Fitch Ratings | Structured Finance

RMBS/Spain
Presale Report

Valencia Hipotecario 2, Fondo de Titulizacion Hipotecario

Expected Ratings*

Class	Amount (EURm)	Final Maturity	Rating	CE (%)
A	909.5	Jan 2043	AAA	4.30
B	21.2	Jan 2043	A+	2.05
C	9.4	Jan 2043	BBB+	1.05
D[1]	9.9	Jan 2043	CCC-	n.a

[1] Uncollateralised notes issued to finance the creation of the reserve fund at closing

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* Expected ratings do not reflect final ratings and are based on portfolio information provided by the originators as of 23 November 2005

Special Reports
The following special reports provide additional detail on Fitch's rating approach to, and the performance of, the RMBS market; all are available at www.fitchratings.com:

- "*Spanish Residential Mortgage Default Model III*", dated 15 September 2005;
- "*Spanish RMBS Performance Bulletin 2005*", dated 14 September 2004;
- "A Guide to Cash Flow Analysis for RMBS in Europe", dated 20 December 2002;
- "*Fitch Issuer Report Grades*"; dated 25 November 2004.

■ Summary

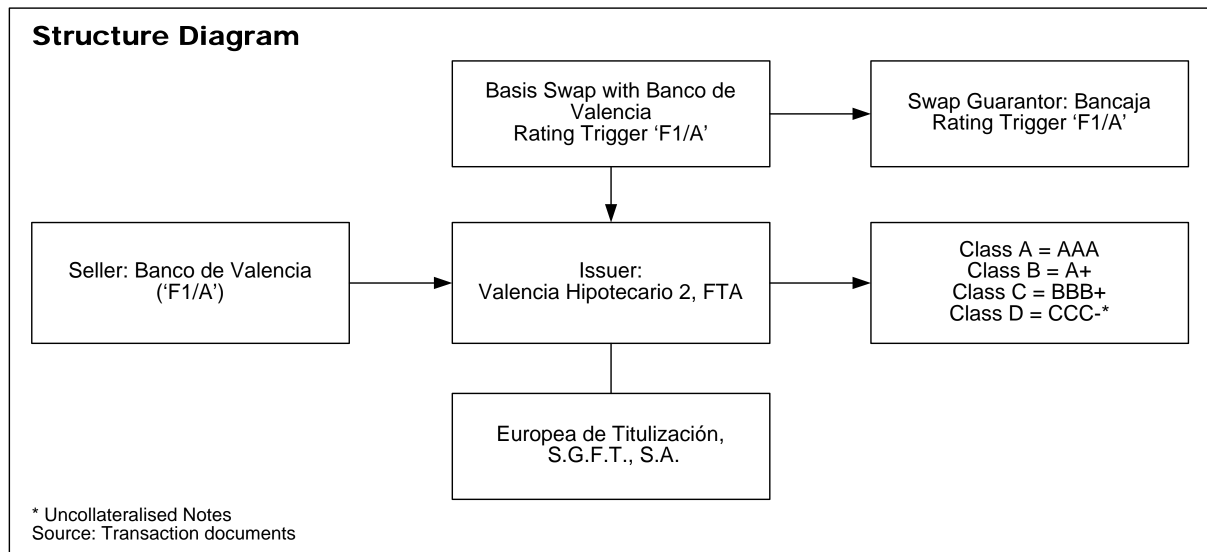
This transaction is a cash flow securitisation of a EUR940.1 million static pool of residential mortgage loans ("the collateral") granted by Banco de Valencia ("the seller" rated 'A/F1'). Fitch Ratings has assigned expected ratings to the notes to be issued by Valencia Hipotecario 2, Fondo de Titulización Hipotecario ("Valencia Hipotecario 2" or "the fund") as indicated at left.

