European Structured Finance
New Issue

BZ HIPOTECARIO 1, Fondo de Titulización Hipotecaria

Ratings

Floating-Rate Mortgage-Backed Notes due 2024

EUR 338,600,000 Class A...................AAA
EUR 11,400,000 Class B.....................A+

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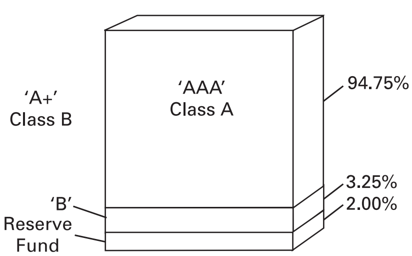
Capital Structure



■ Summary

BZ HIPOTECARIO 1, Fondo de Titulización Hipotecaria's (Fund BZ H1) EUR 338.6 million class A and EUR 11.4 million class B floating-rate mortgage-backed-notes-due 2024 are rated as indicated at left.

Fund BZ H1 is regulated by Law 19/1992 of 7 July in Spain. The sole purpose of Fund BZ H1 (note issuer) is to transfer the mortgage loan participations acquired from the participation issuer, Banco Zaragozano (BZ; rated 'A–/F2' by Fitch IBCA), into fixed-income securities. The participations will be subscribed by Europea de Titulización, S.A., S.G.F.T. (Sociedad Gestora) on behalf of Fund BZ 1. The Sociedad Gestora is a corporation with the sole purpose of the management of asset-backed funds, in accordance with the provisions of the previously mentioned law and the Royal Decree 926/1998 of 14 May in Spain.

The ratings are based on the quality of the collateral, available credit enhancement, adequate underwriting and servicing of the mortgage loans by BZ, the Sociedad Gestora's administering capabilities, and the sound financial and legal structures. Credit enhancement for the class A notes, totalling 5.25%, will be provided by the subordinated class B notes (3.25%) and the reserve fund (2%). Credit enhancement for the class B notes, totalling 2%, will be provided by the reserve fund.

Following the priority of payments described in the Financial Structure section on page 3, interest and principal to the class A and B notes will be paid on a quarterly basis, commencing 17 Sept. 1999. The class A and B notes will receive interest payment based on the three-month Euro Interbank Offered Rate (EURIBOR) plus a margin of 0.18% and 0.50%, respectively. The class A and B notes will be redeemed in line with the principal balance of the collateral amortisation. The amortisation of the class B notes will begin when the class A notes are fully amortised.

The notes are backed by a pool of residential mortgages originated by BZ in Spain. BZ is a medium-sized private banking group, measured by Spanish standards, offering all the retail and wholesale services of a commercial bank on a national scale.

To determine appropriate levels of credit enhancement, Fitch IBCA analysed the collateral using a loan-by-loan mortgage default model *(see Fitch IBCA Research on "Spanish Mortgage Default Model," dated 20 Jan. 1999, available on Fitch IBCA's web site at www.fitchibca.com)*. Fitch IBCA also modelled the cash flow contribution from excess spread using stress scenarios determined by its default model. The cash flow from the underlying mortgages can withstand 'AAA' and 'A+' stress scenarios and, with the credit enhancement available, is sufficient to make full and timely payments to class A and B noteholders, respectively.

Key Information

Structure

Note Issuer: BZ HIPOTECARIO 1, Fondo de Titulización Hipotecaria

Participation Issuer/Originator: Banco Zaragozano (rated 'A–/F2' by Fitch IBCA)
Paying Agent/ Collections Account Guarantor: Caja Madrid (rated 'AA/F1+' by Fitch IBCA)

Fund Administrator (Sociedad Gestora): Europea de Titulización, S.A., S.G.F.T.

Cutoff Date: 5 Jan. 1999

Interest and Principal Payments: Quarterly**,** commencing 17 Sept. 1999

Final Legal Maturity: 17 March 2024

Underlying Assets: Residential mortgage loans backed by property located in Spain

Collateral

WA Original LTV: 59.31%

WA LTV (at the Cutoff Date): 53.03%

WA Term to Maturity (at the Cutoff Date): 13.8 years

Number of Loans: 8,742

Original Average Loan Balance: Pta 8,404,424

WA Interest Rate (at the Cutoff Date): 5.64%

Floating Interest Rate Loans: 100%

WA – Weighted average. LTV – Loan-to-value ratio.
Pta – Spanish peseta.

■ Collateral

The collateral pool consists of 8,742 mortgage loans with a total outstanding balance of approximately Spanish pesetas (Pta) 65 billion. The mortgages are first ranking mortgages originated by BZ in its normal course of business. All the loans are secured by residential properties in Spain. The security for the loans are mortgages registered in the "Registro de la Propiedad" (the official register).

