European Structured Finance
Pre-sale

SME CLO – Spain

# FTPYME BANCAJA 1, FONDO DE TITULIZACION

## Expected Ratings

| Class | Amount (EUR million) | Legal final maturity | Rating | CE |
|---|---|---|---|---|
| A1(G) | 264 | Jul 2023 | AAA | 6.25% |
| A1 | 66 | Jul 2023 | AA | 6.25% |
| A2(G) | 194.4 | Jul 2023 | AAA | 6.25% |
| A2 | 48.6 | Jul 2023 | AA | 6.25% |
| B | 27 | Jul 2023 | BBB | 1.75% |
| LOC* | 10.5 | Jul 2023 | NR | 0% |

A1(G) and A2(G) are guaranteed by the Kingdom of Spain (‘AA+/F1+’)

All rated tranches benefit from additional credit enhancement in the form of excess spread.

* Subordinated line of credit

*Preliminary ratings do not reflect final ratings and are based on information provided by issuers as of 6th Feb 2002.


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## Summary


FTPYME Bancaja 1 Fondo de Titulización de Activos’ (“FTPYME Bancaja 1” or “the issuer”) notes represent a cashflow securitisation of loans to small and medium-sized Spanish enterprises (“SMEs”) granted by Caja de Ahorros de Valencia Castellón y Alicante (“Bancaja”) (rated ‘A+/F1’). The class A1(G), A1, A2(G), A2 and B notes have been assigned expected ratings by Fitch Ratings as indicated at left. The class A1(G) and A2(G) notes are backed by a guarantee from the Kingdom of Spain (rated ‘AA+/F1+’).

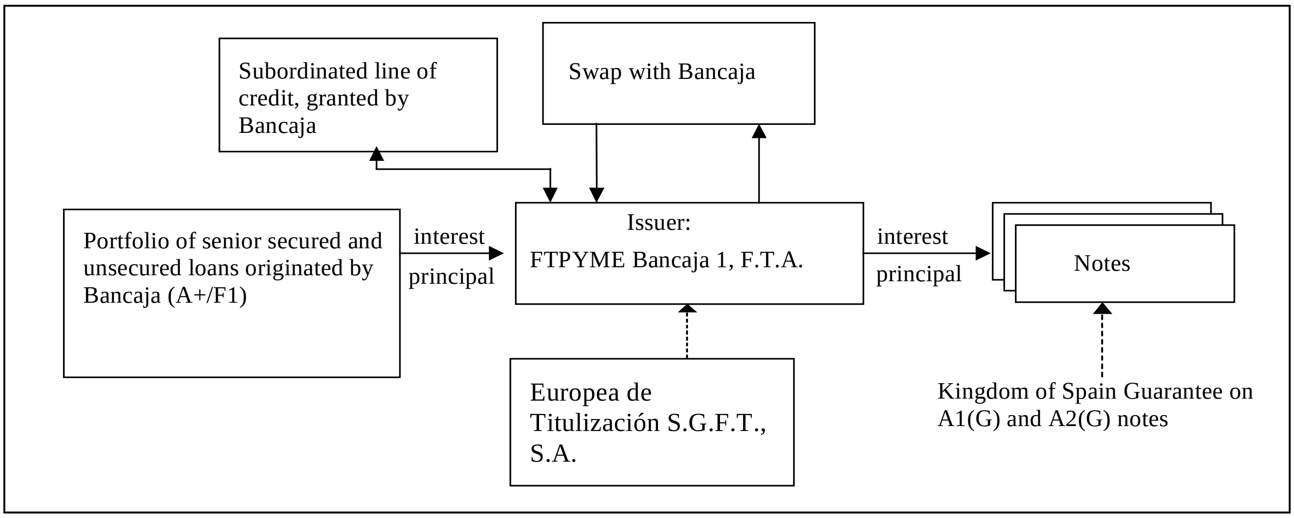

FTPYME Bancaja 1 is a special purpose vehicle incorporated under the laws of Spain with limited liability. Its sole purpose is to acquire credit rights from Bancaja as collateral for issuance of fixed income securities. The assets of FTPYME Bancaja 1 will be subscribed by Europea de Titulización SGFT, SA (‘Sociedad Gestora’). Sociedad Gestora is a special purpose management company with limited liability, incorporated under the laws of Spain.