This is the second securitisation transaction to be brought to the market by Banco de Valencia and shares similar structural features and characteristics to its predecessor rated by Fitch in April 2004 (see report "*Valencia Hipotecario 1*" available at www.fitchratings.com). The fund is regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to transform the mortgage certificates acquired from Banco de Valencia into variable-rate residential mortgage-backed securities ("RMBS"). The mortgage certificates will be subscribed on behalf of the fund by Europea de Titulización, S.A., S.G.F.T. ("the *Sociedad Gestora*"), whose sole function is to manage asset-backed funds.

Banco de Valencia is the parent of the 28th largest banking group in Spain, measured by total assets at end-2004. 38.4% of Banco de Valencia's share capital is held by Caja de Ahorros de Valencia Castellón y Alicante ("Bancaja", rated 'A+/F1'), Spain's sixth largest banking group. Banco de Valencia had a total of 382 branches and 1,822 staff. The bank's activities are concentrated in the regions of Valencia and Murcia, although it has expanded into other parts of Spain, notably Madrid. Its core businesses are SME and mortgage lending.

The expected ratings address payment of interest on the notes according to the terms and conditions of the documentation, subject to a deferral trigger on the Class B and Class C notes, as well as the repayment of principal at legal maturity. The expected rating on the Class D notes is supported by the recovery rate, calculated on the basis of principal and accrued interest amounts as a proportion of the original Class D note balance.

Initial credit enhancement, provided by subordination and the reserve fund, for the Class A notes will total 4.30%, for the Class B notes 2.05% and for the Class C notes 1.05%. To determine appropriate levels of CE, Fitch analysed the collateral using a loan-by-loan mortgage default model specific to Spain (see Fitch's "*Spanish Residential Default Model III*" report). It also modelled the cash flow contribution from excess interest using stress scenarios determined by its default model, showing that each class of rated notes could withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss.



Credit Committee Highlights

- The Class D notes will be issued to finance the reserve fund (see *Reserve Fund*) at closing, and will be subscribed by Banco de Valencia. As the Class D notes are likely to default, Fitch conducted a sensitivity analysis using its cash flow model to stress the variables that will affect the cash available to pay down the Class D notes and, in turn, to calculate their expected recovery rate based on the present value of interest and principal payments (see *Credit Analysis*).

- As in the seller's previous transaction, Valencia Hipotecario 1, the loan-to-value ("LTV") ratios in this portfolio are among the lowest seen in securitised Spanish residential mortgage loan portfolios. Consequently, the default probabilities are lower than for many other Spanish RMBS transactions.

- The composition of the collateral is similar to the previous deal originated by Banco de Valencia. The provisional collateral's weighted original and current average LTVs are around 67.0% and 60.9% respectively. The weighted average ("WA") seasoning of the pool is around 26 months, contributing to a WA indexed current LTV ("WA ICLTV") of 55.1%.

- 100% of the collateral comprises first-ranking mortgages granted for home purchase, construction and/or restoration. Furthermore, all the properties backing the mortgages benefit from insurance covering damages. None of the loans will be in arrears at closing.

- The mortgage loans in the portfolio are concentrated in Valencia (65.3%) and Murcia (13.3%). Fitch has accounted for the concentration risk in Valencia by increasing default probabilities for loans in this region.

- The interest rate hedging mechanisms in place will mitigate the interest rate, reset and payment frequency mismatch between the collateral and the notes. For example, while the main reference index for the collateral is 12-month EURIBOR (European Interbank Offered Rate), which generally resets on an annual basis, the notes will pay three-month EURIBOR which is determined every quarter (please see *Swap Agreements*).

Financial Structure

The issuer is a limited-liability special-purpose vehicle incorporated under the laws of Spain, whose sole purpose is to acquire credit rights from Banco de Valencia as collateral for the issuance of the floating-rate, amortising securities.

The mortgages will continue to be serviced by Banco de Valencia in its role as servicer. However, the transaction has certain mechanisms in place whereby the *Sociedad Gestora* is able to replace the servicer upon any breach of the terms of the servicing contract regulated by the fund's deed of incorporation.

Collections from the mortgages will be transferred by Banco de Valencia on a weekly basis into the treasury account. This account will be held at the financial agent (Bancaja) in the name of the fund.

