Rural Hipotecario VII, Fondo de Titulización de Activos

16 Rural Savings Banks
RMBS
Spain

CLOSING DATE:
April 2005

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PLEASE NOTE: *This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of March 2005. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The* ***definitive*** *ratings may differ from the* ***provisional*** *ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk.*

RATINGS

Class	Rating	Amount	% of Total	Legal Final Maturity	Maturity Expected*
A1	(P)**Aaa**	€[957,100,000]	87.01	15/03/38	17/09/2018
A2	(P)**Aaa**	€[100,000,000]	9.09	15/03/38	16/03/2015
B	(P)**Aa3**	€[19,200,000]	1.75	15/03/38	17/09/2018
C	(P)**Baa3**	€[23,700,000]	2.15	15/03/38	17/09/2018
Total		€[1,100,000,000]	100.0		

**assuming 10% prepayment*

The ratings address the expected loss posed to investors by the legal final maturity. The structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

OPINION

Strengths of the Transaction

Structural strengths:

- Excess spread-trapping mechanism through an "18-month artificial write-off" mechanism
- Basis Swap provided by Banco Cooperativo (**A2**/**P-1**)

Collateral:

- No flexible products being securitised – just plain vanilla mortgage loans
- All 1st lien mortgage products
- Most properties are Prime residence
- Repeat issue
- Very few high LTV loans (only 4.81% of total pool)

Weaknesses and Mitigants

- Pro-rata amortisation of the B, and C Series of notes leads to reduced credit enhancement of the senior class in absolute terms. This is mitigated by strict triggers which terminate the pro-rata amortisation of the notes as the performance of the transaction deteriorates.
- 16 Moody's unrated originators in the portfolio
- The performance overviews for these transactions seem to under perform as compare to the average for the Spanish Market.[1] However, it is worth to note that delinquency data in Spain is among the lowest ones Europe wise.

[1] The performance has been contemplated in the model by means of a higher resulting credit enhancement

STRUCTURE SUMMARY

Issuer:	Rural Hipotecario VII, Fondo de Titulización de Activos
Structure Type:	Senior / Mezzanine / Subordinated / Reserve fund
Seller/Originator:	16 unrated Spanish Rural Savings Banks
Servicer:	16 unrated Spanish Rural Savings Banks
Back-up Servicer:	N/A
Interest Payments:	Quarterly on June 15th, September 15th, December 15th, and March 15th
Principal Payments:	Pass-through on each payment date
Credit Enhancement/Reserves:	Spread in the portfolio Fully Funded Reserve fund Subordination of the notes
Liquidity Facility:	N/A
Hedging:	Interest rate swap to cover interest rate risk provided by Banco Cooperativo (**A2**/**P-1**)
Principal Paying Agent:	Banco Cooperativo (**A2**/**P-1**)
Management Company:	Europea de Titulización S.G.F.T., S.A
Lead Managers:	Banco Cooperativo, DZ Bank, BBVA, Société Générale

