RURAL HIPOTECARIO VIII, Fondo de Titulización de Activos

RMBS / Spain

This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of April 2006. 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* ***provisional*** *ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

Estimated Closing Date

May 2006

Lead Analyst

Antonio Tena Centeno
Associate Analyst
+34 91 702-6681
Antonio.Tena@moodys.com

Backup Analyst

Luis Mozos
Associate Analyst
+34 91 702-6615
Luis.Mozos@moodys.com

Investor Liaison

London

Edward Bowden
Investor Liaison Specialist
+44 20 7772-5454
Edward.Bowden@moodys.com

New York

Brett Hemmerling
Investor Liaison Specialist
+1 212 553-4796
Brett.Hemmerling@moodys.com

Client Service Desk

London: +44 20 7772-5454
csdlondon@moodys.com
Madrid: +34 91 702-6616

Monitoring

monitor.madrid@moodys.com
monitor.london@moodys.com

Website

www.moodys.com

PROVISIONAL (P) RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A1	(P)**Aaa**	€ [97.5]	7.50	Jan. 44	3mE + [•]%
A2a	(P)**Aaa**	€ [802.4]	61.72	Jan. 44	3mE + [•]%
A2b	(P)**Aaa**	€ [350]	26.93	Jan. 44	3mE + [•]%
B	(P)**A1**	€ [27.3]	2.10	Jan. 44	3mE + [•]%
C	(P)**Baa2**	€ [15.6]	1.20	Jan. 44	3mE + [•]%
D	(P)**Ba2**	€ [7.2]	0.55	Jan. 44	3mE + [•]%
E	(P)**Caa3***	€ [11.7]	0.90	Jan. 44	3mE + [•]%
Total		€ [1,311.7]	100.00		

The ratings address the expected loss posed to investors by the legal final maturity. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

**In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date on Classes A/B/C/D, and for ultimate payment of interest and principal at par on or before the rated final legal maturity date on Class E.*

OPINION

Strengths of the Transaction

- Excess spread-trapping mechanism through an 18-month "artificial write-off"
- Basis Swap provided by Banco Cooperativo (**A2**/**P-1**)
- Plain vanilla mortgage loans similar to former Cajas Rurales deals
- All first lien mortgage products and granular pool
- Better geographical distribution in comparison with former deals
- Few high LTV loans (only 7.20%); most properties are Prime residences (81%)

Weaknesses and Mitigants

- A substantial portion of the pool is subject to the risk derived from a limitation on the maximum interest rate applicable (mitigated by the interest rate swap)
- Pro-rata amortisation of Series B, C and D leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which interrupt the pro-rata amortisation of the notes if transaction deteriorates.
- The deferral of interest payments on each of Series B, C and D benefits the repayment of the series senior to each of them, but increases the expected loss on Series B, C and D themselves. The reserve fund and the subordination have been sized accordingly to account for this deterioration on the expected loss.
- The performance overviews for these transactions seem to under perform as compare to the average for the Spanish Market, which has been factored into the model by means of a higher resulting credit enhancement.

STRUCTURE SUMMARY *(see page 4 for more details)*

Issuer:	Rural Hipotecario VIII, Fondo de Titulización de Activos
Structure Type:	Senior / Mezzanine / Subordinated / Reserve fund
Borrower:	19 unrated Spanish Rural Savings Banks
Seller/Originator:	19 unrated Spanish Rural Savings Banks
Servicer:	19 unrated Spanish Rural Savings Banks
Back-up Servicer:	N/A
Interest Payments:	Quarterly on January 19th, April 19th, July 19th, and October 19th
Principal Payments:	Quarterly on January 19th, April 19th, July 19th, and October 19th
Credit Enhancement/Reserves:	Spread in the portfolio Fully Funded Reserve fund Subordination of the notes
Liquidity Facility:	N/A
Hedging:	Interest rate swap to cover interest rate risk provided by Banco Cooperativo (**A2**/**P-1**)
[Fiscal Property Advisor]:	
Principal Paying Agent:	Banco Cooperativo (**A2**/**P-1**)
Security Trustee:	
Management Company:	Europea de Titulización S.G.F.T.
Arranger/Lead Manager:	Europea de Titulización S.G.F.T.
	Banco Cooperativo/Deutsche Bank/Dexia Capital Markets/DZ Bank