With regard to this accounts, if Bancajas's Short-term rating is downgraded below 'F1', the *Sociedad Gestora* will take one of the following steps within 30 days:

Key Information

Portfolio Characteristics

Total Amount at Closing: EUR974,030,963 as of 17 November 2005 (of which EUR950m will be selected at closing)

WA Original LTV: 67.0%

WA Current LTV: 60.9%

WA Indexed Current LTV: 55.1%

WA Remaining Maturity: 239 Months

WA Seasoning: 26 Months

Concentration in Valencia: 65.3%

Concentration in Murcia: 13.3%

Structure

Originator and Seller: Banco de Valencia (rated 'A/F1')

Servicer: Banco de Valencia

Fund: Valencia Hipotecario 2, Fondo de Titulización Hipotecaria

Sociedad Gestora: Europea de Titulización, S.A., S.G.F.T.

Swap Counterparty: Banco de Valencia

Swap Guarantor: Bancaja ('A+/F1')

Final Legal Maturity: January 2043

1. find a third party with a satisfactory rating to guarantee its obligations; or
2. transfer the treasury or amortisation account to another entity rated at least 'F1'; or
3. if neither of the above are possible, provide a guarantee of financial assets rated at least on a par with the Kingdom of Spain ('AAA/F1+'). If option 2 above is not possible, the *Sociedad Gestora* could also invest the balance of the treasury account temporarily, and until the next payment date, in fixed-income assets ("qualified investments"). An 'F1' rating is sought by Fitch for qualified investments maturing within 30 calendar days, and a rating of 'F1+' for longer investments.

Amounts standing to the credit of the treasury account will receive a guaranteed interest rate equal to the three-month EURIBOR minus 4bp.

Priority of Payments ("Waterfall")

On each quarterly payment date, commencing with that in April 2006, the combined ordinary priority of payments will be as follows:

1. expenses, taxes and servicing fees;
2. payment under the swap agreement (if applicable);
3. Class A interest;
4. Class B interest (if not deferred);
5. Class C interest (if not deferred);
6. principal in order of seniority excluding the Class D notes (see *Amortisation of the Notes)*;
7. reserve fund top-up if required (see *Reserve Fund*);
8. Class B interest if deferred, which will occur if the Principal Deficiency Ledger ("PDL") exceeds 50% of the outstanding balance of these notes, plus 100% of the outstanding balance of the Class C notes;
9. Class C interest if deferred, which will occur if the PDL exceeds 50% of the outstanding balance of these notes;
10. Class D interest;
11. Class D principal;
12. other subordinated amounts including reimbursement and remuneration of the subordinated loan to cover initial expenses.

A PDL is defined on every payment date as the difference between the balance outstanding on the A to C notes, and the outstanding balance of non-defaulted loans (i.e. those that are less than 18 months in arrears).

The structure will cover ordinary and extraordinary expenses using excess spread generated by the collateral. Initial expenses will be covered via a subordinated loan agreement granted to the issuer by Banco de Valencia before closing.

Principal Redemption

The principal repayments due on the notes will be allocated sequentially, starting with the Class A notes, then the Class B notes and finally the Class C notes.

However, the notes may be amortised on a *pro rata* basis if the Class B and Class C notes represent double the credit enhancement they did at closing, i.e. 4.5% and 2.0%, respectively. However, *pro rata* amortisation can only take place subject to the following conditions:

- the reserve fund is at its maximum level;
- there is no Amortisation Deficit; and
- the current balance of loans more than 90 days in arrears, excluding losses, is less than 1.25% for Series B and 1.00% for the Series C of the outstanding balance of the loans.

Call Option

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

The clean-up call will only be executed if the then-outstanding balance of the Class A to C notes is redeemed in full. The clean-up call will not guarantee the full or partial redemption of the Class D notes.

Swap Agreements

The fund will enter into an interest hedging agreement with Banco de Valencia to hedge the difference between the one-year EURIBOR on the mortgage loans and the three-month EURIBOR of the notes.