COLLATERAL SUMMARY

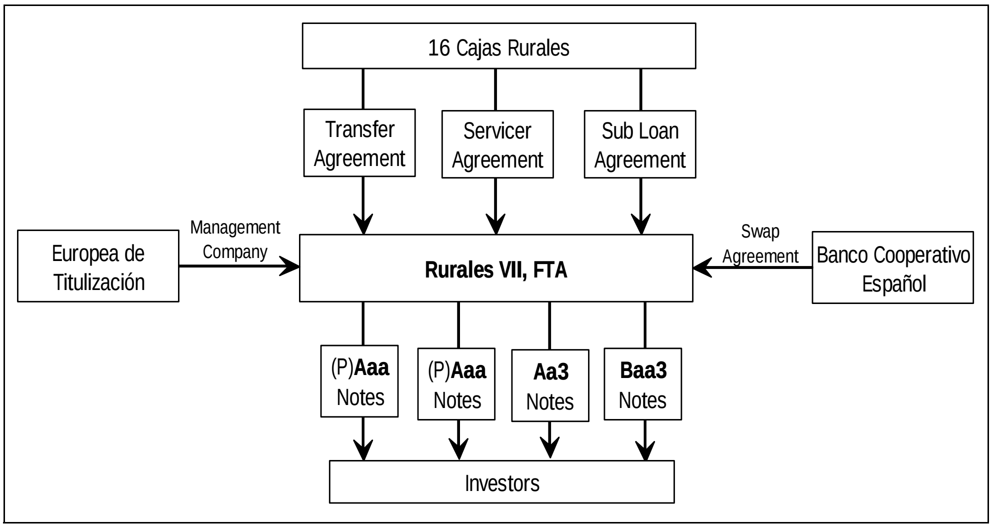
Receivables:	First-lien traditional mortgages
Number of Contracts:	17,994
Number of Borrowers:	17,994
Geographic Diversity:	Andalucia (36.87%), Comunidad Valenciana (21.86%), Castilla Leon (7.79%)
WA Average Current LTV:	61.84%
WA Remaining Term:	252.01 months
WA Seasoning:	26.22 months
Delinquency Status:	No loans more than 30 days in arrears at the time of securitisation
Average Loan:	Approximately 65,494 euros
Interest basis:	100% floating (referenced to different indices such as IRPH, CECA, and 6M and 12M Euribor)
WA Interest Rate:	3.38%

Structural and Legal Aspects

This transaction marks the Cajas Rural seventh issuance in Spain. As in previous Rural transactions, this deal has been originated with mortgages from small credit rural savings s whose main activities comprise lending to retail business and SME companies. Originally, the Rural group's main activity focused on covering the needs of the agricultural sector. However, the development and the expansion of the financial sector due to the growth of the Spanish economy and low interest rates has facilitated the group to grow beyond its initial client base.

The transaction consists of four rated classes and a reserve fund: a senior tranche equal to €957,100,000 rated (P)**Aaa**; a second senior tranche equal to €100,000,000 rated (P)**Aaa**, a mezzanine tranche and a subordinated tranche for amounts equal to €19,200,000 rated (P)**Aa3** and €23,700,000 rated (P)**Baa3**, respectively. The reserve fund is fully funded by the originators at the closing date.

- The product being securitised consists of first lien residential mortgage loans granted to individual resident in Spain, who in most cases will use these loans to acquire or refurbish a primary residence.



With this transaction, 16 Spanish rural savings banks will sell a portfolio of loans to Rural Hipotecario VII, FTA (the "Fondo"), which in turn will issue four Classes of notes to finance the purchase of the loans (at par). The capital structure consists of:

- A subordinated Class C rated (P)**Baa3**
- A mezzanine Class B rated (P)**Aa3**
- A senior Class A1 rated (P)**Aaa**
- A senior Class A2 rated (P)**Aaa**

Each series of classes is supported by the classes subordinated to itself, a cash reserve and the excess spread stemming from the underlying collateral. The swap agreement will also hedge the Fondo against the basis risk derived from having different index reference rates on the assets and notes sides.

In addition, the Fondo will benefit from a €1.1 million subordinated loan provided by the originators to fund the starting expenses and the notes' issuance costs.

Basis swap

To hedge the potential mismatch risk derived from the different index reference rates on the assets side and the notes side, the Fondo will enter into a swap agreement with Banco Cooperativo Español (**A2**/**P1**). Under the agreement, the index reference rates on the underlying mortgage loans are exchanged against the index reference rate on the notes. Any loan whose margin will be renegotiated, will not be allowed to be modified to an index different than EURIBOR nor the weighted average margin of the pool will be allowed to be lower than 0.60%.

In the event of the swap counterparty's long-term rating being downgraded below **A2** or **P1**, within 30 business days it will have to (1) collateralise its obligation under the swap agreement in an amount sufficient to maintain the then current rating of the notes or (2) find a suitably rated guarantor or substitute. Any failure by the swap-counterparty to comply with these conditions will constitute an event of default under the swap agreement.

