

# Bankinter 14, Fondo de Titulización Hipotecaria

## RMBS / Spain

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of January 2007. 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. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

### Estimated Closing Date

March 2007

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## PROVISIONAL (P) RATINGS

| Class | Rating         | Amount<br>(million) | % of<br>Notes | Legal Final<br>Maturity | Coupon     |
|-------|----------------|---------------------|---------------|-------------------------|------------|
| A1    | (P) <b>Aaa</b> | €[172.7]            | 18.18         | Dec. 49                 | 3mE + [·]% |
| A2    | (P) <b>Aaa</b> | €[566.6]            | 59.65         | Dec. 49                 | 3mE + [·]% |
| A3    | (P) <b>Aaa</b> | €[172.7]            | 18.18         | Dec. 49                 | 3mE + [·]% |
| B     | (P) <b>Aa2</b> | €[14.1]             | 1.48          | Dec. 49                 | 3mE + [·]% |
| C     | (P) <b>A3</b>  | €[14.2]             | 1.50          | Dec. 49                 | 3mE + [·]% |
| D     | (P) <b>Ba2</b> | €[9.5]              | 1.00          | Dec. 49                 | 3mE + [·]% |
| E     | (P) <b>C*</b>  | €[14.2]             | 1.50          | Dec. 49                 | 3mE + [·]% |
| Total |                | €[964]              | 101.50        |                         |            |

*The ratings address the expected loss posed to investors by the legal final maturity. 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.*

\* In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date on Classes A/B/C/D, and for ultimate payment of interest and principal at par on or before the rated final legal maturity date on Class E.

## OPINION

### Strengths of the Transaction

- Quality and experience of Bankinter as an originator of mortgage loans
- Good quality of data provided
- No high LTV mortgage credits within the portfolio
- Reserve fund fully funded upfront through equity to cover potential shortfall in interest and principal
- Excess spread-trapping mechanism through an “18-month artificial write-off” mechanism
- All of the mortgage credits are paid via direct debit
- All of the mortgage credits paid through monthly instalments
- Good performance of the “Hipoteca Sin” mortgage product backing the transaction in the past five years

### Weaknesses and Mitigants

- Excess spread is very tight. However, the credit enhancement has been sized accordingly.
- Pro-rata amortisation of Classes B, C and D leads to reduced credit enhancement of the senior class in absolute terms. This is mitigated by strict triggers that terminate the pro-rata amortisation of the notes as the performance of the transaction deteriorates.



- The deferral of interest payments on each of Classes B, C and D benefits the repayment of the class senior to each of them, but increases the expected loss on Classes B, C and D themselves. The reserve fund and the subordination have been sized accordingly to account for this deterioration on the expected loss.
- The whole portfolio consists of flexible mortgage credits, where the debtors can make successive redraws and enjoy grace periods on interest and principal. The credit enhancement has been sized accordingly for these characteristics of the assets.

## STRUCTURE SUMMARY *(see page 4 for more details)*

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|                              |                                                                                    |
|------------------------------|------------------------------------------------------------------------------------|
| Issuer:                      | BANKINTER 14 Fondo de Titulización Hipotecaria                                     |
| Structure Type:              | 5 rated classes (from <b>Aaa</b> to <b>C</b> level), Reserve Fund and spread       |
| Borrower:                    | BANKINTER ( <b>Aa3/P-1</b> )                                                       |
| Seller/Originator:           | BANKINTER ( <b>Aa3/P-1</b> )                                                       |
| Servicer:                    | BANKINTER ( <b>Aa3/P-1</b> )                                                       |
| Back-up Servicer:            | N/A                                                                                |
| Interest Payments:           | Quarterly on each payment date                                                     |
| Principal Payments:          | Pass-through on each payment date                                                  |
| Credit Enhancement/Reserves: | Fully funded Reserve Fund, plus subordination plus excess spread                   |
| Hedging:                     | Basis swap provided by Bankinter ( <b>Aa3/P-1</b> )                                |
| Principal Paying Agent:      | BANKINTER ( <b>Aa3/P-1</b> )                                                       |
| Management Company:          | Europea de Titulización, S.G.F.T.                                                  |
| Arranger/Lead Manager:       | BANKINTER ( <b>Aa3/P-1</b> )<br>Banco Santander Central Hispano ( <b>Aa3/P-1</b> ) |

