BZ HIPOTECARIO 2 Fondo de Titulización Hipotecaria, Bonos de Titulización Hipotecaria

Spain

CLOSING DATE:
April 28th, 2000

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TRANSACTION IN BRIEF

Rating:	**Aaa**	**A2**
Tranche:	A	B
Amount:	€275,600,000	€9,400,000
Margin:	*Euribor 3M + 0.27%*	*Euribor 3M + 0.50%*

Payment Dates:	February 17th, May 17th, August 17th, November 17th
Final Maturity:	May 17th, 2025
Issuer:	BZ HIPOTECARIO 2 Fondo de Titulizacion Hipotecaria ("BZ2 FTH")

Originators/Administrators

Banco Zaragozano

Management Company (Gestora)

	Europea de Titulizacion, SGFT, S.A.
Depository:	Caja de Ahorros y Monte de Piedad de Madrid (**Aa2/P1**)
Paying Agent:	Banco Zaragozano

Collateral Characteristics (As of March 3rd, 2000)

Type:	Mortgage shares (Participaciones Hipotecarias: PHs)
Coupon:	Underlying mortgage rate
Count:	8,122
Total Amount (Approx.):	50,624 mn Pesetas

Provisional Pool of Underlying Mortgage Loans

Type:	Primary residential mortgage loans
WALTV:	49.87%
Average Loans:	6 mn Pesetas
WAC (Current):	4.75%
Interest Basis:	Variable
Indices:	MIBOR 12 months (99.62%)
Orig. Loan Purpose:	Purchase, Construction and Renovation
Geog. Concentrations:	Madrid 22.68%, Catalunya 15.86%, Andalucia 14.24%
Structure:	Senior Subordinate Structure with a Reserve Fund
Credit Enhancement:	B Bond 3.30%, Reserve Fund 2%
Issue Date:	April 28th, 2000

RATING OPINION

Moody's has assigned a **Aaa** rating to the Series A Bonds and a **A2** rating to the series B Bonds (BTH's mortgage securitisation bonds) issued by BZ HIPOTECARIO 2 FTH.

These ratings are based on:

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

Moody's evaluation included the legal and regulatory context of the primary and secondary mortgage markets and of structured transactions in Spain.

The ratings assigned to the BTHs address the timely payment of interest and payment of principal on or before the final maturity of the transaction in May 17th, 2025.

RATING SUMMARY

Collateral

Banco Zaragozano Targets the Securitization Market for the Second Time

Banco Zaragozano targets the securitization market for the second time with a very similar transaction to BZ1 FTH launched in 1999. (see comparison graph)

The quality of the portfolio is very good with loans having an average LTV level of 49.87%, level of seasoning of almost 2 years and is well geographically diversified with a natural bias towards Madrid (22.68%), Catalunya (15.86%), and Andalucia (14.24%).

As Compared With BZ1 FTH

As compared with BZ 1 FTH, Moody's views this transaction as being very similar to the previous one, having only additional penalties in terms of seasoning and loan size; for example, there are a greater number of large loans in low classified regions by Moody's. For instance, a large sized loan (the categorization of loans as determined by Moody's) originated in a low classified region (regional categories as defined by Moody's) is more heavily penalized in the rating analysis than a large sized loan originated in a highly classified region.

As far as LTV levels go, this pool has slightly lower LTV levels than BZ 1.

Table 1

	ZARAGOZANO 1	ZARAGOZANO 2
# LOANS	8742	8122
LTV	53.03%	49.87%
MADRID	22.96%	22.68%
ANDALUCIA	12.35%	14.24%
VALENCIA	10.47%	10.35%
CATALUÑA	15.66%	15.86%
SEASONING	2.21	2.17

STRUCTURE SUMMARY

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

Under Spanish law each PH represents a certain percentage of a single mortgage loan for the entirety of its remaining life and grants to its holder the right to undertake executory action against the originator and, under certain circumstances, the right to pursue the mortgage debtor. As the Fondo does not possess judiciary powers, the Gestora must take any such action on its behalf. In this transaction all of the PHs represent 100% of the underlying mortgage loan and so pay interest at the mortgage rate. Payments of interest on PHs purchased by a mortgage securitisation fund are not subject to withholding tax. However, interest payments on the BTHs issued by the fund are subject to withholding tax depending on the bond's holder.

All of the mortgage loans securing the PHs were originated by Banco Zaragozano, which will continue to service the loans and will substitute or repurchase any PH that is found to be backed by a loan that fails to meet various criteria.

Basis and Liquidity Risk: Deal Not Protected by a Swap

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

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

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

Credit Enhancement

Typical Senior-Subordinated Structure

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

- The first layer of protection is *spread* in the transaction, which is the difference between (1) the interest earned on the PHs (MIBOR +122bps approximately) and (2) the coupons paid on the BTHs and other obligations plus the Gestora fee. The value of the on-going spread was assessed under a variety of adverse conditions which would minimise its availability, including high prepayment speeds, various loss distributions, and high arrears levels. Spread that is not used to cover shortfalls of interest or principal or to replenish one of the reserve funds within each interest period is not trapped within the structure.
- The second layer of protection for investors is the *Reserve Fund*. At any moment the maximum credit amount will be 2% of the initial PH balance.
- The third layer of protection is the *Series B Bonos*, which initially amount to 3.30% of the PH original balance. Amortisation of the Series B Bonos will take place when the outstanding principal balance of the B Bonos is greater than or equal to 6.60% of the outstanding principal balance of the A Bonos.

Origination/Servicing

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

Moody´s believes Banco Zaragozano is capable of fulfilling its servicing obligations in the transaction due to its solid credit fundamentals, strong capitalization, good asset quality, superior pre-provision profitability as well as its technological leadership.

Management Company (Gestora)

The management company (Sociedad Gestora) has broad powers under the Spanish securitisation law.

Europea de Titulizacion is an experienced management company. The obligations of the Gestora within the structure are guaranteed by its shareholders in proportion to their holdings. BBVA accounts for 83% of the Gestora's capital. The remainder is owned by 15 institutions including JP Morgan 4%, Abbey National Bank S.A.E. 1.54%, Bankinter 1.53%, Barclays Bank 1.53%, and Citibank España.

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