COLLATERAL SUMMARY *(see page 7 for more details)*

Loan Amount:	1.490.935.658,25
Loans Count:	19119
Pool Cut-off Date:	April 25th 2006
WA Original LTV:	66.10%
WA Current LTV:	60.99%
WA Seasoning:	24.41 months
WA Remaining Term:	267.33 months
Interest Rate Type:	Floating
WA Interest Rate:	3.48%
Geographic Diversity:	Andalucia [35.38%], Valencia [16.67%], Castilla León [7.78%]
Loan Purpose:	Acquisition/renovation of residential properties
Loan Size:	€77,981
Other:	This is the securitisation of the first drawdown of the mortgage product (please see loan product description)

TRANSACTION SUMMARY

No new Product being securitised

Moody's has assigned the following ratings to seven Series of Rural Hipotecario VIII bonds.

(P)**Aaa** to the A1 notes, (P)**Aaa** to the A2a notes, (P)**Aaa** to the A2b notes, (P)**A1** to the B notes, (P)**Baa2** to the C notes, (P)**Ba2** to the D notes and (P)**Caa3** to the E notes.

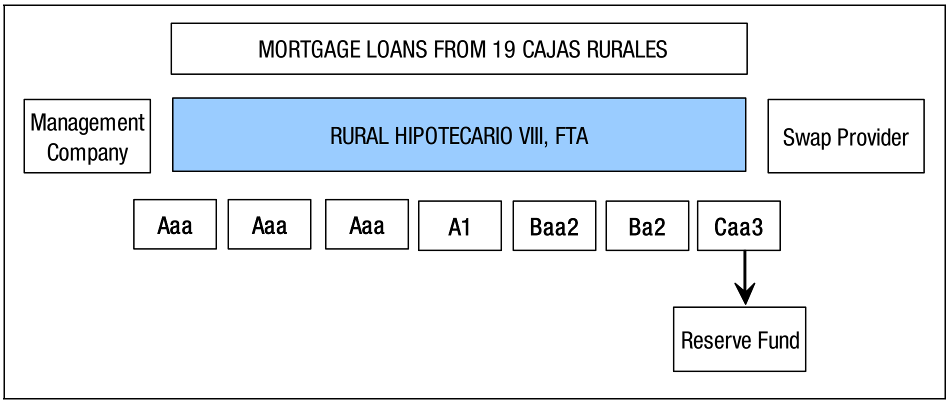
RURAL HIPOTECARIO VIII comes to market with a capital structure following the pattern of previous recent Spanish deals where the cash reserve is funded via a rated equity piece.

Structurally, the transaction consists of five rated classes – a senior tranche [Aaa]-rated Series, two mezzanine Class B rated [**A1**] and Class C rated [**Baa2**] a subordinated Class D rated [**Ba2**] and an equity tranche rated [**Caa3**] for an equal amount to the reserve fund. The special purpose vehicle (SPV) will use the proceeds from the issuance of the notes to purchase the mortgage loans portfolio (see Structural and Legal Aspects below). The total initial purchase price of the mortgage loans will be equal to the proceeds received from the issue of the rated Class A, Class B, Class C, Class D and Class E notes and the cash reserve will be funded with the proceeds from the equity tranche.

The equity tranche will amortise by an amount equal to the difference between RF required amount in the previous payment date and the RF required amount in the current payment date.

