BCL Municipios I, Fondo de Titulización de Activos

Spain

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TRANSACTION IN BRIEF
Ratings Assigned — €1,205 million of Debt Securities

Class	Amount	Interest Rate	Placement	Legal Maturity	Rating
A1	€245,000,000	3M Euribor + 0.05%	Public	July 2030	**Aaa**
A2	€900,000,000	3M Euribor + 0.10%	Public	July 2030	**Aaa**
B	€60,000,000	3M Euribor + 0.50%	Public	July 2030	**A2**

Replenishment Period:	10 years, subject to certain conditions.
Payments:	Quarterly, on the 26th of January, April, July and October. Class A1 will amortise according to a pre-defined schedule, between year 5 and 10. Class A2 will amortise on a pass-through basis. Class B will start amortising, also on a pass-through basis, only after Classes A1 and A2 are fully redeemed.
Issue Price:	100%
Listing:	AIAF Mercado de Renta Fija, Madrid
Credit Support:	5% Subordination of the Class B Notes 4.5% Stand-by letter of credit (initial amount) Swap covering interest on defaulted loans Excess spread

Structure Summary

Issuer:	BCL Municipios I, Fondo de Titulización de Activos
Seller/Servicer:	Banco de Crédito Local de España (“BCL”) (**Aa2**/**P-1**)
Interest Rate Swap Counterparty:	Banco de Crédito Local de España
Management Company (Gestora):	Europea de Titulización, S.G.F.T., S.A.
Depository/Paying Agent:	Banco Bilbao Vizcaya Argentaria (**Aa2**/**P-1**)
Lead Managers:	Banco Bilbao Vizcaya Argentaria, Banco Urquijo and Crédit Agricole Indosuez

Initial Portfolio Summary (as of May 3rd, 2000)

Type:	Loans to Spanish municipalities
Number:	2,043 loans to 1,115 municipalities
Average Principal Balance:	Approximately €628,000
Total Outstanding Amount:	Approximately €1,283,360,000
Interest Basis:	Floating
Reference Rates:	Mibor 3M (85.54%), Mibor 12M (9.12%), Mibor 6M (2.35%), Mibor 1M (1.68%), Euribor 3M (1.20%), Euribor 12M (0.11%)

Initial Portfolio Summary (continued)	
Average Margin Above Ref. Rates:	0.46%
Average Seasoning:	39 months
RemainingTerm to Maturity:	Between 9 and 316 months (WAM: 125 months)
Last Maturity:	Sep. 17th, 2026
Geographical Distribution:	Andalucía (19.76%), Valencia (19.25%), Cataluña (16.80%), Madrid (7.65%), Galicia (6.80%), Castilla - La Mancha (6.32%), rest of regions (23.59%, less than 5% each)
Main Eligibility Criteria for Pool Additions:	Limits in single debtor concentration (3% of the total pool) Limits in single region concentration (depending on the weighting in the original pool) Weighted average life of the total pool cannot exceed 15 years.

OPINION

Moody's has assigned an **Aaa** rating to the Classes A1 and A2 and an **A2** rating to the Class B Bonos de Titulización de Activos (Asset-Backed Securities) issued by BCL Municipios I, Fondo de Titulización de Activos, a Securitisation Fund established according to Spanish Law, to fund the acquisition from BCL of a portfolio of loans to Spanish Municipalities. The transaction costs will be financed through a subordinated loan from BCL, that will be repaid with excess spread. The transaction is the first Spanish securitisation involving such kind of assets.

The **Aaa** rating assigned to the Classes A1 and A2 Notes is based on:

1. The credit quality of the underlying loans;
2. The 5% subordination provided by the Class B Notes;
3. The protection available from a stand-by letter of credit provided by BCL (**Aa2/P-1**), in an initial amount of 4.5% of the outstanding amounts under the Notes as of the closing date;
4. The interest rate swap provided by BCL, covering also interest on defaulted loans;
5. The capacity of BCL as servicer;
6. The experience of the Management Company Europea de Titulización, S.A., S.G.F.T., and the supporting guarantee of its obligations by all of its shareholders; and
7. The legal and structural integrity of the transaction.

The **A2** rating assigned to the Class B Notes is based on the above and on an assessment of the Notes' subordinated position in relation to the Class A Notes.

COLLATERAL

Portfolio Description

The portfolio is comprised of 2,043 floating rate loans to 1,115 Spanish municipalities, with a total outstanding amount of approximately Euro 1,3 billion as of May 3rd, 2000 (“the Portfolio”).