The issued notes will be backed by a EUR 600 million static portfolio of credit rights purchased by FTPYME Bancaja 1 from Bancaja. All these credit rights will be loans from Bancaja to private SMEs located in Spain. The loans will be selected from a provisional pool of 4,916 loans to 4,830 obligors with a total outstanding balance of EUR 717.8 million. At closing it is estimated that roughly 67% of the portfolio will be secured by mortgages with the remainder unsecured with guarantees, or simply unsecured.

The ratings are based upon the quality of the collateral, the available credit enhancement in the form of subordination and excess spread, the priorities of payment, adequate underwriting and servicing of the credit rights, the Sociedad Gestora’s administrative capabilities, guarantees from the Kingdom of Spain, and the sound financial and legal structure of the transaction.

Credit enhancement in the form of subordination for the series A notes (classes A1(G), A1, A2(G), and A2) totalling 6.25%, will be provided by the series B notes 4.5%, and the subordinated line of credit 1.75%. Available excess spread will serve as the first layer of loss protection, and the minimum gross excess spread will be 60 bps.

The Kingdom of Spain guarantees, “unconditionally and irrevocably”, the timely payment of interest and principal for the classes A1(G) and A2(G) notes under a ministerial order .




## Credit committee highlights

- The base default rate used by the agency was drawn from historic data provided by the originator. This base rate was stressed to account for the relatively benign economic environment experienced in this period.
- The rating of the guaranteed notes is linked both to the quality of the underlying portfolio and to the rating of the Kingdom of Spain.
- Levels of credit enhancement took into account the minimum guaranteed excess spread paid by the swap on the performing assets.
- Bancaja was able to provide loan-to-value information (LTV) on an asset-by-asset basis for the mortgages, enabling Fitch Ratings to assign a recovery rate at the higher end of its assumptions for senior secured debt.

## Structure

The loans and mortgages will be serviced by Bancaja. Two accounts, an amortisation account and a treasury account, will be held in the name of the issuer at Bancaja. Principal proceeds from the underlying portfolio will be applied to the amortisation account, and on the relevant maturity dates, the funds will be paid into the treasury account, before being paid to the noteholders. Interest on the underlying portfolio will be passed to the treasury account three times a month, or more frequently if the Sociedad Gestora deems fit. On each payment date the balance standing to the credit of the treasury account will be allocated according to the priority of payments.

In respect of both the amortisation and the treasury accounts, in the event that Bancaja is downgraded to a short-term rating below ‘F1’, it will have to do one of the following within 30 days:

i) Find a third party to guarantee Bancaja’s obligations
ii) Provide a guarantee of financial assets rated at least the same as the Kingdom of Spain.
iii) Transfer the treasury account to another entity rated at least ‘F1’

In the case iii) above, the treasury account may be reopened with Bancaja if its rating reaches ‘F1’ again. The class A1 notes will have an expected maturity date of October 2005. The class A2 notes and B notes will have an expected maturity date of October 2008.

There is an optional call in October 2008, and a clean-up call when the asset pool falls to 15% of its original size. The notes have a legal maturity date of July 2023.

To protect investors in the event that Bancaja is not able to continue performing the loan and mortgage servicing functions, the Sociedad Gestora is obliged to appoint a replacement administration company, in accordance with the Spanish securitisation law, so as to meet the rating requirements.

## Priority of Payments

On each distribution date, the priority of payments will be as follows:

i) Expenses due to FTPYME Bancaja 1, including the administration fee to the Sociedad Gestora and the fee to the Paying Agent.