Under the swap agreement the fund will, on each payment date, pay Banco de Valencia the index corresponding to any mortgage loans that are less than 18 months in arrears, and will receive from the swap counterparty three-month EURIBOR on the same notional amount. Since no excess margin is guaranteed, the agency stressed the average margin to be received to address the risk that the loans with the highest-yielding margin might prepay before those with the lowest-yielding margin.

If the swap guarantor is downgraded below 'A/F1', it will, within 30 days, take one of the following steps:

- find a replacement counterparty rated at least 'A/F1';
- find an entity rated at least 'A/F1' to guarantee its obligations under the swap agreement; or
- cash- or security-collateralise its obligations in an amount sufficient to satisfy existing Fitch criteria.

Loan Margin Renegotiation

Banco de Valencia may renegotiate the margin on the mortgage loans if requested by the borrower. Nevertheless, the mortgage portfolio is subject to a minimum WA margin of 0.50% on the outstanding balance of the loans, below which point the bank may no longer renegotiate margins.

It should be noted that if the WA margin on the current loan balance falls below 0.60%, the seller will be obliged to pay the fund the difference between the actual WA margin and 0.60%. Fitch does not give any credit for this payment obligation.

Credit Enhancement

In addition to excess spread, the transaction benefits from initial CE provided by subordination and a reserve fund. This will total 4.30% for the Class A notes, 2.05% for the Class B notes and 1.05% for the Class C notes.

Reserve Fund

A reserve fund in an amount equivalent to 1.05% of the original note balance will be created at closing through a subordinated loan granted by Banco de Valencia and will be held in the treasury account at Bancaja.

Subject to the following conditions, the reserve fund may amortise to the greater of: i) 2.10% of the outstanding note balance; and ii) 0.53% of the initial note balance:

- the balance of loans more than 90 days in arrears remains below 1% of the aggregate outstanding mortgage balance;
- on the previous payment date, the reserve fund was replenished to its required amount;
- the closing date of the transaction was more than three years earlier; and
- the WA margin on the mortgage loans remains above 0.50%.

Representations and Warranties

The seller will provide representations and warranties in relation to the collateral, including:

- each mortgage loan is registered in the relevant property registry and represents a first-ranking claim on the corresponding property;
- each mortgage loan finances the purchase, refurbishing or building of a residential property;
- all loans have been fully disbursed;
- the seller has full right and title to, and the power to sell and transfer, the mortgages;
- the seller is unaware of any of the underlying properties being subject to a reduction in value of more than 20% since acquisition;
- all properties are located in Spain;
- none of the mortgage loans will be in arrears at closing; and
- all properties have undergone a valuation process, as required by law.

Neither the fund nor any other transaction parties will conduct a search of title; rather, they will rely on the above-mentioned representations and warranties provided by Banco de Valencia in relation to the collateral. Following an irremediable breach of any of the representations or warranties, Banco de Valencia will replace or repurchase the loan(s) in question.

■ Legal Structure

At closing, the seller will transfer the mortgage loans to the *Sociedad Gestora* on behalf of the fund. The *Sociedad Gestora* is a special-purpose company with limited liability, incorporated under the laws of

Spain. Its activities are limited to the management of asset-backed notes.

Collateral

At closing, the final portfolio will have an outstanding balance of EUR940.1m, selected from a provisional portfolio of 12,794 mortgage loans. Furthermore, all the loans are first-ranking mortgages secured by residential properties in Spain. Security for the loans takes the form of mortgages registered in the *Registro de la Propiedad* (the official register).

As of 17 November 2005, the provisional portfolio's main characteristics, in volume terms, were:

1. the WA original and current LTV ratios were 67.% and 60.9% respectively. The WA indexed current LTV was 55.1%;
2. around 89% of the loans had current LTVs <80% and c.1.5% had LTVs >90%. The maximum LTV in the pool was equivalent to 100%;
3. the WA seasoning was 26 months;
4. the average outstanding balance was EUR76,131;
5. all the loans were floating-rate;
6. the WA margin over the base rate was 0.84%;
7. 65.3% of the portfolio was located in the region of Valencia, followed by 13.3% in Murcia and 6.5% in Aragon; and
8. the earliest maturity was January 2007 and the latest January 2040.