At the cutoff date, the average principal balance was Pta 7.2 million. The weighted average loan-to-value ratio (LTV) in the portfolio was 53.03%. The LTV is computed by using appraisal values, which essentially reflect market values. Of the loans, 100% are variable-rate loans and are linked to the Madrid Interbank Offered Rate (MIBOR). The weighted average interest rate, at the cutoff date, was 5.64%.

The loans in the portfolio have all been originated since 1994, with a weighted average remaining term of 166 months. The vast majority of the borrowers pay monthly by direct debit to the issuers. At the closing date, no mortgages with payments in arrears were included in the pool.

In terms of geographic concentration, the properties securing the portfolio are predominantly in the Madrid (22.96%), Cataluña (15.66%), Andalucía (12.35%), Valencia (10.74%), Aragón (8.38%), and Castilla La Mancha (6.75%) regions. No other region represents more than 6% of the portfolio.

■ Credit Issues

Fitch IBCA analysed the collateral for Fund BZ H1 by subjecting the mortgage loans to stresses resulting from its assessments of historical home price movements and defaults *(see Fitch IBCA Research on "Spanish Mortgage Default Model," dated 20 Jan. 1999)*. This study shows that the LTV, reflecting the size of the borrower's down payment, and the borrower's income multiple (original loan advanced divided by income) prove to be the primary indicators of default risk in Spain.

Default Probability

Generally, the two key determinants of default probability are the willingness and ability of a borrower to make the mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch IBCA assumed 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. In the case of Fund BZ H1, this information was not available on a loan-by-loan basis. However, BZ has a strong focus on a borrower's ability to pay and have comparatively strict origination guidelines in this direction. Historical data available for Spain show low levels of default. Therefore, Fitch IBCA assumed that borrowers generally have an average ability to pay.

Loss Severity

To estimate loss severity on the mortgage loans in Spain, Fitch IBCA examined home price movements in Spain on a regional basis from 1980–1997. Fitch IBCA found significant differences in the price development among regions, mainly among the regions of Madrid, Cataluña, País Vasco, and the rest of the regions in Spain. The cities of these regions have experienced higher price increases than other cities in Spain. As in most other countries, rural areas tend to develop on a more stable basis.

To derive market value declines for the respective stress scenarios, Fitch IBCA also compared the characteristics of the Spanish real estate market with markets in other European countries. Based on its analysis of the real estate market, Fitch IBCA assumed slightly higher market value declines for certain regions as well as for some large urban areas. Market value declines also incorporate the fact that length of time in the foreclosure process might be higher than the actual one in a recession period.

As in its other European mortgage default models, Fitch IBCA increased market value declines for higher value properties. These properties are generally subject to higher market value declines 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 IBCA's model reduces each property value by the market value decline, external foreclosure costs, and the cost to the servicer of carrying the loan from delinquency through default. Fitch IBCA assumes external foreclosure costs represent 10% of the loan's balance at the time of default. To calculate carrying costs Fitch IBCA uses a worst-case scenario analysis, assuming that the borrower does not pay interest for a period of 3.5 years.

■ Origination and Servicing

In addition to the pool analysis, Fitch IBCA has reviewed and analysed BZ's origination and servicing guidelines. BZ follows a tight process of underwriting criteria based on a detailed procedure underwriting manual.

BZ puts a strong emphasis on a borrower's ability to pay and employs a credit analysis based on expert knowledge in the determination of a prospective borrower's creditworthiness. The borrower's ability to pay is determined primarily by the borrower credit profile.

The loans in the portfolio have been mainly originated by BZ's domestic branch network. The residential mortgage business is regionally organised, with approximately 370 branches. A branch manager can approve mortgage loans within certain maximum amounts and depending on the credit analysis. If the amount of the mortgage loan exceeds the maximum, the approval by the regional manager is mandatory. Appraisals for residential properties are usually performed in-house by state agents registered and ruled by the Spanish Bank.

Since 1994, BZ has a centralise "mortgage unit" which supervises and controls the processes of origination and servicing.

The vast majority of the loans will make their mortgage payment via direct debit. Generally, in the event of a payment being about five days in arrears, a reminder will be sent and the borrower will be contacted. Several reminders will be sent sequentially after the first one. During this first stage, domestic branches try to work out the outstanding arrears. On or before 121 days in arrears the client account will be transferred to the legal department of the regional unit to handle the foreclosure process.

■ Financial Structure

The mortgage loans will be serviced by BZ. The Sociedad Gestora will administrate Fund BZ H1. To protect investors in the event that, for any reason, BZ will not be able to continue performing adequately the mortgage servicing functions, the Sociedad Gestora is able to appoint a replacement administration company, in accordance with Law 19/1992 of 7 July in Spain, meeting the rating requirements.