Reserve fund to help the Fondo meet its payment obligations

The second layer of protection against losses is a reserve fund provided by the 16 originators and fully funded upfront. It will be used to cover potential shortfalls on interest or principal on an ongoing basis.

At every point in time, the amount requested under the reserve fund will be the lesser of the following amounts:

1) 1.04 % of the initial balance of the notes
2) The higher of the following amounts:
   - [2.08] % of the outstanding balance of the notes.
   - [0.52] % of the initial balance of the notes

Amortisation of the reserve fund will cease if any of the following scenarios occur:

- The arrears level exceeds 1%
- The reserve fund is not funded at its required level on the previous payment date

Treasury Account and Amortisation Account

All of the payments under the loans in the mortgage portfolio are collected by the originators under a direct debit scheme and are paid directly into each originator collection accounts. Cash in the collection accounts must be transferred by the originators on a daily basis to the issuer's Guaranteed Interest Contract (GIC) Treasury account held by Banco Cooperativo Español (**A2**/**P-1**).

Moody's has set up some triggers in order to protect the treasury account from the possible downgrade of the short-term rating of Banco Cooperativo. Should Banco Cooperativo's short-term rating fall below **P-1**, it will have to perform any of the following actions in the indicated order of priority within 30 business days:

1) Find a suitably rated guarantor or substitute.
2) Collateralise its payment obligations under the treasury account in an amount sufficient to maintain the then current rating of the notes.

Limitations on the renegotiation of the loans

Any renegotiation of the terms and conditions of the loans is subject to the *gestora*'s approval. Exceptionally, the *gestora* may authorise the originators to renegotiate the interest rate or the maturity of the loans subject to the following conditions:

1) The originator is not allowed to renegotiate the interest rate of any loan if that weighted average margin falls below 0.60% calculated over 12 month Euribor.
2) The frequency of payments cannot be decreased.
3) Loans referenced to other index other than Euribor cannot be renegotiated under the same index – but should rather be renegotiated linked to Euribor.
4) The repayment system cannot be modified.

Payment Structure Allocation

On each quarterly payment date, the Fondo's available funds (principal and interest received from the asset pool, the reserve fund, amounts received under the swap agreement and interest earned on the transaction accounts) will be applied in the following simplified order of priority:

1) Cost and fees, excluding servicing fee (except in the case of the originators being replaced as servicer of the loans)
2) Net amounts due under the swap agreement and any termination payment if the Fondo is the sole affected party
3) Interest payment to Class A1 and A2
4) Interest payment to Class B (if not deferred)
5) Interest payment to Class C (if not deferred)
6) Amortisation fund
7) Interest payment to Class B notes (if deferred)
8) Interest payment to Class C notes (if deferred)
9) Replenishment of the reserve fund
10) Termination payments under the swap agreement other than stated in 2.
11) Junior expenses

Interest Deferral Mechanism

The deferral of interest payments on Classes B and C benefits the repayment of the senior class, but increases the default probability on the first classes (B and C). This negative effect for Classes B and C is mitigated by setting the deferral trigger at a level in which the increase in the probability of default is consistent with the rating assigned to the Classes B and C notes.

The payment of interest on the Classes B and C notes will be brought to a more junior position on the second consecutive payment date in which the following criteria are met:

Class B:	• The principal deficiency exceeds 50% of the initial outstanding balance of Class B notes plus 100% of the initial outstanding balance of Class C notes, and • Class A notes are not fully redeemed
Class C:	• The principal deficiency exceeds 100% of the initial outstanding balance of Class C notes, and • Classes A and B notes are not fully redeemed

The principal due to the notes incorporates an 18 month "artificial write-off" mechanism

In fact, the transaction structure, for the notes benefits from an "artificial write off", which traps available excess spread to cover losses (if any). This type of "artificial write-off" is hidden in the definition of Principal Due, which is the difference between the notes outstanding and the outstanding principal balance of the loans (performing loans plus loans less than 18 months in arrears).