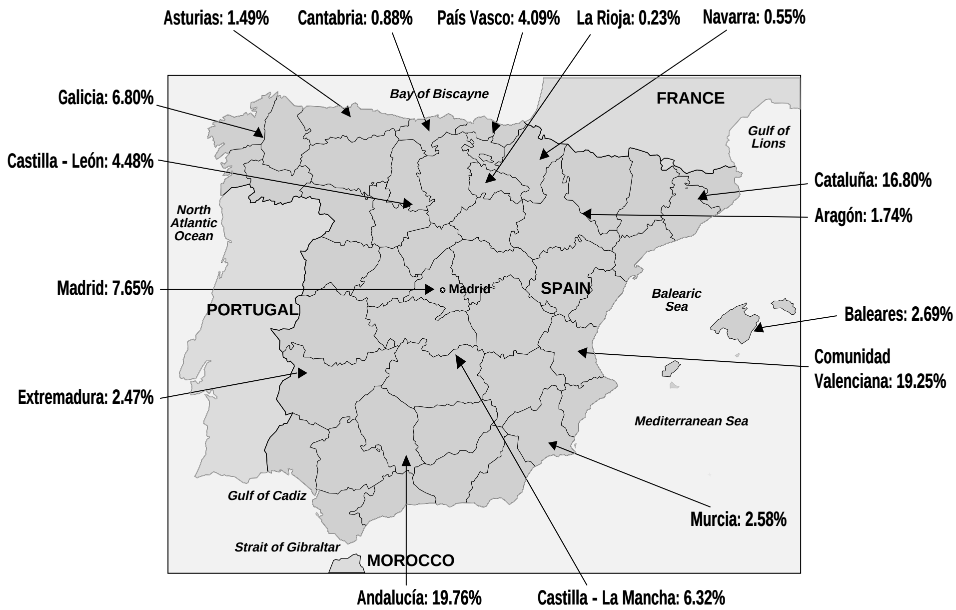
Table 1

Outstanding Amount of the Loans

Minimum:	Euro 60,160
Average:	Euro 628,174
Maximum:	Euro 14,023,616

The Portfolio is spread over the different Spanish regions. Cataluña, Andalucía and Valencia are the three main regions represented in the Portfolio, with an aggregate of 55% in terms of outstanding principal.

Figure 1
Geographical Distribution of the Portfolio, in Terms of Outstanding Amount



The remaining 2.22% are loans to municipalities in the Canary Islands.

All loans are floating rate. The predominant interest rate is 3M Mibor (85.6%), the rest being other Mibor and Euribor indices. The weighted average nominal interest rate is 4.38%, and the weighted average margin over reference rate, 0.46%. The Portfolio has a weighted average seasoning of approximately 41 months, and a weighted average maturity of 125 months.

The Loans to Spanish Municipalities

In order to finance their expenses and investments, Spanish municipalities are entitled to collect specific taxes and to receive resources from the Regional and Central Governments. Should their financial needs exceed these sources of revenue, municipalities can also borrow money, but only in the following cases:

- In the short term (less than 1 year), to cope with temporary cash shortfalls; and
- In the long term (more than 1 year), to finance investments.

Short term credit is capped by law at 30% of the municipality's ordinary income registered during the previous budgetary year. In 1999, the Spanish Government set a new limit to the aggregate short and long term municipalities' indebtedness at 110% of their ordinary income registered during the previous budgetary year. Should they exceed these limits, the Regional and ultimately the National Government would have to approve such excess, which seems unlikely to happen.

In case of extraordinary expenses not reflected in the budget, municipalities can also borrow money, but only up to their borrowing capacity and after approval by the board (with the same voting procedures as in the case of the budget).

The only priority in terms of payments by the municipalities are the salaries of their employees. In addition, the assets of the municipalities devoted to public services cannot be enforced, neither can their accounts be pledged. Therefore, banks usually require that the subsidies transferred from the Central and Regional Governments to the municipalities be held in accounts with them. This system ensures that, in case of non-payment by the municipalities, the bank can off-set the overdue payments under the loans against the monies deposited in the account.