All principal payments received monthly by BZ are passed daily to the collections account, kept at BZ in the name of Fund BZ H1. The collections account is guaranteed by Caja Madrid (rated 'AA/F1+' by Fitch IBCA), to a maximum amount of 1.8% of the original balance of the notes plus 1.2% of the outstanding balance of the notes. The amounts of money deposited in the collections account will be keep in cash, and will receive an interest rate equal to the notes' index interest rate. In the event of a downgrade of BZ below 'F2', or not accomplishing the payment requirements with Fund BZ H1, or if the average prepayment rate of the previous three months is greater than 10%, in annual basis, the collections account will be transferred immediately to Caja Madrid.

The paying agent will be Caja Madrid. On every payment date, on a quarterly basis, interest and principal payments will be passed through to the paying agent from the reinvestment account. In the event of a downgrade of Caja Madrid below 'F1' a replacement company will be provided, meeting the rating agency requirements to be able to adequately perform the paying agent and collections account guarantor functions.

Interest payments to the class A and B noteholders will be made in arrears quarterly, commencing 17 September 1999. The class A and B notes will receive interest payment based on the three-month EURIBOR plus a margin of 0.18% and 0.50% respectively.

On an ongoing basis, the class A and B notes will be redeemed in line with the principal balance of the collateral amortisation. The amortisation of class B notes will begin when the class A notes are fully amortised.

The notes are subject to a cleanup call if less than 10% of the notes remain outstanding. On each distribution date, the priority of payments will be as follows:

1. Expenses and taxes due to Fund BZ H1, including the administration fee to the Sociedad Gestora, the fee to the paying agent, and the fee to the collections account guarantor.
2. Interest of the class A notes.
3. Interest of the class B notes.
4. Replenishing the reserve fund to its minimum required balance *(see Credit Enhancement below).*
5. Amortisation of the principal of the class A notes.
6. Amortisation of the principal of the class B notes.
7. Interest accrued by the subordinated loan *(see Subordinated Loan at right).*
8. Amortisation of the principal of the subordinated loan in an amount equal to the amortisation of the constitution issuance expenses.
9. Amortisation of the principal of the subordinated loan in an amount equal to the decrease in the reserve funds' balance requirements.
10. Servicing commission to BZ.
11. Financial intermediation margin to BZ.

In the event that BZ will be replaced as administrator of the mortgage loans, the servicing commission, described in item 10 above, will be paid as item 4.

Credit Enhancement

Credit enhancement for the class A notes, totalling 5.25%, will be provided by the subordinated class B notes (3.25%) and the reserve fund (2%). Credit enhancement for the class B notes, totalling 2%, will be provided by the reserve fund.

The reserve fund is initially 2% of the original note balance, funded by a subordinated loan provided by BZ. The size of the reserve fund will always be equal to the minimum of either 5% of the outstanding notes or 4% of the outstanding notes plus the outstanding balance of the mortgage loan participations with payments in arrears for a period greater than 12 months. The reserve fund has a minimum floor level of 0.30% of the original note balance.

The reduction of the reserve fund will be stopped if either of the following occurs:

- The outstanding balance of the mortgage loan participations with payments in arrears from two to nine months is greater than 3% of the outstanding mortgage loan participations.
- The mortgage loan participations with payments in arrears for more than 12 months are greater than the amount obtained from multiplying the 0.025% of the original mortgage loan participations balance times the quarterly payments made since closing.
- The average interest rate received from the mortgage loan participations is smaller than the average interest of the class A and B notes in the previous paying period plus a margin of 0.40%.

Fitch IBCA in calculating the credit enhancement levels has taken into consideration the potential basis risk derived from the different interest rates accrued by the mortgage loans and the notes.

Subordinated Loan

Additionally, BZ has granted a subordinated loan of EUR 7.4 million that will be used to fund initially the reserve fund and to pay initial expenses of the Fund BZ H1. The subordinated loan is to be redeemed in line with the decrease of the outstanding notes. The loan will receive interest payments equal to the notes' index interest rate plus 0.50%.

Legal Structure

At closing, the mortgage loans were sold by BZ to Europea de Titulización, the Sociedad Gestora, on behalf of Fund BZ H1. The Sociedad Gestora is a special purpose company with limited liability incorporated under the laws of Spain and is owned by:

- Argentaria, Caja Postal and Banco Hipotecario, 82.97%.
- J.P.Morgan España, S.A., 4%.
- Abbey National, S.A.E., 1.54%.
- Bankinter, S.A., Barclays Bank, S.A., and Citibank España, S.A., 1.53% each.
- Deutsche Bank Credit, S.A, Banco Atlántico, S.A, Banco Cooperativo Español, S.A., Banco Pastor, S.A., Banco de la Pequeña y Mediana Empresa, S.A., Banco Urquijo, S.A., and BNP España, S.A., 0.77% each.
- Banca Jover, S.A. and Credit Lyonnais España, S.A., 0.38% each.

The Sociedad Gestora activities are limited to the management of mortgage asset-backed notes.

The participation issuer, BZ, has transferred the purchased rights (the loan claims and the collateral securing the loans) to Fund BZ H1. BZ have also transferred or pledged all present or future claims or rights under the various transaction documents to Fund BZ H1.