STRUCTURAL AND LEGAL ASPECTS

Seven tranche structure



Soft Bullet Amortisation of A1 Tranche

Until the payment date falling on 19 October 2007, all funds available to the repayment of the series will be transferred to the amortisation account, creating an amortisation fund for the notes. Funds available under the amortisation account will be used for the repayment of the notes on the payment date falling on 19 October 2007. Should the amount available on this account not be sufficient to fully redeem the Series A1 notes, the outstanding principal remaining after such partial repayment will be repaid on a pass through basis on the subsequent payment dates.

The negative carry created by the funding of the amortisation fund is compensated by the annual yield of the amortisation account, which equals the interest rate of the notes, and the spread on the amortisation account outstanding paid via swap.

Moody's ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date (January 2044) on Classes A/B/C/D, and for ultimate payment of interest and principal at par on or before the rated final legal maturity date on Class E. The rating does not address full redemption of the notes on the expected maturity date.

Standard Reserve Fund in the Spanish Market

At every point in time, the amount requested under the reserve fund will be the lesser of the following amounts:

1) [0.90]% of the initial balance of the notes
2) The higher of the following amounts:
   - [1.80]% of the outstanding balance of the A1, A2a,A2b, B,C and D notes
   - [0.45]% of the initial balance of the notes

However, amortisation of the reserve fund will cease if any of the following scenarios occur:

- The amount of mortgage credits more than three months and less than 18 months in arrears exceeds 1.00% of the outstanding balance of the portfolio.
- If in the preceding payment date, the reserve fund was not provisioned up to the required cash reserve amount at that time.
- If the weighted average margin is equal to or less than [0.65]%

In addition, the reserve fund will not amortise during the first three years of the life of the transaction.

Basis Interest rate swap hedging the interest rate risk

To hedge the risk derived from the interest rate risk (potential mismatch risk derived from the different index reference rates and reset dates on the assets and on the notes), the *Fondo* will enter into a swap agreement with Banco Cooperativo.

According to the swap agreement, on each payment date:

- The *Fondo* will pay the interest accrued from the non-written-off loans (as defined later in this section) from the previous payment date less the amount of interest corresponding to the margin over the index reference rate for each of the non-written-off loans
- Banco Cooperativo will pay the index reference rate on the notes over a notional calculated in order to match the negative carry due to the amortisation account structure on the soft bullet tranche.

Payment Structure Allocation

On each quarterly payment date, the Fondo's available funds (principal and interest received from the asset pool, the reserve fund, amounts received under the swap agreement and interest earned on the transaction accounts) will be applied in the following simplified order of priority:

1) Cost and fees, excluding servicing fee (except in the case of the originators being replaced as servicer of the loans)
2) Net amounts due under the swap agreement and any termination payment if the Fondo is the sole affected party
3) Interest payment to Series A1, A2a and A2b
4) Interest payment to Class B (if not deferred)
5) Interest payment to Class C (if not deferred)
6) Interest payment to Class D (if not deferred)
7) Amortisation fund
8) Interest payment to Class B notes (if deferred)
9) Interest payment to Class C notes (if deferred)
10) Interest payment to Class D notes (if deferred)
11) Replenishment of the reserve fund
12) Interest payment to Class E
13) Principal payment to Class E
14) Termination payments under the swap agreement other than stated in 2.
15) Junior expenses

The Pro-Rata Amortisation.

In order to protect the Series A2a and A2b notes, Series A1 notes will start amortising pro rata with Series A2a and A2b notes when the outstanding amount of loans more than 90 days but less than 18 months past due is higher than 2.0% of the outstanding amount of the asset pool.

As in the previous Rurales transactions, this transaction also includes pro-rata amortisation with subordinated classes. Pro-rata amortisation entails risk as opposed to fully sequential transactions, given that the credit enhancement decreases in absolute terms.

- Series B notes will start amortising pro rata with the Class A notes when they represent [4.200]% of the outstanding balance under the Series A1,A2a,A2b, B, C and D notes.
- Series C notes will start amortising pro rata with the Class A and B notes when they represent [2.400]% of the outstanding balance under Series A1,A2a,A2b, B, C and D notes.