## COLLATERAL SUMMARY *(see page 7 for more details)*

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|                          |                                                     |
|--------------------------|-----------------------------------------------------|
| Mortgage Credits Amount: | €1,027,114,429                                      |
| Mortgage Credits Count:  | 6,365                                               |
| Pool Cut-Off Date:       | 27 January 2007                                     |
| WA Original LTV:         | 63.41%                                              |
| WA Current LTV:          | 60.38%                                              |
| WA Seasoning:            | 14.98 months                                        |
| WA Remaining Term:       | 28.31 years                                         |
| Interest Rate Type:      | 3.89%                                               |
| Geographic Diversity:    | Madrid (27%), Catalonia (20%), Andalusia (15%)      |
| Loan Purpose:            | Acquisition, refurbishment or refinance of property |
| Loan Size:               | €161,369                                            |

**The second Bankinter transaction backed by a flexible mortgage product**

## TRANSACTION SUMMARY

Bankinter 14, Fondo de Titulización Hipotecaria (“the *Fondo*”) is a securitisation fund created with the aim of purchasing a pool of mortgage credits granted by Bankinter.

Its key notable feature is that it is backed by a specific mortgage product, Bankinter’s “*Hipoteca Sin*”. This is the second time the bank has launched a transaction backed by a flexible mortgage product (see description below) following Bankinter 11, which closed in 2005.

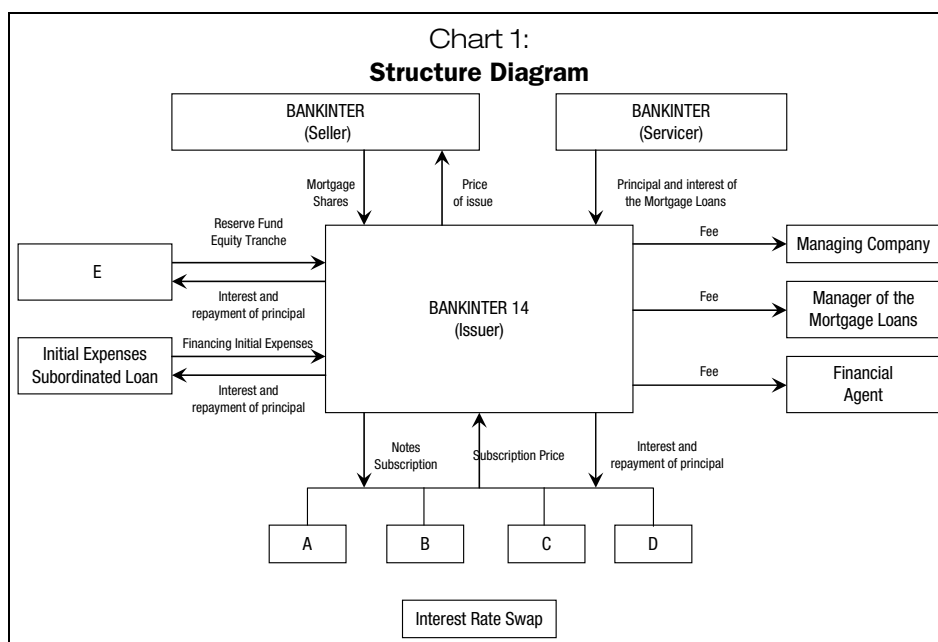
Structurally, the transaction consists of five rated classes – Class A, which is itself composed by three series, each of which is rated (P)**Aaa**; two mezzanine classes, Class B rated (P)**Aa2** and Class C rated (P)**A3**; a subordinated class, Class D rated (P)**Ba2**; and an equity tranche, Class E, which is rated (P)**C**, for an equal amount to the Reserve Fund.

The special purpose vehicle in the transaction will use the proceeds from the issuance of the notes to purchase the mortgage credits portfolio, as illustrated in the structure diagram below. The total initial purchase price of the mortgage credits will be equal to the proceeds received from the issue of the rated Class A, B, C and D notes and the cash reserve will be funded with the proceeds from the equity tranche.

The equity tranche will amortise for an amount equal to the difference between the Reserve Fund required amount on the previous payment date and the Reserve Fund required amount on the current payment date.

## STRUCTURAL AND LEGAL ASPECTS

**Five-class structure as previously seen in other Bankinter deals**



**Amortisation of the Class A Notes**

In the event that the Series A1 Notes are fully redeemed before the payment date falling in September 2008, all funds available for the repayment of the remaining classes of notes will be transferred to the amortisation account, creating an amortisation fund for the notes. Funds available under the amortisation account will be used for the repayment of the notes on the payment date falling in September 2008.

The negative carry created by the funding of the amortisation fund will be compensated by the annual yield of the amortisation account, which is equal to the interest rate of the Series A1, A2, A3, B, C and D Notes plus the average coupon.