At closing, none of the mortgage loans will be in arrears.

Origination and Servicing

In addition to the pool analysis, Fitch has reviewed and analysed Banco de Valencia's origination and servicing guidelines. It has conducted several interviews with the originator and servicer managers responsible for the mortgage loan department. Banco de Valencia follows a tight process of underwriting criteria based on a detailed procedure underwriting manual.

Banco de Valencia is the parent of the 28th largest banking group in Spain ranked by total assets at end-2004. It had a total of 382 branches and 1,822 staff at that date. 38.4% of Banco de Valencia's share capital is held by Bancaja, Spain's sixth largest banking group, although Banco de Valencia remains independent. For historical reasons, the bank's activities are concentrated in the regions of Valencia and Murcia, although it has expanded into other parts of Spain, notably Madrid.

Banco de Valencia is taking advantage of the development of risk management systems by Bancaja as well as from its participation in the development of a global risk management system spearheaded by CECA, the representative body of Spanish savings banks. This will include a more sophisticated credit scoring system for lending to individuals and internal ratings for corporate lending. Banco de Valencia intends to apply the advanced internal rating based approach in the medium term.

Origination

The lending approval process is fairly centralised, with conservative limits at different exposure levels. Mortgages are mostly originated through the bank's branches and a network of real estate agencies. Potential borrowers are required, among others, to provide information on their family circumstances, employment situation, other sources of revenue, history with the bank and total debts outstanding. The underlying property must also undergo valuation by one of the bank's eligible valuers, all of which are registered with the Bank of Spain and are regulated valuation companies. Banco de Valencia will consult its own internal customer databases as well as external credit sources, such as ASNEF and CIRBE (which keeps records on default history and current debt exposures) to verify the credit profile of the borrowers. Its internal approval system is based on the borrower's capacity to repay their debt, and the vast majority of mortgages loans are approved through this system.

Banco de Valencia allows a maximum DTI (debt-to-income) ratio of 45% for residential property applicants. It allows LTVs of up to 80% for residential mortgages and 70% for Commercial. However, in special cases, subject to the approval of the special credit committee, these limits can be extended to a maximum of 100%. Maximum mortgage tenors are 30 years. These maximum limits have been applied since 27 January 2005.

The bank requests that borrowers maintain a current account at Banco de Valencia, although this is not compulsory. However all mortgage loan payments must be made by direct debit.

Servicing

When a mortgage loan is more than 90 days overdue the position is transferred to the recovery department, where a specialised team carries out the appropriate recovery processes. A credit officer decides whether to initiate legal proceedings, while other internal measures are applied to other products the customer may have with the bank – such as blocking any accounts the borrower holds with it. According to Banco de Valencia's collection policy, foreclosure

Portfolio Summary

Pool Characteristics	
Current Principal Balance (EURm)	974.0
Average Current Loan per Borrower (EUR)	76,131
Average Original Loan per Borrower (EUR)	87,133
Oldest Loan in Portfolio	Jan 1992
Most Recent Loan in Portfolio	Sept 2005
Interest Rate Type	
Floating-Rate Loans	100
WA Interest	3.1
Interest Index	0.84 EURIBOR
Payments	
Payment Method	Direct Debit
Loans <30 Days in Arrears (%)	100
Regional Concentration (%)	
Region of Valencia	65.3
Region of Murcia	13.3
Lien Position (%)	
First-Ranking	100

Source: Fitch

proceedings will be initiated after all pre-enforcement measures have been attempted.

The bank employs internal and external legal counsel for all legal proceedings. The latter prepare the documentation and organise the foreclosure process, but must refer all business decisions to Banco de Valencia.