The "artificial write-off" speeds up the off-balance sheet of a non-performing loan; thus, the amount of notes collateralised by non-performing loans is minimised, - hence the negative carry. However, the most important benefit for the transaction is that the amount of excess spread trapped in the structure is greater (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost): the transaction, therefore, makes better use of the excess spread, allowing for lower levels of other credit enhancement figures.

A principal deficiency will occur, on any payment date, if the issuer's available funds are not sufficient to reimburse the principal due under the notes, according to the cash flow rules stated above.

Principal due allocation mechanism

As in the previous Rurales transactions, this transaction also includes pro-rata amortisation. Pro-rata amortisation entails risk as opposed to fully sequential transactions, given that the credit enhancement decreases in absolute terms.

Until the payment date on which the outstanding amount of Classes B and C notes exceeds 3.50% and 4.50% of the outstanding amount under all series, respectively, the amount retained as principal due will be used for the repayment of Class A. Once Classes B and C start to be amortised, the amount retained as principal due will be pro-rata distributed among the four series, so that the percentages indicated above are kept at any payment date thereafter. Nevertheless, amortisation of Classes B and C will not take place on the payment date on which any of the following events occur:

Class B	Class C
• The arrears level exceeds 1.5%	• The arrears level exceeds 1%
• The cash reserve is not funded at its required level	
• The loan balance is less than 10% of the initial loan balance	

Class A Amortisation Profile

Class A has a particular amortisation profile – all available principal funds will be allocated first to the amortisation of the A2 tranche always subject to the pre-defined waterfall payment schedule. All remaining quantities will be allocated to the A1 tranche bonds.

However, if any of the following circumstances occurs the above defined amortisation profile will be terminated and both tranches will be repaid on a pro-rata basis.

- If 90+ arrears exceed 2% of the non-defaulted loans outstanding balance
- If the ratio between the A2 tranche and the outstanding balance of the loans is greater than 25%.

As mentioned, once the remaining tranches have reached their target level, all tranches will amortise pro-rata.

THE COLLATERAL

THE COLLATERAL

The portfolio comprises 17,994 loans representing a provisional portfolio of €1,10bln. The collateral backing the note issuance is entirely made up of first property mortgage loans. The loans have a weighted average seasoning of approximately 26.2 months. The current weighted average LTV is 61.84%. No loan LTV is over 100%

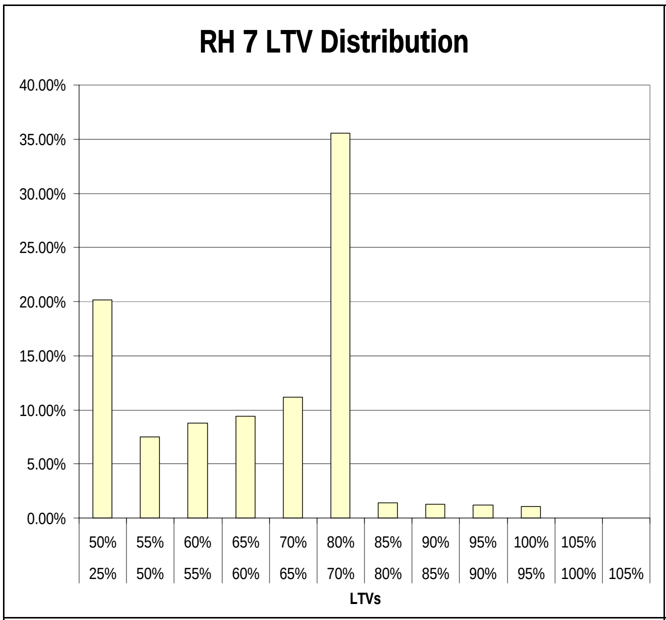
All loans are linked to several indices, with a weighted average margin of 83 bps. All of the loans are payable via direct debit and pay through monthly instalments.