**Key Information**

**Portfolio characteristics**
**Type of loans:** loans and mortgages to SMEs in Spain

**Total Amount:** Approx EUR 600 million at closing

**Weighted Average Life:** five years

**Structure**
**Issuer:** FTPYME Bancaja 1 Fondo de Titulización de Activos

**Management Company:** Europea Titulización SGFT, SA

**Seller:** Caja de Ahorros de Valencia Castellón y Alicante ("Bancaja"), rated A+/F1

**Arranger:** JP Morgan Securities Ltd

**Paying Agent:** Bancaja

**Swap Counterparty:** Bancaja

**Line of Credit Provider:** Bancaja

**Amortisation and Treasury Accounts (GIC accounts):** Bancaja

ii) Net payments from the swap (see *Swap Agreement* section).
iii) Interest to the class A notes.
iv) Interest to the class B notes, if not deferred.
v) Payments due to the cash reserve fund (only applicable if Bancaja, as the provider of the line of credit, is downgraded and the line of credit is drawn).
vi) Provisioning to the principal amortisation fund (see *Amortisation of Notes Principal section*).
vii) Interest to the class B notes, if deferred. This would happen if there was a principal deficiency on the class A notes.
viii) Provisioning to the secondary amortisation fund (see *Amortisation of Notes Principal section*).
ix) Interest on the line of credit.
x) Interest and principal on the start-up loan (see *Subordinated Loan* section).

On any payment date, the interest payment to the class B notes, described in item number iv) above, will be paid as item number vii) if either:

i) The difference between the outstanding balance of the A notes and a) the principal accumulated in the amortisation account and b) the positive difference between available funds on any payment date and payments i) to v) in the priority of payments and c) the outstanding balance of the assets is greater then zero.
ii) The outstanding balance of non-performing assets (those in arrears for more than 90 days) is greater then 6% of the outstanding balance of the assets.

This mechanism ensures that the class A notes remain fully collateralised. As a result the class B notes will be rated for ultimate payment of interest and principal, while the class A notes are rated for timely payment of interest and ultimate payment of principal.

## ■ Amortisation of Notes Principal

For the first 3.15 years after closing, all principal collected from the underlying portfolio will be placed, via items vi) and viii) of the priority of payments waterfall, in the amortisation account with Bancaja. On this date all the cash accumulated will be used to pay down the Class A1(G) and Class A1 notes.

After 3.15 years (or, if applicable, from the date when the Class A1(G) and Class A1 notes are fully amortised) to 6.64 years after closing, all the principal collected will again be placed in the amortisation account with Bancaja, and used in year 6.64 to pay down the Class A2(G) and Class A2 notes.

This cash accumulation mechanism will cease to exist and amortisation will switch to a standard sequential pass-through structure when one of the following conditions is met:

i) The historical prepayment rate experienced during the life of the deal is greater than (40%-0.75%*N), where N is the number of payment dates from the closing date.
ii) The ratio of performing assets (loans not in arrears for more than three months) and cash accumulated in the amortisation account to the oustanding notional of the class A notes is less than 1:1

The structure also allows for *pro rata* redemption as part of the cash accumulated in the amortisation account can be used to redeem the class B notes. This can only occur if the following conditions are met:

i) The class B notes provide 10% in credit enhancement to the class A notes. At the closing date this figure will be 4.5%.
ii) There is no principal deficiency on the class A notes.
iii) Non-performing assets represent less than 5% of the total amount of assets.

If conditions ii) and iii) are met the class B notes will be amortised until the class B notes provide the class A notes with 10% subordination.

The redemption of the fund will occur after the amortisation of its assets and/or liabilities. Unwinding provisions are also related to the occurrence of legal changes negatively affecting the efficiency of the transaction for the originators, or, under Article 5.6 of Law 19/1992, upon the occurrence of exceptional circumstances affecting the financial equilibrium of the fund. These provisions are subject to the availability of resources to pay the outstanding notes.

## ■ Subordinated Line of Credit

Bancaja will provide, at closing, a subordinated line of credit equal to 1.5% of the original amount of notes. This line of credit will be used to fund shortfalls in principal and interest on the notes. The subordinated line of credit will be capped at 3.5% of the outstanding notes and floored at 1% of the initial notes balance. However, reduction of the line of credit will not take place if the proportion of performing assets is less than 99% of the outstanding notes. In the event that Bancaja's short-term rating falls below 'F1' either a guarantor must be found within 30 days or the line of credit must be drawn down and deposited in the cash reserve fund.

## ■ Swap agreement

The notes will benefit from a swap agreement between FTPYME Banacaja 1 and Bancaja, which will:

i) hedge the structure against interest rate mismatch between the assets and the liabilities. This arises from differences in reference indices (for example, 12-month Euribor on assets versus three-month Euribor on liability)
ii) cover the negative carry caused by having to accumulate cash in the amortisation account, which only yields three-month Euribor flat, while still servicing the liability on the notes.