The majority of delinquent loans are overdue owing to temporary financial difficulties. However, where the borrower will not be in a position to repay their debt, they will most often organise the sale of the property to avoid going to court. The bank's estimated recovery period is 380 days, although general legal proceedings in Spain can take between one and two years, and in some cases up to three years.

Exposures to the construction and real estate sectors are primarily through residential development projects, with the majority of the loans likely to convert to individual residential mortgages, forming part of a strategy aimed at gaining new individual clients.

Credit Analysis

Fitch analysed the collateral for the transaction by subjecting the mortgage loans to stresses resulting from its assessment of historical home price movements and defaults in Spain. The agency focuses its analysis of Spanish RMBS structures on the probability of default and expected recoveries for a portfolio's individual loans (see Appendix 1).

Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make their mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch assumed higher default probabilities for high-LTV loans and lower default probabilities for low-LTV loans.

The main reason for this is that, in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low-LTV loans) have an incentive to sell and maintain/protect their equity, thereby eliminating the need for the lender to repossess the property.

Ability to pay is usually measured by the mortgage payment in relation to the borrower's net income. Fitch did not receive any DTI information and has therefore assumed that all borrowers in the pool fall into Fitch's Class 3 or Class 4.

Fitch considered the specific characteristics of the product in its default probability analysis of the portfolio. The LTV based on the original balance of the loan is used as the main measure of a borrower's willingness to pay.

The securitised pool displays is highly concentrated in the region of Valencia (65.3%). To account for this potential risk, Fitch has increased its base default probabilities for all the loans located in this region.

Recovery Proceeds

To estimate recoveries on mortgage loans in Spain, Fitch examined house price movements in Spain on a regional basis from 1987-2001. The agency found significant differences, most notably between Madrid, Catalonia and the Basque region, and other regions in Spain. Cities in these three regions have experienced higher price increases than elsewhere in Spain. Based on its analysis of the real estate market, Fitch assumed slightly larger market value declines ("MVDs") for certain regions, as well as for some large urban areas.

To derive MVDs for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with those of markets in other European countries. As with its other European mortgage default models, the agency has increased MVDs for higher-value properties. These are generally subject to higher declines in a deteriorating market than homes with average or below-average market values owing to limited demand. Only 1% of the collateral is considered by Fitch to be secured on high-value ("jumbo") properties.

When calculating recovery value, the agency's model reduces each property's worth by the MVD, external foreclosure expenses and the cost to the servicer of carrying the loan from delinquency through to default. This cost depends on the time to foreclosure as well as the applied interest rate, which

Fitch assumes to be 10%. Fitch assumes a time to foreclosure of three years.

Cash Flow Analysis

To evaluate the contribution of structural elements such as excess spread, the reserve fund and other factors, Fitch modelled the cash flows from the mortgages based on the WA recovery rate (“WARR”) and WA frequency of foreclosure (“WAFF”) provided by the loan-by-loan collateral analysis. Recoveries included both interest and principal.

The cash flow model assumes that defaults are spread over the first five years of 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, the reserve fund and principal must be sufficient to cover the cost of carry until recoveries are received after 36 months. Variable interest rates are stressed upwards over time; however, the effect of this factor is limited because of the swap.

Margin Compression

Fitch’s cash flow analysis assumes a high level of prepayments on the mortgages, which stresses available excess spread, of 25%, 21% and 18% *per annum* under ‘AAA’, ‘A’ and ‘BBB’ scenarios, respectively. Furthermore the agency stressed its cash flow analysis to account for a potential decrease in the margin to be received from the portfolio following renegotiations between Banco de Valencia and its customers.

Class D Notes

Because funds available for the amortisation of the Class D notes will be limited to those released from the reserve fund (if any), the performance of these notes will be highly dependent on very favourable conditions for the collateral backing the Class A to C notes.

Fitch calculated an expected recovery rate for the Class D notes after testing several cash flow scenarios commensurate with the speculative rating levels. In its sensitivity analysis, it tested several variables that affect the release of the reserve fund, and, consequently, the availability of funds for interest and principal payments on the Class D notes.