Initially, the structure follows sequential payment among the Series A1, A2 and A3 notes. In order to protect the different Class A notes, in the event that the A1 and/or A2 notes are not fully redeemed, the amortisation will change from sequential to pro-rata among Series A1, A2 and A3 when on a Payment Date the ratio between:

- The outstanding amount of the mortgage credits (if any) less than 3 months in arrears plus the amount in the Amortisation Account, and
- The outstanding amount of the Class A notes is 1 or below.

### ***The pro-rata amortisation***

Another layer of protection for the holders of the more senior classes of notes is the subordination of principal and interest due to the more junior classes of notes.

Initially, Class B will be fully subordinated to Series A1, A2 and A3. Class C Note interest is paid in priority to Class D Note interest, and Class D Note interest is paid in priority to Class E Note interest.

This transaction also includes pro-rata amortisation:

- The Class B notes will start amortising pro rata with the Class A notes when they represent [2.969]% of the outstanding balance under the Class A1, A2, A3, B, C and D notes.
- The Class C Notes will start amortising pro rata with the Class A and B notes when they represent [2.990]% of the outstanding balance under the Class A1, A2, A3, B, C and D notes.
- The Class D Notes will start amortising pro rata with the Class A, B and C notes when they represent [2.000]% of the outstanding balance under the Class A1, A2, A3, B, C and D notes.

Moody's recognises that pro-rata amortisation entails greater risk than fully sequential transactions, given that the credit enhancement decreases in absolute terms. Nevertheless, amortisation of Classes B, C and D will not take place on the payment date on which any of the following events occurs:

Table 1:

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#### **Class B**

The outstanding amount of mortgage credits more than 90 days but less than 18 months past due is higher than 1.5% of the outstanding amount of the Non-written off mortgage credits.

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#### **Class C**

The outstanding amount of mortgage credits more than 90 days but less than 18 months past due is higher than 1.25% of the outstanding amount of the Non-written off mortgage credits.

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#### **Class D**

The outstanding amount of mortgage credits more than 90 days but less than 18 months past due is higher than 0.75% of the outstanding amount of the Non-written off mortgage credits.

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The available amount under the Reserve Fund is not equal to the then current required amount.

In addition to these triggers, the pro-rata amortisation will cease when the mortgage credits balance is less than 10.0% of the initial mortgage credits balance.

During the first three years of the deal's life, the Reserve Fund (RF) will be kept at the initial required level. After this initial period of time, the RF required amount will be the minimum of the following quantities:

- 1) [1.50]% of the initial balance of the notes
- 2) The higher of the following amounts:
  - [2.98]% of the outstanding balance of the A1, A2, A3, B, C and D notes
  - [1.10]% of the initial balance of the notes

The RF will not be amortised if any of the following scenarios occurs:

- The RF is not at its required balance.
- Delinquencies over 90 days surpass a level of 1.00% of the outstanding balance of the assets.
- The weighted average margin of the pool falls below 0.38%.

The payment of interest on the Class B, C and D Notes will be brought to a more junior position if, on any payment date any of the following criteria are met:

### ***Reserve Fund***

### ***Interest deferral trigger based on cumulated defaults***

Table 2:

**Interest Deferral Triggers**

|          |                                                                                                                                                                            |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Class B: | The accumulated amount of written-off mortgage credits is higher than 8.90% of the initial amount of the asset pool.<br>Series A1, A2 and A3 are not fully redeemed.       |
| Class C: | The accumulated amount of written-off mortgage credits is higher than 7.80% of the initial amount of the asset pool.<br>Series A1, A2, A3 and B are not fully redeemed.    |
| Class D: | The accumulated amount of written-off mortgage credits is higher than 4.80% of the initial amount of the asset pool.<br>Series A1, A2, A3, B and C are not fully redeemed. |

***The Swap***

The transaction will include a basis swap by which the index reference rates on the assets (12M Euribor) are exchanged against the index reference rate on the notes (3M Euribor).

***The Waterfall***

On each quarterly payment date, the *Fondo's* available funds will be applied in the following simplified order of priority:

1. Taxes, costs and fees, excluding servicing fees (except in the case of Bankinter being replaced as servicer of the mortgage credits)
2. Any amount due under the swap agreement and swap termination payment if the *Fondo* is the defaulting or the sole affected party
3. Interest payment to Series A1, A2 and A3
4. Interest payment to Class B (if not deferred)
5. Interest payment to Class C (if not deferred)
6. Interest payment to Class D (if not deferred)
7. Principal payment to Series A1, A2, A3, B, C and D
8. Interest payment to Class B (if deferred)
9. Interest payment to Class C (if deferred)
10. Interest payment to Class D (if deferred)
11. Replenishment of the Reserve Fund
12. Interest payment to the equity tranche
13. Amortisation of the equity tranche
14. Termination payment under the swap agreement (except if the *Fondo* is the defaulting or the sole affected party)
15. Junior expenses

The transaction will also have a post-enforcement waterfall and it is clearly stated that upon termination of the deal the Reserve Fund will also be used for payment of the equity tranche principal.