Eligibility Criteria

After closing, and for a period of 10 years, the Fund may purchase new loans on a quarterly basis if a certain minimum overcollateralisation ratio is respected (see cash-flow allocation below). No new Notes will be issued, the purchase price of the new loans will be paid out of the Issuer Available Funds, subject to the cash allocation priorities below. The replenishment may be extended, for additional one year periods, at Moody's discretion and upon request by the Management Company.

The replenishment will stop if one of the following events occurs:

1. The overcollateralisation ratio drops below 102.5%. This ratio is defined as the quotient between (i) the outstanding amounts under the performing loans and the stand-by letter of credit and the Fund's cash position; and (ii) the outstanding balance of the Classes A1, A2 and B Notes;
2. BCL short term rating drops below **P-2**; and
3. BCL is insolvent, or a petition for bankruptcy has been admitted, or the shareholders have agreed on its liquidation.

Should the overcollateralisation ratio exceed the target level or if BCL is upgraded to **P-1** thereafter, the Fund may restart purchasing new loans.

The following eligibility criteria will apply to the initial loans in the pool as well as to those added therafter:

Global Criteria

1. Individual concentration: the outstanding amount of any individual debtor cannot exceed 3% of the total outstanding amount of the pool;
2. Geographical concentration: the outstanding amount of loans to municipalities in the same region cannot exceed a certain percentage, based on the initial weight of each region in the portfolio;
3. The weighted average maturity of the pool should not exceed 15 years.

Individual Criteria

The main individual criteria to be fulfilled by any of the loans in the pool are:

1. To be made by BCL to Spanish municipalities;
2. To be entirely drawn, with grace periods not longer than 3 years, with installments at least annual, denominated in ESP or euro, referenced to 1 month to 1 year Mibor or Euribor, with a minimum margin over the reference rate of 10 bps and not having been in default (more than 90 days past due) in the two years preceeding the transfer to the Fund;
3. To have a final maturity comprised between the day after the transfer to the Fund and two years before the final maturity of the transaction.

The Originator

BCL, the leading banker of Spanish local governments, was created in 1925. Its current shareholders are Banco Bilbao Vizcaya Argentaria (60%) and Dexia (40%). In addition to playing a major role in public finance by granting loans to local governments, BCL arranges bond issues for Spain's autonomous regions. BCL also manages local government deposits, and handles a large percentage of State subsidies to local governments which go through the bank. BCL's market share is especially strong in smaller municipalities.

STRUCTURAL FEATURES:

Servicing

BCL will act as servicer of the loans. To this end, it will enter into a Servicing Agreement with the Fund, undertaking to service the loans according to standard practices. Moody's believes that BCL's collection and quality assurance procedures, as well as its IT systems, should render it capable of fulfilling its servicing obligations in the transaction.

Interest Rate Risk

BCL will also act as hedging counterparty, swapping the interest received from the loans in the pool into the weighted average interest of the Notes. Although both the interest rates of the Notes and those of the loans are floating, the Swap will neutralise the existing basis risk (3M Euribor on the Notes versus 1M to 12M Mibor or Euribor on the loans) and will also provide the Fund with credit enhancement.

According to the terms and conditions of the Swap Agreement, the Management

Company, on behalf of the Fund, will pay BCL monthly the average interest rate of performing loans (less than 90 days past due), on a notional equal to the outstanding amounts under the performing loans. BCL will in turn pay to the Fund, on a quarterly basis, the average interest rate on the Notes plus a margin of 10 basis points on a notional equal to the average outstanding amount under the Notes. Moody's believes that this margin should be enough to cover the expenses of the Fund. Should BCL be replaced as servicer, this margin would be increased to 15 basis points to compensate for an eventual rise in fees.

If BCL's long term rating was to fall below **Aa3**, the Management Company should either:

- Ask BCL to post cash collateral in an amount equal to the outstanding credit enhancement to be provided by the Swap until the end of the transaction, monitored on a monthly basis; or
- Find a new Swap counterparty or a guarantor rated **Aa3** or above.

Moreover, should BCL loss its **P-1** short term rating, a new Swap counterparty or a guarantor rated **P-1** or above would have to step in.

Stand-by Subordinated Letter of Credit

As additional credit enhancement, BCL will grant to the fund a stand-by letter of credit of up to 4.5% of the initial outstanding amount under the Classes A and B Notes. Thereafter, the amount of the letter of credit would be the greater of 2.5% of the initial outstanding amount under the Notes and 4.5% of the then current outstanding amount under the Notes.

Should BCL be downgraded to **A3** or lower, the letter of credit would be entirely drawn and the funds would be deposited in an account opened at an appropriately rated bank.

