide to Moody's as of April 2002.*

*Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign **definitive** ratings to this transaction. The definitive ratings may differ from the **prospective** ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk..*

**TRANSACTION IN BRIEF**

<b>Rating:</b>	(P) <b>Aaa</b>	(P) <b>A2</b>
<b>Tranche:</b>	A	B
<b>Amount:</b>	€312,300,000	€12,700,000
<b>Margin:</b>	Euribor 3M + [•%]	Euribor 3M + [•%]

**Payment Dates:** 13 March, 13 June, 13 September, 13 December  
**Final Maturity:** 13 March 2032

**Issuer:** RURAL III Fondo de Titulización Hipotecaria**Originators/Administrators:** Caja Rural Intermediterránea

Caja Rural de Navarra

Caja Rural del Sur

Caja Rural de Zamora

Caja Rural de Asturias

Caixa Rural de Balears

Caja Rural de Soria

**Management****Company (Gestora):** Europea de Titulización, SGFT, S.A.**Depository:** BANCOVAL**Paying Agent:** Banco Cooperativo**Collateral Characteristics (As of 9 May 2001)****Type:** Mortgage shares (Participaciones Hipotecarias: PHs)**Coupon:** Underlying mortgage rate**Count:** 7042**Total Amount (Approx.):** €342,103,278**Provisional Pool of Underlying Mortgage Loans****Type:** Primary residential mortgage loans**WALTV:** 57.56%**Average Loans:** 48.580**WAC (Current):** 5.30%**Interest Basis:** Variable**Indices:** EURIBOR 12M (51.06%), CECA (0.42%), TMPH BANCOS (2.70%)**Original Loan Purpose:** Purchase, Construction and Renovation**Geog. Concentrations:** Andalucía (37.64%), Navarra (18.68%), Murcia (12.70%)**Structure:** Senior Subordinate Structure with a Reserve Fund**Credit Enhancement:** 96.1% Aaa, 3.9% A2, 2% RF**Issue Date:** May 2002

## RATING OPINION

Moody's has assigned a (P)**Aaa** rating to the Series A Bonds and a (P)**A2** rating to the Series B Bonds (mortgage securitisation bonds – *bonos de titulización hipotecaria*, "BTHs") issued by RURAL HIPOTECARIO III.

These ratings are based on:

- The legal characteristics of the mortgage shares (*participaciones hipotecarias* - "PHs")
- A loan-by-loan analysis of the quality of the mortgage loans underlying the mortgage shares
- An analysis of other types of risk, including operational risk, prepayment, interest rate and liquidity risk, as well as legal risk
- Adequate credit enhancement, i.e. the subordination available to each rated class which partially offsets the above risks (the subordinate position of the Series B Mezzanine Bonds with respect to the Series A Bonds)
- The strength of the cash flows, including the Reserve Fund and any excess spread available to cover losses
- The experience of the Management Company (or *Gestora*) – Europea de Titulización, SGFT, S.A. – and the supporting guarantee of the Gestora's obligations by all of its shareholders
- The contractual obligations and credit strength of the parties to the transaction

Moody's evaluation took into account the legal and regulatory context of the primary and secondary mortgage markets and that of structured transactions in Spain.

The ratings assigned to the BTHs address the timely payment of interest and payment of principal on or before the final maturity of the transaction on 13 March 2032.

## RATING SUMMARY

### COLLATERAL

#### **The Rurales Group Targets the Securitisation Market for the Third Time**

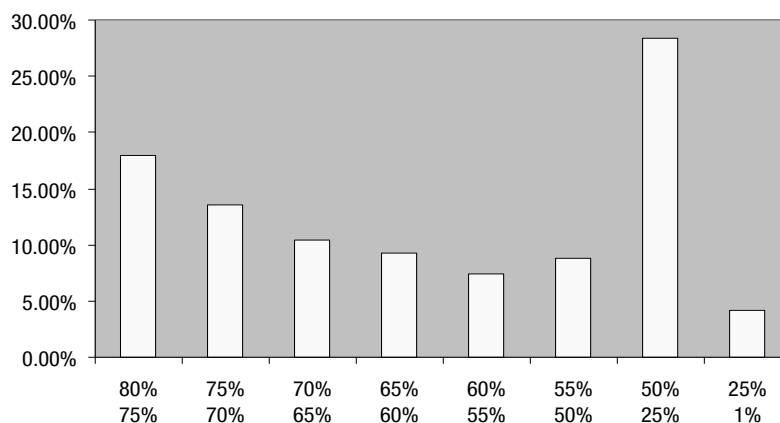
RURALES 3 is the third securitisation of its kind in Spain. It comprises seven unrated Rural Savings Banks (*Cajas Rurales*); Moody's has analysed the credit quality of the unrated originators by assigning an internal rating to each of them.