***The principal due to the notes incorporates an 18-month “artificial write-off” mechanism which enhances capture of excess spread***

The transaction's structure benefits from an “artificial write-off” mechanism. This mechanism is implicit in the definition of principal due under the notes which, on each payment date, is calculated as the difference between (i) the outstanding amount of Classes A, B, C and D, and (ii) the outstanding amount of the non written-off mortgage credits (the “written-off mortgage credits” being defined as those mortgage credits with any amount due but unpaid for more than 18 months).

***Treasury account held by Bankinter***

Items deposited in the fund treasury account will include the proceeds from the mortgage credits, any amount received under the swap agreement, and the Reserve Fund.

All of the payments under the mortgage credits in the portfolio are collected under a direct debit scheme, and they are transferred to the fund's treasury account held by Bankinter (**Aa3/P-1**) seven days after being received.

Moody's set up some triggers in order to protect the fund treasury account from the possible downgrade of the fund treasury holder's P-1 short-term rating.

## **Renegotiations**

The management company authorises Bankinter as servicer to renegotiate the spread over the index reference rate or the maturity of any mortgage credit without requiring its approval (although this authorisation can be revoked at any point in time during the life of the transaction). However, Bankinter will not be able to (1) renegotiate the spread of any mortgage credit if the weighted average spread of the pool is below 35 bppa, or (2) extend the maturity later than 29 September 2046.

## **The “Hipoteca Sin”, Bankinter’s flexible product**

### **COLLATERAL**

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All of the securitised mortgage credits have been granted as part of Bankinter’s *Hipoteca Sin* flexible product, which comprises a traditional mortgage product with several additional characteristics embedded into it that aid in the payment flexibility. These include: (1) successive redraws on the portion of the mortgage that has been amortised, (2) extension of credit payment terms, and (3) grace periods (both interest and principal grace periods).

Only the first drawdowns of the line of credit will be securitised.

Regarding more specific characteristics of the product:

- First drawdown: up to 80% LTV
- Successive drawdowns: up to the level of the initial drawdown
- Maturity of successive drawdowns: up to 10 years (with a maximum level equal to the initial maturity)
- Loan Extension: The debtor has the option of extending the mortgage credit to up to 40 years. No such extensions are possible during the first two years but after this period, the debtor can extend the mortgage loan by six months for each full year that has already been amortised.
- Grace Periods (excluding the first drawdown): These are valid from Year 3 onwards, with a maximum of three consecutive instalments per year and no more than 12 grace periods in a 10-year period. Any unpaid interest will be paid in a single instalment as soon as payments are resumed.

The collateral is exclusively composed of first-lien mortgages granted for the purpose of acquiring, refurbishing or constructing a residential property. All residences are completed at the time of securitisation. As of January 2007, the portfolio comprised 6,365 mortgage credits. The weighted average current LTV is 60.38%. The average mortgage credit size is €161,369, compared to the Spanish average of €140,000. The largest size is €860,462 and the top 20 loans amount to 1.30% of the portfolio.

All of the mortgage credits are linked to 12-month Euribor. They are originated between 2003 and 2006 with a weighted average seasoning of 1.25 years.

The pool is relatively well diversified, with the main concentrations in Madrid (26.71%), and Catalonia (20.10%).

See the charts in the Appendix for more detailed collateral characteristics.

### **ORIGINATOR, SERVICER AND OPERATIONS REVIEW**

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## **Bankinter as very strong originator and with a proven track record**

Moody’s **Aa3/P-1/B** ratings for Bankinter reflect the bank’s solid credit fundamentals – strong efficiency levels, good asset quality and strong recurring earning power – as well as its technological leadership. The ratings also take account of the bank’s more limited position in the Spanish market. Bankinter’s business focuses primarily on servicing and financing small- and medium-sized companies and the top end of the retail market. Its sophisticated clientele and increasing reliance on non-conventional channels to distribute products and services could make Bankinter’s retail franchise more vulnerable to new participants in an increasingly commoditised market, which compels the bank to maintain at all times a differentiated product offering and high quality of service. A low cost structure and strong and stable non-interest income enable the bank to maintain a recurring earnings power above that of many of its larger peers. We believe that Bankinter’s success – demonstrated by strong financial fundamentals – is underpinned by its flexible and agile commercial strategy, which is in turn based on technological leadership that allows it to react rapidly to market changes in a highly competitive environment.