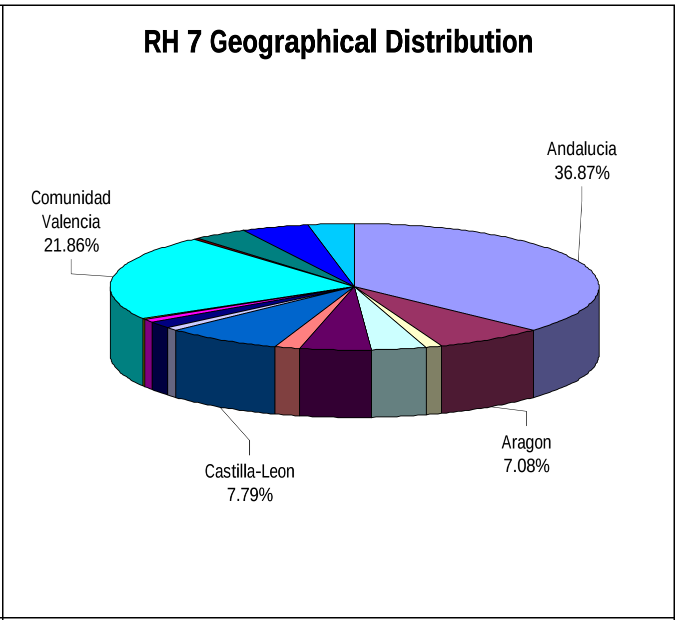
CECA	4	0.02%
EURIBOR 1YR	13163	72.17%
EURIBOR 6M	40	0.22%
MHBC	2	0.01%
MHCA	2078	11.39%
MHTO	2952	16.19%

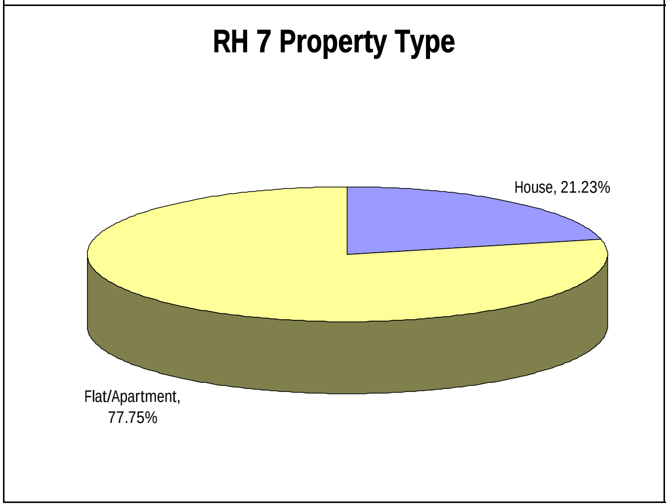
All the properties on which the mortgage security has been granted are covered by property damage insurance and fire insurance. The pool is concentrated in Andalusia (36.87%), Valencia (21.86%) and Castilla Leon (7.79%). At the closing date there will be no loans with more than 30 days in arrears.

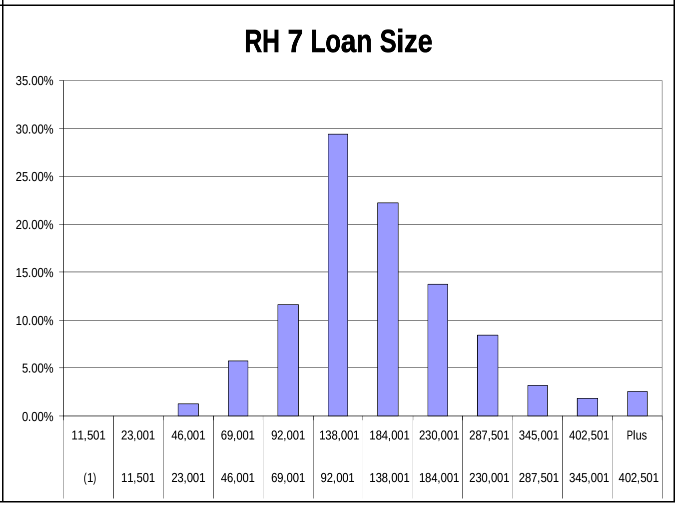
As mentioned the originators in the deal are 16 unrated Spanish Rural Savings Banks. Their distribution is as follows:

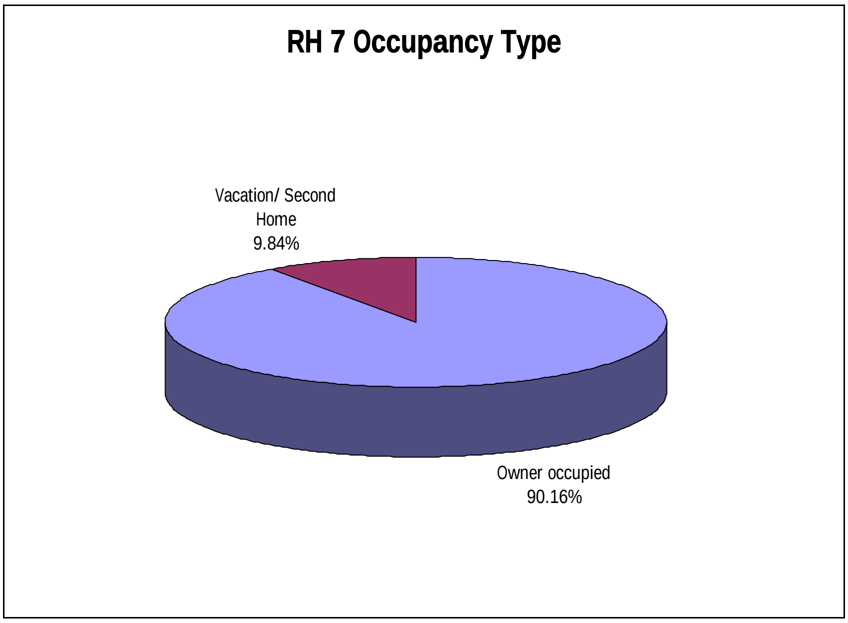
	Number of Loans	%
Caixa Popular	64	0.36%
Caixa Rural de Balears	386	2.15%
Caja Campo Caja Rural	427	2.37%
Caja Rural Central	148	0.82%
Caja Rural de Albacete	100	0.56%
Caja Rural de Aragon	1460	8.11%
Caja Rural de Burgos	866	4.81%
Caja Rural deGijon	246	1.37%
Caja Rural de Granada	4964	27.59%
Caja Rural de Navarra	1010	5.61%
Caja Rural de Tenerife	799	4.44%
Caja Rural de Teruel	205	1.14%
Caja Rural de Zamora	445	2.47%
Caja Rural de Duero	379	2.11%
Caja Rural del Mediterraneo	4083	22.69%
Caja Rural del Sur	2412	13.40%


RH 7 LTV Distribution
40.00%
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
50% 55% 60% 65% 70% 80% 85% 90% 95% 100% 105%
25% 50% 55% 60% 65% 70% 80% 85% 90% 95% 100% 105%
LTVs


RH 7 Geographical Distribution
Andalucia
36.87%
Comunidad
Valencia
21.86%
Castilla-Leon
7.79%
Aragon
7.08%


RH 7 Property Type
House, 21.23%
Flat/Apartment,
77.75%


RH 7 Loan Size
35.00%
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
11,501 23,001 46,001 69,001 92,001 138,001 184,001 230,001 287,501 345,001 402,501 Plus
(1) 11,501 23,001 46,001 69,001 92,001 138,001 184,001 230,001 287,501 345,001 402,501


RH 7 Occupancy Type
Vacation/ Second
Home
9.84%
Owner occupied
90.16%

ORIGINATOR, SERVICER AND DUE DILIGENCE

Originators

The Cajas Rurales group is present in almost every region in Spain and has assets totalling €41.6 billion. The group currently comprises 74 savings institutions and rural savings institutions. Moody's believes each originator is capable of fulfilling its servicing obligations in the transaction.