– Series D notes will start amortising pro rata with the Class A, B and C notes when they represent [1.108]% of the outstanding balance under Series A1,A2a,A2b, B, C and D notes.

The pro-rata amortisation among the subordinated tranches will cease when:

Series B
The outstanding amount of loans more than 90 days but less than 18 months past due is higher than 1.25% of the outstanding amount of the asset pool.
Series C
The outstanding amount of loans more than 90 days but less than 18 months past due is higher than 1.00% of the outstanding amount of the asset pool.
Series D
The outstanding amount of loans more than 90 days but less than 18 months past due is higher than 0.75% of the outstanding amount of the asset pool. The available amount under the reserve fund is not equal to the then current required amount

In addition to these triggers, the pro-rata amortisation will cease when the loan balance is less than 10.0% of the initial loan balance.

Interest Deferral Trigger

The deferral of interest payments on Classes B, C and D benefits the repayment of the senior class, but increases the default probability on the first classes (B, C and D). This negative effect for Classes B, C and D is mitigated by setting the deferral trigger at a level at which the increase in the probability of default is consistent with the rating assigned to the Classes B, C and D notes.

The payment of interest on the Class B, C and D notes will be brought to a more junior position on the second consecutive payment date in which the following criteria are met:

CLASS B	**CLASS C**	**CLASS D**
1) The principal deficiency exceeds 50% of the outstanding balance of Series B, and 100% of the outstanding balance of Series C and D	1) The principal deficiency exceeds 50% of the outstanding balance of Series C, and 100% of the outstanding balance of Series D	1) The principal deficiency exceeds 50% of the outstanding balance of Series D
2) Series A1, A2a and A2b are not fully redeemed	2) Series A1, A2a, A2b and Series B are not fully redeemed	2) Series A1, A2a, A2b, B and C are not fully redeemed

The principal due to the notes incorporates an 18 month "artificial write-off" mechanism

In fact, the transaction structure, for the notes benefits from an "artificial write off", which traps available excess spread to cover losses (if any). This type of "artificial write-off" is hidden in the definition of Principal Due, which is the difference between the notes outstanding and the outstanding principal balance of the loans (performing loans plus loans less than 18 months in arrears).

The "artificial write-off" speeds up the off-balance sheet of a non-performing loan; thus, the amount of notes collateralised by non-performing loans is minimised, hence the negative carry. However, the most important benefit for the transaction is that the amount of excess spread trapped in the structure is greater (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost): the transaction, therefore, makes better use of the excess spread, allowing for lower levels of other credit enhancement figures.

A principal deficiency will occur, on any payment date, if the issuer's available funds are not sufficient to reimburse the principal due under the notes, according to the cash-flow rules stated above.

COLLATERAL

Better quality collateral in comparison with former Rurales deals

The originators of the deal are 19 unrated Spanish Rural Savings Banks. Their distribution is as follows:

CAIXA POPULAR-CAIXA RURAL, S.C.C.V.	0.70%
CAIXA RURAL DE BALEARS, S.C.C.	4.20%
CAJA CAMPO, CAJA RURAL, S.C.C.	3.83%
CAJA RURAL CENTRAL, S.C.C.	3.25%
CAJA RURAL DE ALBACETE, S.C.C.	1.50%
CAJA RURAL DE ARAGON, S.C.C.	8.90%
CAJA RURAL DE BURGOS, S.C.C.	3.17%
CAJA RURAL DE CANARIAS, S.C.C.	4.28%
CAJA RURAL DE CIUDAD REAL, S.C.C.	3.15%
CAJA RURAL DE CORDOBA, S.C.C.	0.68%
CAJA RURAL DE EXTREMADURA, S.C.C.	2.10%
CAJA RURAL DE GRANADA, S.C.C.	11.64%
CAJA RURAL DE NAVARRA, S.C.C.	8.23%
CAJA RURAL DE TENERIFE, S.C.C.	1.81%
CAJA RURAL DE TERUEL, S.C.C.	1.11%
CAJA RURAL DE ZAMORA, C.C.	2.57%
CAJA RURAL DEL DUERO, S.C.C.L.	4.02%
CAJA RURAL DEL MEDITERRANEO, RURALCAJA, S.C.C.	11.59%
CAJA RURAL DEL SUR, S.COOP. DE CREDITO	23.26%