The ‘CCC-(CCC minus)’ expected rating on the Class D notes is supported by the expected recovery rates. As a default of the Class D notes appears probable, Fitch assessed the distribution of possible recovery rates. These were calculated based on the present value of expected interest and principal payouts on the Class D notes, measured as a proportion of the original outstanding notes balance. Based on Fitch’s calculation, the expected recovery rates were between 40% and 50%.

■ Performance Analytics

Fitch 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.

Appendix I: Rating Methodology

To determine appropriate levels of credit enhancement, Fitch analyses the collateral for Spanish residential transactions using a loan-by-loan mortgage default model. The model subjects the mortgage loans to stresses resulting from its assessments of historical house price movements and defaults. Fitch's study showed that the LTV, reflecting the size of the borrower's down payment, and the borrower's income multiple (original loan advanced divided by income) are the primary indicators of default risk in Spain. Fitch also modelled the cash flow contribution from excess interest using stress scenarios determined by its default model. The cash flow test showed that each class of rated notes, taking available credit enhancement into account, can withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make the mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch's model assumes higher default probabilities for high LTV loans and lower default probabilities for low LTV loans. The main reason is that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property.

The ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. Historical data available for Spain show low levels of default. Base default probabilities are determined using a matrix which considers each loan's affordability factor and LTV. The matrix classifies affordability into five classes, the lowest of which (Class 1) encompasses loans with DTIs of less than 20%, and the highest of which (Class 5) encompasses all loans with DTIs exceeding 50%. The average DTI for the mortgage market in Spain is c.27%-33%.

Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for individual loan characteristics of the collateral across all rating levels.

- **Product Type:** Fitch increases default probability assumptions by 0%-10% for the index volatility experienced by variable-rate mortgage holders.
- **Repayment Type:** Fitch will increase base default rates by 5%-10% for loans to be paid by *cuota creciente*, whereby the amortisation of capital is always the same and the interest payment is increasing.
- **Loan Purpose:** Fitch believes that a financially distressed borrower is more likely to default on a second home or investment property than on a primary residence. Accordingly, Fitch will double the base default rates in both cases. If the purpose of the loan is not to acquire a property in Spain, Fitch will increase the default probability by 50%-100%.
- **Borrower Profile:** Fitch increases default probability on loans to self-employed borrowers by 33%-50% to account for their lack of fixed annual salary.
- **Arrears Status:** when rating portfolios combining current and arrears mortgages, Fitch increases base default rates for mortgages in arrears by 1-30, 31-60, and 61-90 days by 10%, 35% and 70% respectively, and mortgages over 91 days in arrears (non-performing status) by 100%.
- **Underwriting Quality:** Fitch's review and analysis of the origination process determines whether Fitch decreases default rates by up to 25% or increases them by 0%-200%.

Recoveries

To estimate the recovery rates on the mortgage loans in Spain, Fitch examined house price movements in Spain on a regional basis from 1987–2001. Fitch found significant differences in price development among the regions, mainly between Madrid, Catalonia and the Basque region, and the rest of the country. The cities in these regions have experienced higher price increases than cities in other regions in Spain. As in most other countries, rural areas tend to develop on a more stable basis. Based on its analysis of the real estate market, Fitch assumed slightly higher MVDs for certain regions and for some large urban areas.

To derive MVDs for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with markets in other European countries. As with its other European mortgage default models, Fitch has increased MVDs for higher value properties. These properties are generally subject to larger MVDs in a deteriorating market than homes with average or below-average market values due to limited demand for such properties.

When calculating recovery value, Fitch's model reduces each property value by the MVD, external foreclosure expenses and the cost to the servicer of carrying the loan from delinquency through default. For Spain, Fitch assumes that external foreclosure costs represent 10% of the loan's balance at the time of default. Loss severity also incorporates the fact that the length of time of the foreclosure process might be longer than the actual one in a recession period. To calculate carrying costs, Fitch uses a worst-case scenario analysis, one that assumes the borrower does not pay any interest and the collateral is not realised for a period of three years.