Banco Cooperativo Espanol (A2/P-1)

Banco Cooperativo's main objective is not to maximise profits but to be an all-round service provider to the Cajas Rurales, with the aim of strengthening the competitive advantages of this sector which accounts approximately for 5% of Spain's financial system. The bank is currently owned by 74 Cajas Rurales in Spain, which are associated under a federal model. German savings central bank DZ Bank (A2/P-1/D) also has a 15% ownership stake in Banco Cooperativo.

MOODY'S ANALYSIS

Determination of lognormal loss distribution

The first step in the analysis is to determine a loss distribution for the pool of mortgages to be securitised. Due to the high volume of loans and supporting historical data, Moody's uses a continuous distribution model to approximate the loss distribution: lognormal distribution.

In order to determine the shape of the curve, two parameters are needed: the expected loss and the volatility associated with this expected loss. These parameters are derived from the Moody's Individual Loan Analysis ("MILAN") model.

In order to extrapolate expected losses for the loan pool, Moody's has compared the underwriting criteria of the originators with those of other mortgage originators in Spain.

Moody's thus determines a number representing the enhancement that would be required for a pool of mortgages to obtain a 'Aaa' rating under highly stressed conditions. This enhancement number (the "Aaa CE" number) is obtained by means of a loan-by-loan model.

The "Aaa CE" number is determined by using "MILAN", Moody's loan-by-loan model for rating RMBS transactions

The "MILAN" model looks at each loan in the pool individually and, based on its individual characteristics such as LTV or other identified drivers of risk, computes a benchmark CE number. This number assumes stressed recovery rates (through house price decline), interest rates and costs of foreclosure, as well as a stressed recovery time. The weighted average benchmark CE number is then adjusted according to the positive and negative characteristics of each loan and to those of the pool as a whole, in order to produce the "Aaa CE" number.

The "Aaa CE number" and the Expected Loss Number form the basis of Rating Committee discussions and are used to derive the lognormal distribution of the pool losses.

The standard deviation of the distribution is found by setting the probability of a loss greater than the expected loss that is consistent with the Idealised Expected Loss target of the "Aaa CE number".

"MARCO", Moody's cash-flow model, is used to assess the impact of structural features of RMBS transactions

Once the loss distribution of the pool under consideration has been computed, a cash flow model, Moody's Analyzer of Residential Cash-Flows ("MARCO"), is used to assess the impact of structural features of the transaction, such as the priorities of interest and principal and the related triggers, swap features and excess margins, liquidity mechanisms and the value of excess spread.

The sum of the loss experienced per note Series in each scenario, weighted by the probability of such loss scenarios, will then determine the expected loss on each tranche and hence the rating, in line with Moody's target losses for each rating category.

RATING SENSITIVITIES AND MONITORING

Europea de Titulización S.G.F.T, S.A, in its capacity as management company, will prepare monthly monitoring reports with respect to the portfolio and payments to the notes. These reports will detail the amounts received by the issuer during each collection period and will provide portfolio data. Moody's will monitor this transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes to the rating will be publicly announced and disseminated through Moody's Client Service Desk. For updated monitoring information, please contact monitor.madrid@moodys.com

RELATED RESEARCH

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For a more detailed explanation of Moody's rating approach to this type of transaction, similar transactions and performance data, please refer to the following reports:

- SPECIAL REPORT: Moody's Approach to Rating Spanish RMBS: The "MILAN" model, March 2005
- SPECIAL REPORT: Introducing Moody's Arrears Index for Spanish Mortgage-Backed Securities, March 2002.
- SPECIAL REPORT: Moody's Spanish RMBS Arrears Index: Delinquency Levels Remained Persistently Low in 2002 But Are Likely To Rise Given Weakening Global Economy And Factors Affecting Homeowners' Indebtedness, May 2003.
- SPECIAL REPORT: Structural Features in the Spanish RMBS Market Artificial Write-Off Mechanisms: Trapping the Spread, January 2004.
- SPECIAL REPORT: Spanish RMBS Q3 2004 Performance Review, February 2005
- Any Rural Hipotecario Series NIRs.

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