Several points regarding collateral are worth highlighting:

– Relatively low LTV levels (CLTV = 60.99%)

– Original LTV levels (OLTV = 66.10%)

– Average Loan / borrower = € 77,981

– Margin on the loans = 0.80%

– Good geographic diversification Andalusia (35%), Valencia (17%), Castilla y León (8%)

There are different index in the pool:

Table 1:
Distribution of interest rate index

Index	# of Loans	Total OS	% Current Balance
EURIBOR/MIBOR 1 YEAR	16,502	1,320,636,049.92	88.58%
MERCADO HIPOTECARIO CONJUNTO ENTIDADES	1,733	79,668,231.06	5.34%
MERCADO HIPOTECARIO CAJAS DE AHORRO	849	89,276,754.95	5.99%
EURIBOR/MIBOR 6 MONTHS	29	1,019,143.45	0.07%
MERCADO HIPOTECARIO BANCOS	6	335,478.87	0.02%

Any renegotiation of the terms and conditions of the loans is subject to the *gestora*'s approval. Exceptionally, the *gestora* may authorise the originators to renegotiate the interest rate or the maturity of the loans subject to the following conditions:

1) The originator is not allowed to renegotiate the interest rate of any loan if the weighted average margin falls below 0.70% calculated over 12 month Euribor.

2) The frequency of payments cannot be decreased.

3) Loans referenced to other index other than Euribor cannot be renegotiated under the same index – but should rather be renegotiated linked to Euribor.

4) The repayment system cannot be modified.

No additional renegotiations are allowed once the weighted average margin on the loans falls below 0.70%.

With regards to actual collateral characteristics, the following charts portray the transaction's detailed characteristics:

Chart 1:

Rurales VIII – LTV Distribution

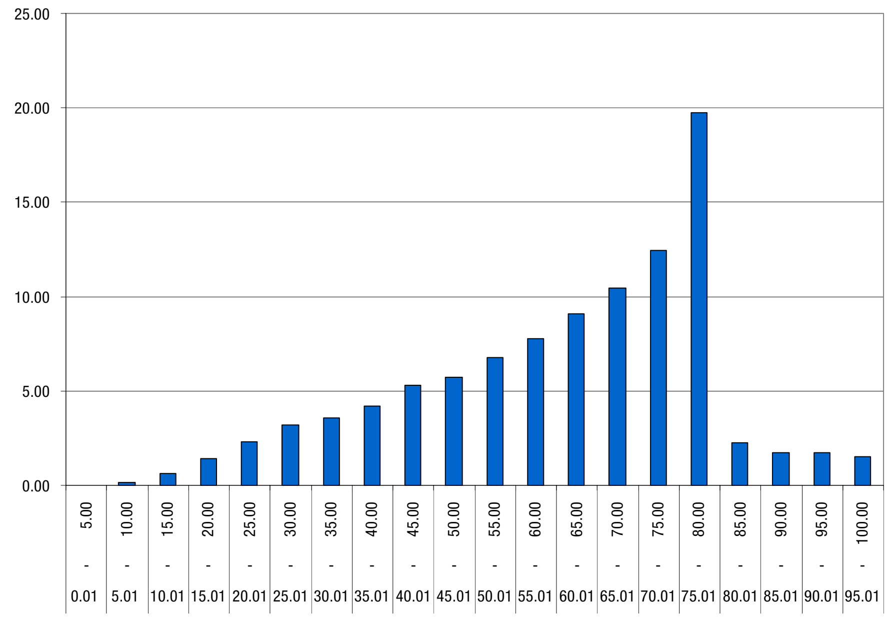


Chart 2:

Rurales VIII – Regional Distribution

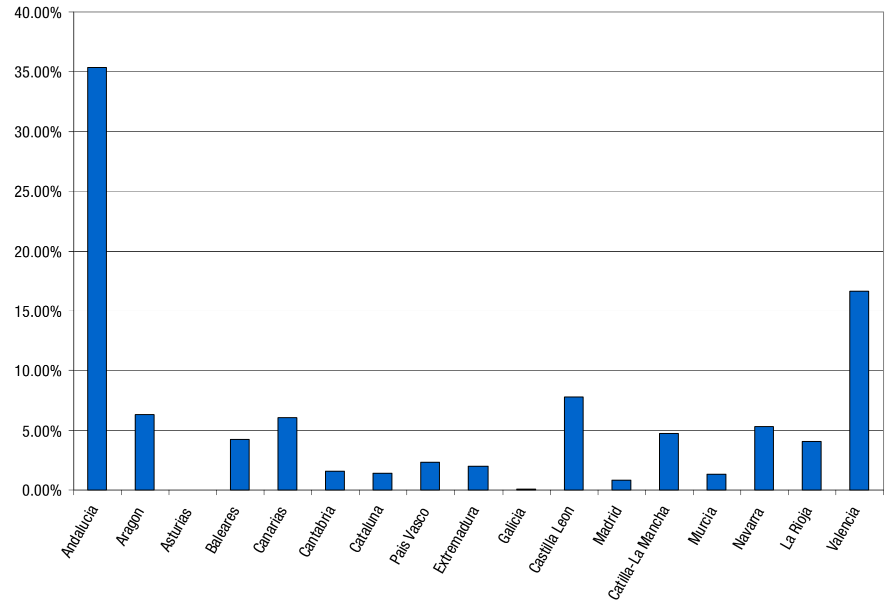


Chart 3:
Rurales VIII – Distribution by Origination Date

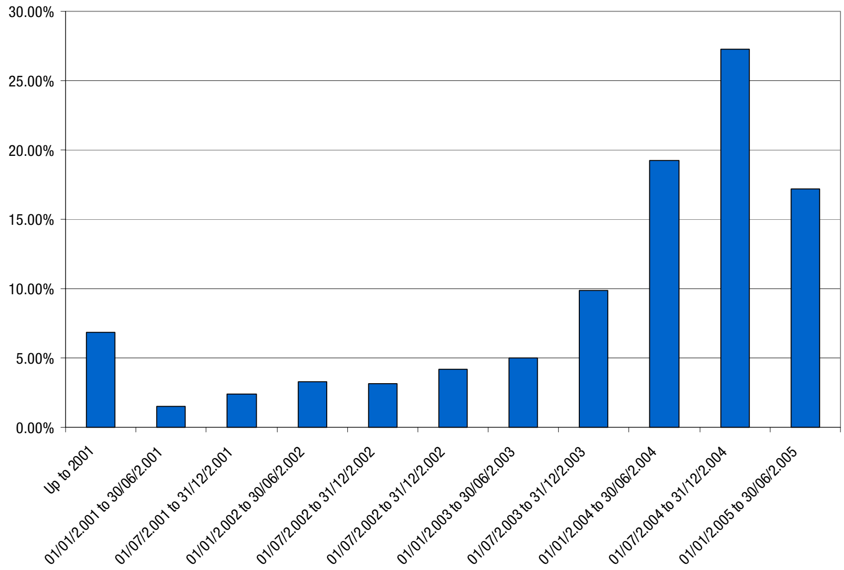


Chart 4:
Rurales VIII – Distribution by Maturity Date

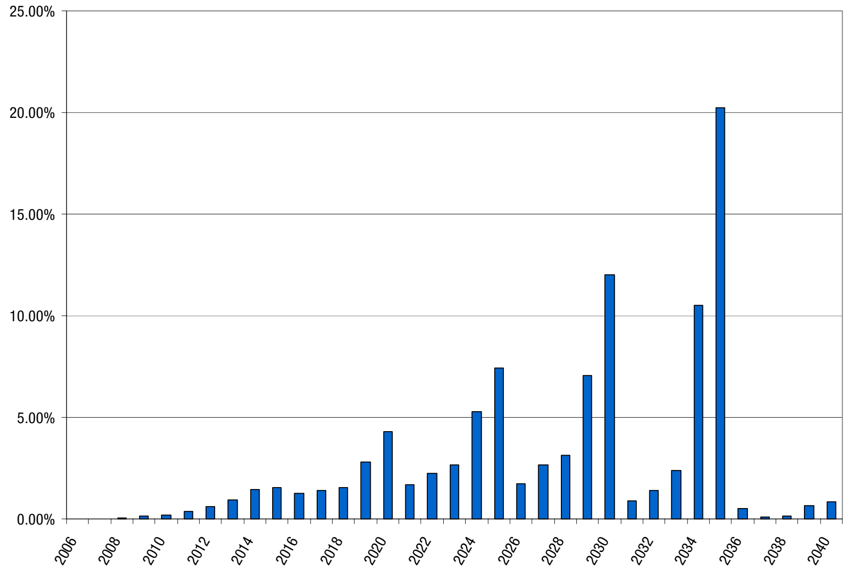
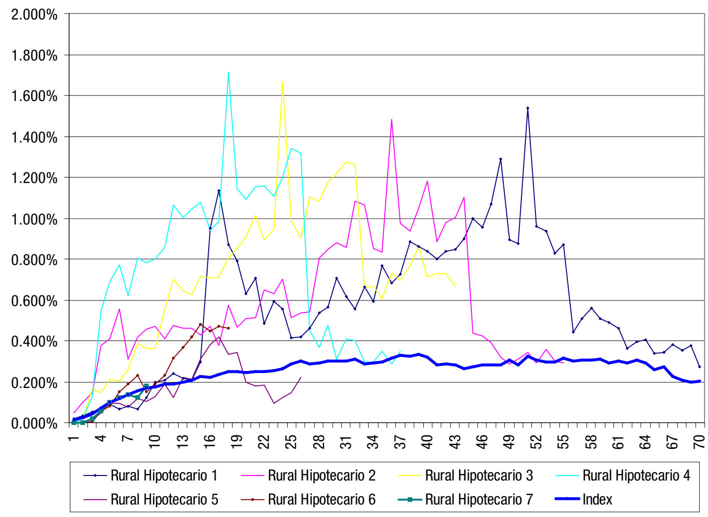


Chart 5:
Rurales Deals Comparison: Arrears+90 days since Qs Origination



ORIGINATOR, SERVICER AND OPERATIONS REVIEW

Nineteen Spanish rural savings banks are the originators and servicers of the asset pool

The originators of the securitised loans are 19 of the 78 Spanish rural savings banks.

A rural savings bank is a form of credit co-operative that accounts for approximately 3% of the balance sheet of Spain's banking system. Credit co-operatives are themselves a type of financial institution created to satisfy the financial needs of its members and customers, under the same conditions as other financial institutions such as commercial or savings banks.

Like commercial and savings banks, these financial institutions are regulated and supervised by the Bank of Spain. Importantly, they are obliged to comply with the pillars of Spanish regulation for financial institutions. Nonetheless, they enjoy a specific legal status which may be further restricted by each credit co-operative's own by-laws. Moody's notes that there is a key difference with respect to their capital base, which consists of non-listed nominative shares. These can be acquired only by: (i) any co-operative, irrespective of its type and size; or, (ii) any other individual or entity (public or private, national or international) whose entry is permitted or not prohibited by the institution's current by-laws and whose activities are not in competition with those of the credit co-operative.