Excess Spread

Excess spread represents the monetary difference between the income received by the issuer from the borrowers and the interest on the notes and other expenses paid by the issuer. Any reserve fund will be replenished from available excess spread, if it is drawn. The actual value of excess spread depends on levels of delinquencies, defaults and prepayments, as well as the WA interest rate of the reference mortgage portfolio throughout the life of a transaction.

Appendix II: Summary

Valencia Hipotecario 2, Fondo de Titulización Hipotecaria — RMBS/Spain

Capital Structure

Class	Amount (EURm)	Final Maturity	Rating	CE (%)	Spread (%)	I/P PMT Freq	Legal Maturity	Coupon
A	909.5	January 2040	AAA	4.30	0.13	Quarterly	January 2043	3M Euribor plus a spread
B	21.2	January 2040	A+	2.05	0.30	Quarterly	January 2043	3M Euribor plus a spread
C	9.4	January 2040	BBB+	1.05	0.55	Quarterly	January 2043	3M Euribor plus a spread
RF	9.9	January 2040	CCC-	n.a			January 2043	

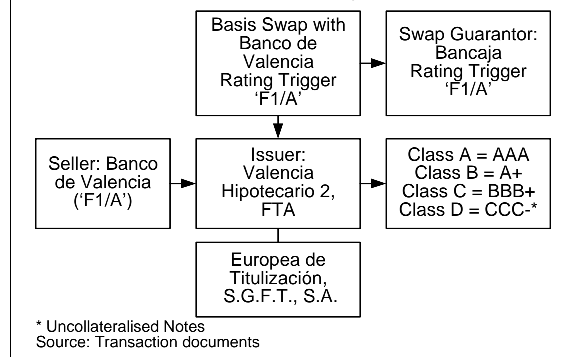
Key Information

		Role	Party (Trigger)
Expected Closing Date	12 December 2005	**Seller/Originator**	Banco de Valencia
Country of Assets	Spain	**Structurer**	Bancaja/EdT
Structure	Pass Through	**Issuer**	Valencia Hipotecario 2, FTH
Type of Assets	Residential Mortgages	**Lead Manager**	Bancaja
Currency of Assets	EUR	**Trustee**	Europea de Titulización S.A. S.G.F.T.
Currency of Notes	EUR	**Swap Provider**	Banco de Valencia (A/F1)
Primary Analyst	henry.gallego@fitchratings.com	**Financial Agent**	Bancaja ('F1')
Secondary Analyst	natalia.bourin@fitchratings.com		
Performance Analyst	charlotte.eady@fitchratings.com		

Fitch Default Model Outputs

Rating Level	AAA	A	BBB	BB
WAFF (%)	9.47	7.58	5.68	3.79
WARR (%)	80.7	93.30	97.66	101.5
WALS (%)	34.26	21.66	17.34	13.41
WAMVD (%)	47.68	37.46	33.4	29.41

Simplified Structure Diagram



* Uncollateralised Notes
Source: Transaction documents

Collateral as of 17 November 2005

Pool Characteristics			
Current Principal Balance (EURm)	974.0	**Regional Concentration (%)**	
Average Current Loan per Borrower (EUR)	76,131	Region of Valencia	65.3
Average Original Loan per Borrower (EUR)	87,133	Region of Murcia	13.3
Number of Loans	12,794		
WA Seasoning (Months)	26	**Mortgage Characteristics (%)**	
Oldest Loan in Portfolio	January 1992	First-Ranking	100
Most Recent Loan in Portfolio	September 2005		
< 30 Days in Arrears (%)*	100	**Loan to Value (LTV) (%)**	
		WA Original LTV	67.0
Interest Rate Type (%)		WA Indexed Current LTV	55.1
Variable	100	WA Current LTV	60.9
Fixed	0		
WA Interest	3.1		
Interest Index	EURIBOR		

*None of the loans are in currently in arrears

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