Under the swap the issuer will pay Bancaja the interest received on the portfolio and in return will receive three-month Euribor plus the weighted average spread on the notes, plus 60 bps on a notional which is at least equal to the performing assets, plus an amount that covers the negative carry in the structure caused by the cash accumulation mechanism.

If Bancaja's short-term rating falls below 'F1', then it will have to do one of the following, within 30 days:

i) find a third party to guarantee its obligations
ii) find a third party to take on its contractual obligations under the swap
iii) constitute cash or assets in favour of the Fund as a guarantee of its obligations

## ■ Liquidity Facility

In the event that accumulated cash is not sufficient to fully redeem the notes on an expected maturity date, the Issuer may draw on a liquidity line provided by Bancaja.

## ■ Subordinated Loan

A start-up loan will finance the expenses for the constitution of the fund and will be repaid through the priority of payments.

## ■ Guarantee

The Kingdom of Spain guarantees, "unconditionally and irrevocably", the timely payment of interest and principal for the classes A1(G) and A2(G) notes under a ministerial order. The amounts paid through the guarantee will be considered an obligation of the fund. Principal will be repaid to the Kingdom of Spain through the priority of payments, ranking *pari passu* with the class A interest. There is no interest due on the guarantee. The guarantee becomes due by the Kingdom of Spain within three months of its drawing. In view of this potential timing mismatch between when the guarantee is required and when the Kingdom of Spain pays it, Bancaja will provide a liquidity line of EUR 17 million for the class A1(G) notes and EUR 13 million for the class A2(G) notes. These liquidity lines have their principal repaid outside the structure although interest is paid through the priority of payments, ranking *pari passu* with the class A interest.

## ■ Collateral

The final portfolio will have an outstanding balance of EUR 600 million and will be randomly selected from a provisional portfolio consisting of 4,916 loans

to 4,830 obligors (no obligor has more than three loans and no obligor will represent more than 0.30% of the final portfolio). As of 30 November 2000 this provisional portfolio had an outstanding balance of EUR 717.8 million.
The obligors are all small and medium-sized private enterprises located in Spain, 48% of which, representing 55% of the provisional pool, qualify under the definition of SME under the Ministerial Order of 28 May 1999 to promote financing to the SME sector. The requirements for falling under this SME definition are:

i) < 250 employees
ii) Annual revenues <= EUR 30 million
iii) Total assets <= EUR 27 million
iv) Ownership by non-qualifying SMEs <=25%

The portfolio is distributed in terms of loan security type as follows:

i) Secured by first ranking mortgage - mainly on residential property, factory, or outlet (66.75%)
ii) Senior unsecured with no additional guarantee (14.75%)
iii) Senior unsecured with additional guarantors (14.55%)
iv) Senior unsecured guaranteed by a special purpose financial company (3.95%)

The loans in the portfolio have all been subject to the general requirement that the loan-to-value (LTV) must never exceed 80% at origination without approval of Bancaja's risk department. This requirement may also have been stricter depending on security and loan purpose.

Interest is paid at a floating rate for 98% of the loans and at a fixed rate for the remaining 2% (ranging between 3.25% and 10.5%). The floating interest rate loans are all indexed to a Euribor or Mibor-derived index, and the spread over the reference index is on average 105 bps. The reset frequency of the reference index can be three, six, or 12 months.

Secured loans in the portfolio have maximum amortisation periods of 15 years for fixed rate loans and 25 years for floating rate loans (both terms can be extended by five years subject to approval by the relevant Business Unit). Unsecured loans in the portfolio have maximum amortisation periods of five years for fixed rate loans and seven years for floating rate loans.

For 89.4% of the portfolio the capital reimbursed in each period is calculated so the client pays a constant installment. For the remaining 10.6% of the portfolio, the loans amortise in each period by a constant amount of principal.