Paying Agent

Banco Cooperativo (**A2**/**P-1**), a financial institution created with the aim of being an all-round service provider to most of the Spanish rural savings banks, will act as paying agent of the *Fondo*. In the event of Banco Cooperativo's short-term rating falling below **P-1**, it will within 30 days have to be replaced in its role of paying agent by a suitably rated institution.

MOODY'S ANALYSIS

Analysis has been made following MILAN and MARCO methodology

The prime determinant of the relative probability of default within a portfolio of mortgages is the level of borrowers' equity in their properties. A borrower is more likely to default on a property if the option to sell it and retain some profit diminishes. Therefore, and given the possibility that these mortgage credits have of enjoying an additional drawdown, the severity of the loans has been stressed in order to account for the possible additional redraw.

The first step in the analysis is to determine a loss distribution for the pool of mortgages to be securitised. Due to the high volume of mortgage credits and supporting historical data, to approximate the loss distribution Moody's uses a continuous distribution model

– lognormal distribution.

In order to determine the shape of the curve, two parameters are needed: the expected loss and the volatility associated with this expected loss. These parameters are derived from the Moody's Individual Loan Analysis ("MILAN") model.

In order to extrapolate expected losses for the loan pool, Moody's has compared the underwriting criteria of the originators with those of other mortgage originators in Spain. Moody's thus determines a number representing the enhancement that would be required for a pool of mortgages to obtain a **Aaa** rating under highly stressed conditions. This enhancement number (the "**Aaa** CE number") is obtained by means of a loan-by-loan model.

The MILAN model looks at each loan in the pool individually and, based on its individual characteristics such as LTV or other identified drivers of risk, computes a benchmark CE number. This number assumes stressed recovery rates (through house price decline), interest rates and costs of foreclosure, as well as a stressed recovery time. The weighted-average benchmark CE number is then adjusted according to the positive and negative characteristics of each loan and to those of the pool as a whole in order to produce the **Aaa** CE number.

The **Aaa** CE number and the Expected Loss Number form the basis of Rating Committee discussions and are used to derive the lognormal distribution of the pool losses.

The standard deviation of the distribution is found by setting the probability of a loss greater than the expected loss that is consistent with the Idealised Expected Loss target of the **Aaa** CE number.

Once the loss distribution of the pool under consideration has been computed, a cashflow model, Moody's Analyzer of Residential Cash-Flows ("MARCO"), is used to assess the impact of structural features of the transaction, such as the priorities of interest and principal and the related triggers, swap features and excess margins, liquidity mechanisms and the value of excess spread.

The sum of the loss experienced per note class in each scenario, weighted by the probability of such loss scenarios, will then determine the expected loss on each tranche and hence the rating, in line with Moody's target losses for each rating category.

RATING SENSITIVITIES AND MONITORING

Moody's will monitor the transaction on an ongoing basis to ensure that its transaction continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

RELATED RESEARCH

Visit moodys.com for more details

For a more detailed explanation of Moody's rating approach to this type of transaction, similar transactions and performance data, please refer to the following reports:

Special Report

– Moody's Approach to Rating Spanish RMBS: The "MILAN" model, March 2005 (SF49068)
– Introducing Moody's Arrears Index for Spanish Mortgage-Backed Securities, March 2002 (SF12700)
– Moody's Spanish RMBS Arrears Index: Delinquency Levels Remained Persistently Low in 2002 But Are Likely To Rise Given Weakening Global Economy And Factors Affecting Homeowners' Indebtedness, May 2003 (SF21607)
– Structural Features in the Spanish RMBS Market Artificial Write-Off Mechanisms: Trapping the Spread, January 2004 (SF29881)
– Spanish RMBS Q3 2004 Performance Review, February 2005 (SF50365)

Pre-Sale Report

– Rural Hipotecario Global I, Fondo de Titulización de Activos, Nobember 2005 (SF64982)
– Rural Hipotecario VII, Fondo de Titulización de Activos, April 2005 (SF54619)

SF75197isf