The *Cajas Rurales* were originally created to target the needs of the agricultural sector. However, the development and expansion of their initial business – made possibly by an aggressive diversification campaign – has allowed them to grow beyond their target clients. All of the rural savings banks in Spain belong to a group known as CAJAS RURALES, which was set up over 10 years ago. The CAJAS RURALES group is currently present in almost every region of Spain and has assets totalling €16 billion. There are 81 savings institutions and co-operative institutions present within the group nowadays.

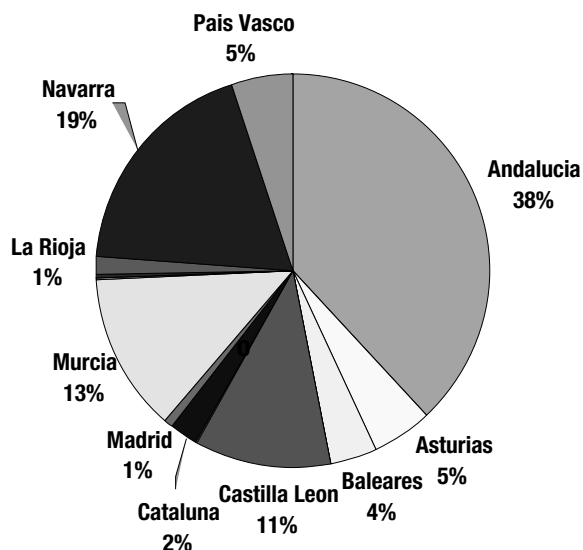
#### **The Collateral - A Very Similar Transaction to RURAL HIPOTECARIO I**

This transaction is very similar to the RURAL HIPOTECARIO I pool – the only differences being the slightly lower Loan-to-Value (LTV) levels, a stronger geographical concentration and an increased number of originators. In terms of LTV distributions, as can be seen in Chart 1, the majority of the loans are within the 25%-50% range, with average LTV levels of 57.56%. Geographically, the transaction is well diversified, though with a strong concentration in Andalucía (38%) and Navarra (19%). Interestingly, the concentrations in Madrid and Catalonia are quite negligible, bearing in mind that most Spanish transactions show significant concentrations in these two regions. This is due to the strong geographical dispersion of the issuing entities.

*Chart 1*  
**Rurales III - Distribution by LTVs**



*Chart 2*  
**Rurales III - Distribution By Geographic Diversification**



*Chart 3*

AVERAGE LTV	57.56%
<b>REGIONAL CONCENTRATION</b>	
ANDALUCIA	37.64
NAVARRA	18.68%
MURCIA	12.70%
CASTILLA LEON	10.64%
AVERAGE SEASONING	2.1 years
NUMBER OF MORTGAGES	7,042
OUTSTANDING BALANCE	€342,103,277,46
AVERAGE LOAN	€48,580,41

Chart 4

	RURAL I	RURAL II	RURAL III
HIGHEST REG. CONC.	VALENCIA (37.99%)	ANDALUCIA (30.92)%	ANDALUCIA (37.64%)
LTV	56.79%	69.77%	57.56%
SEASONING	2.7 yrs	2.5 yrs	2.1 yrs
ORIGINATOR	4 unrated orig	7 unrated orig	7 unrated orig

## STRUCTURE SUMMARY

The BTHs are issued by a mortgage securitisation fund (*fondo de titulización hipotecaria*) which was created and is managed by Europea de Titulización, SGFT, S.A., the Management Company (or *Gestora*). The BTHs are secured by PHs.