Payment Structure and Allocation

Payments of interest and principal of the Notes will be done on a quarterly basis. The cash deposited in the transaction account will be reinvested in eligible investments according to the terms and conditions of a GIC Agreement between BCL and the Management Company on behalf of the Fund.

The cash flow allocation (in case an early amortisation event has not occurred) is as follows:

1. Fees, expenses and taxes, excluding servicing fee;
2. Payments to BCL under the Swap Agreement (on a monthly basis);
3. Interest on Classes A1 and A2 Notes, sequentially;
4. Interest on Class B Notes;
5. Provision for Amortisation of the Notes in an amount equal to the difference between the outstanding amounts under the Notes and the outstanding amounts under the loans. This provision will be allocated subject to specific rules set up below;
6. Replenishment of the reserve fund, should this be constituted by the drawdown of outstanding amounts under the letter of credit upon loss of the **A2** rating by BCL;
7. Interest on the stand-by letter of credit;
8. Principal of the stand-by letter of credit, except if entirely drawn upon the loss of **A2** by BCL;
9. Subordinated loan interest;
10. Principal of the stand-by letter of credit, if entirely drawn, up to the amortisation of the reserve fund;
11. Subordinated loan principal;
12. Servicing fee (to be moved to (3) if the servicer is to be replaced); and
13. Excess cash to BCL.

The Provision for the Amortisation of the Notes, up to the funds available after meeting priorities (1) to (4) above, will be distributed as follows:

1. Principal of Class A1 Notes, according to a predefined schedule between year 5 and 10;
2. Acquisition of new loans, during the replenishment period and subject to certain conditions (see below);
3. Principal of Class A2 Notes; and

4. Principal of Class B Notes, once Classes A1 and A2 are fully redeemed.

To avoid amortising small amounts of principal of Class A2 Notes, only funds in excess of a certain minimum amount will be applied towards this concept. Any amounts outstanding after acquisition of new loans below this limit would be added to the following period's Provision.

BCL has a call option in case: (i) the outstanding amounts under the Notes is less than 10% of the initial amount; (ii) BCL is downgraded below **Aa3** or below **P-1**; or (iii) there are changes in law that make the transaction uneconomical from a capital requirement point of view.

Moody's rating addresses the timely payment of interest and full redemption of principal on or before the final legal maturity date (July 2030). The rating does not address full redemption of the Notes at the expected maturity date.

CREDIT RISK ANALYSIS

Moody's applied its Binomial Expansion Method[1] in the analysis of the Transaction. Even if all the debtors belong to a same “industry”, a diversity score of 50 was assumed, given the large number of municipalities in the pool and the fact that they are completely independent. Their sources of revenue are the Spanish Government and the Regions, but they also have control over certain local taxes (up to a certain limit).

To assess the probability of default of the pool, Moody's analysed all defaults (more than 90 days past due) of Spanish municipalities on loans made by BCL since 1991 on a dynamic basis. Moody's observed that defaulted loans are usually recovered within two years, except for a few that tend to remain in default for a longer period. Moody's assessed the probabilty of a loan to remain in default for more than 2 years and assumed no recoveries for such loans, concluding that the credit quality of the portfolio as a whole (and not of single municipalities) would be low investment grade. These results were comparable with those obtained when taking into consideration loans more than 90 days past due and assuming a high recovery rate.

Moody's integrated the risk that the loans added might be of lower credit quality than the initial pool as a result, for instance, of a change in BCL's origination standards. Nevertheless, if the overall credit quality of the loan pool (which Moody's will monitor throughout the life of the transaction) shows signs of deterioration, the rating of the Notes might be adjusted.

MANAGEMENT COMPANY

The Management Company (Gestora) has broad powers under the Spanish Securitisation Law.

Europea de Titulización is an experienced company. The obligations of the Gestora within the structure are guaranteed by its shareholders in proportion to their stakes. Banco Bilbao Vizcaya Argentaria accounts for 83.00% of the Gestora equity. The remainder is owned by 15 institutions, including, among others, JP Morgan (4.00%), Abbey National Bank S.A.E. (1.54%), Bankinter (1.53%), Barclays Bank (1.53%), Citibank España (1.53%) and Deutsche Bank (1.53%).

1 See "The Binomial Expansion Method Applied to CBO/CLO Analysis", *Special Comment*, Moody's, December 1996.

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