The obligors can make discretionary partial or total prepayments subject to fees and can choose between reducing the amount of the periodical installments, shortening the life of the loan, and entering into an interest-only period. Prepayment rates were stressed using the agency's standard methodology. This ranges from 14% in a 'BBB' stress scenario to 25% in a 'AAA' stress scenario.
Most of the loans- 70.5%- pay monthly installments; 23.6% pay quarterly and the remaining 5.9% pay semi-annually.
As of 30 November 2001 the loans had a minimum seasoning of five months and the average seasoning of the portfolio is 25 months. None of the loans that enter the portfolio at closing may have payments in arrears.
In terms of geographical distribution, around 43% of the loans have obligors from Valencia, 21% from Castellón, and 11% from Alicante. No other province accounts for more than 8.5% of the obligors.

## ■ Credit Analysis

Credit enhancement, in the form of subordination, for the series A notes (classes A1 (G), A1, A2 (G), and A2) totalling 6.25%, will be provided by the series B notes (4.5%), and the subordinated line of credit (1.75%). Available excess spread will serve as the first layer of loss protection, and the minimum gross excess spread will be 60 bps on performing assets.

Using the default data provided by Bancaja Fitch Ratings was able to derive a base default rate. This base rate was stressed to account for the relatively benign economic environment experienced in this period. The agency then applied multiples to this base rate for the various rating scenarios and ran the implied default rates through its cashflow model, for a weighted average life of five years, to arrive at its required credit enhancement. The base annual default rate was 65bps. The timing of defaults was stressed for front-loaded, back-loaded and evenly distributed scenarios, with the weighting of default timing being most conservative in the higher rating scenarios. For example under the front-loaded scenario of the 'AA' stress the structure would survive when defaults were distributed evenly in the first three years.

Bancaja also provided historic recovery rate data, and LTV information on the loans secured by mortgages. Using conservative market value decline assumptions

for both commercial and residential mortgages for this secured portion of the portfolio and its standard 25% recovery rate for unsecured debt of leveraged Spanish institutions  Fitch Ratings was able to derive a recovery rate, stressed through the capital structure, of between 45%-55%.
The agency also applied its asset concentration matrix to the portfolio but as the largest obligor is limited to 30bps, this methodology was not the critical factor in determining the levels.

## ■ Origination and servicing

The securitised mortgage loans were originated by Bancaja, the fourth largest savings bank and the seventh largest financial institution by assets in Spain. Lending to SMEs is one of its core businesses, and it has a strong focus on the region of Valencia.

Bancaja has developed its own internal rating model, which incorporates the analyst's view of the customer's future prospects, market position, and management quality, but mainly focuses on the financial and economic position of the customer. It is largely automatic in that it emphasises financial/performance ratios, their past trends and expected future performance. The rating is reviewed by Bancaja's credit analysts on an annual basis, or more frequently, depending on the nature of the business or if negative information is received from ASNEF, RAI (Registro Acceptación Impagados) or the Bank of Spain (CIRBE) from whom regular updates are received. The classifications range from 'A' to 'E', although the bank does not accept 'E' rated customers at origination, and aims to limit its exposure to 'D' rated companies. Customers are grouped together in risk units (Unidad Económica de Riesgo) which gather different companies seen as financially interlinked.

SME loans are originated by branches specialising in SMEs, or by the Risk Department when the size of the request or potential risk reaches a certain level. The main financial and economic parameters are then analysed, and a new credit check is carried out with ASNEF, CIRBE, RAI and the bank's internal systems. In the case of loans secured by property, the bank will use property valuers approved by the Bank of Spain.

Loan servicing is carried out centrally. Bancaja's internal system has a set of automatic warnings, which are checked on a daily basis, by both the credit analyst at the branch level and the Risk Department.

The internal system automatically informs the branch whenever a borrower misses a payment, and starts sending letters on a regular basis. The system also informs Bancaja's internal call center, on a daily basis, of calls to be made. In the case of senior unsecured loans, the first automatic letter is sent 10 days after the first missed payment, and 26 days in the case of secured loans. Delinquent accounts are managed by the Risk Department, staffed by 13 people.

The legal process can begin at any time, and no later than 90 days after a missed payment. In Bancaja's experience the process lasts on average 19 months for secured loans and 29 months for unsecured loans.

## ■ Performance Analytics

Fitch Ratings will monitor the transaction on a regular basis and as warranted by events. Its structured finance surveillance 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. Further information on this service is available at www.fitchratings.com.

Please call the Fitch Ratings analysts listed on the first page of this report for any queries regarding the initial analysis or the ongoing surveillance.