Under Spanish law, each PH represents a certain percentage of a single mortgage loan for the entirety of its remaining life and grants its holder the right to undertake executory action against the originator and, under certain circumstances, the right to pursue the mortgage debtor. As the fund possesses no judiciary powers, the Gestora must take any such action on its behalf. In this transaction, all of the PHs represent 100% of the underlying mortgage loan and so pay interest at the mortgage rate. Payments of interest on PHs purchased by a mortgage securitisation fund are not subject to withholding tax. However, interest payments on the BTHs issued by the fund are subject to withholding tax depending on the bond's holder.

The mortgage loans securing the PHs were originated by seven *Cajas Rurales* (as listed on the title page), which will continue to service the loans and will substitute or repurchase any PH that is found to be backed by a loan that fails to meet various criteria.

## Basis and Liquidity Risk: Deal Not Protected by a Swap

The structure is exposed to a degree of interest rate risk. The interest payable on the Series A and B BTHs is 3-month Euribor, while most of the PHs are linked to 12-month Euribor. This transaction is not protected by a swap.

Moody's believes that although any substantial interest rate mismatches between Euribor and Mibor are likely to be relatively short-lived, they could expose the structure to substantial liquidity risks.

This risk is mitigated by the size of the Reserve Fund and of the Class B notes which also provide protection against the risk that the average interest reset on 3-month Euribor might exceed that of 12-month Euribor over the life of the deal.

## CREDIT ENHANCEMENT

### Senior-Subordinated Structure

The transaction's structure consists of two tranches: a Senior Tranche A (rated Aaa) and a Subordinated Tranche B (rated A2). Tranche B is fully subordinated to Tranche A.

The certificate holders are protected from losses primarily by means of a traditional senior/subordinated structure with a Reserve Fund.

- The first layer of protection is the **spread** in the transaction, which is the difference between (1) the interest earned on the PHs and (2) the coupons paid on the BTHs and other obligations plus the Gestora fee. Moody's assessed the value of the ongoing spread under a variety of adverse conditions which would minimise its availability, including high prepayment speeds, various loss distributions and high arrears levels.
- The second layer of protection for investors is the **Reserve Fund**. At any one point in time, the maximum credit amount will be equal to the minimum of the following quantities: 2% of the initial PH balance or 6% of the outstanding principal balance of the PHs.
- The third layer of protection is the **Series B Bonds** which initially amount to 3.9% of the original PH balance. Amortisation of the Series B Bonds will take place when the A Bonds are fully amortised.

## **The Treasury Account**

The transaction's Treasury Account is kept with BANCOVAL. Moody's has no public rating associated with Bancoval and therefore we have received a comfort letter from DEXIA - Banque Internationale a Luxembourg (Aa3) certifying its majority stake in Bancoval, with a view to obtaining assurance as to the credit quality of the Treasury account holder.

In addition, a rating trigger has been put in place by means of which loss of a long-term A1 rating of Dexia will trigger the creation of:

1. A P-1-rated entity to guarantee the Fund
2. A third-party collateral security in favour of the Fund on financial assets with credit quality of not less than the Spanish State Government Stock
3. If options 1 and 2 are not possible, the Fund's treasury account will be transferred to an institution whose rating is at least P-1.

## **Origination/Servicing**

Moody's reviewed the facilities, the underwriting and collections procedures and the servicing systems of the originators and compared them with the overall lending practices of banks and mortgage lenders in Spain.

Moody's believes Caja Rural Intermediterránea, Caja Rural de Navarra, Caja Rural del Sur, Caja Rural de Zamora, Caja Rural de Asturias, Caixa Rural de Balears and Caja Rural de Soria are capable of fulfilling their servicing obligations in the transaction.

## **Management Company (Gestora)**

The management company (Sociedad Gestora) has broad powers under Spanish securitisation law. Europea de Titulización is an experienced management company. The obligations of the Gestora within the structure are guaranteed by its shareholders in proportion to their holdings. BBVA accounts for 83% of the Gestora's capital. The remainder is owned by 15 institutions including JP Morgan (4%), Caja de Ahorros del Mediterraneo S.A.E. (1.54%), Bankinter (1.53%), Barclays Bank (1.53%) and Citibank España (1.53%).

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