***The “AAA CE” number is determined by using “MILAN”, Moody’s loan-by-loan model for rating RMBS transactions***

***“MARCO”, Moody’s cash-flow model, is used to assess the impact of structural features of RMBS transactions***

***Moody’s publishes periodic updates: performance overviews for each transaction***

## MOODY’S ANALYSIS

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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 “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”.

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

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Moody’s monitors all transactions on an ongoing basis to ensure that they continue to perform in line with expectations, including checking counterparty ratings and reviewing periodic servicing reports.

Any subsequent changes in the ratings will be publicly announced and disseminated through Moody’s Client Service Desk.

Moody’s also publishes quarterly Performance Overviews for each transaction, which will contain summarised information about the asset and note performance, as well as any other material changes affecting the notes.

## RELATED RESEARCH

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For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions, please refer to the following reports:

### **Performance Review**

- Spanish RMBS Q3 2005 Performance Review, February 2006 (SF68992)

### **Rating Methodology**

- Moody's Approach to Rating Spanish RMBS: The "MILAN" model, March 2005 (SF49068)

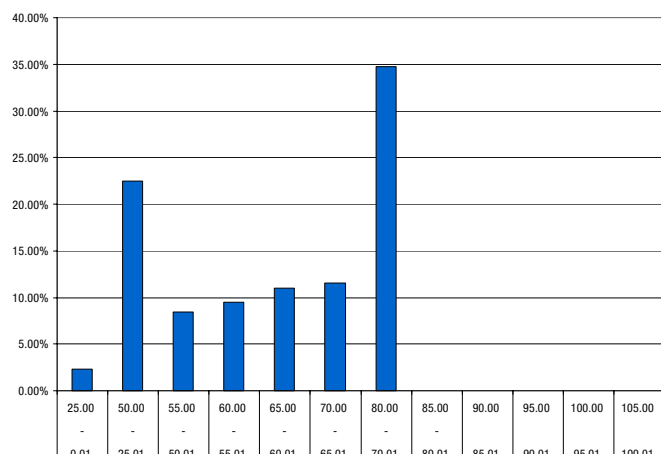
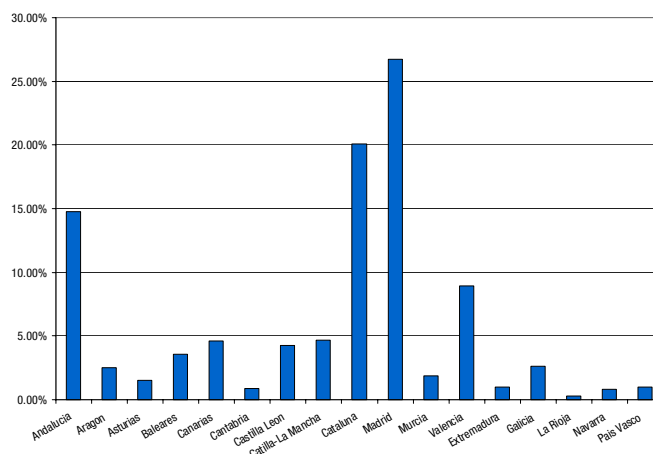
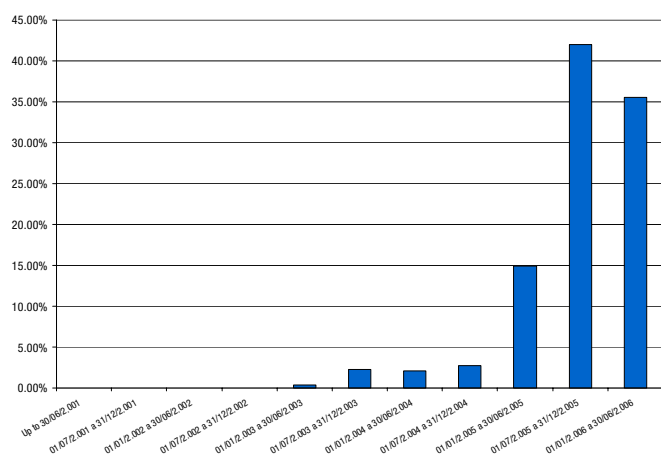
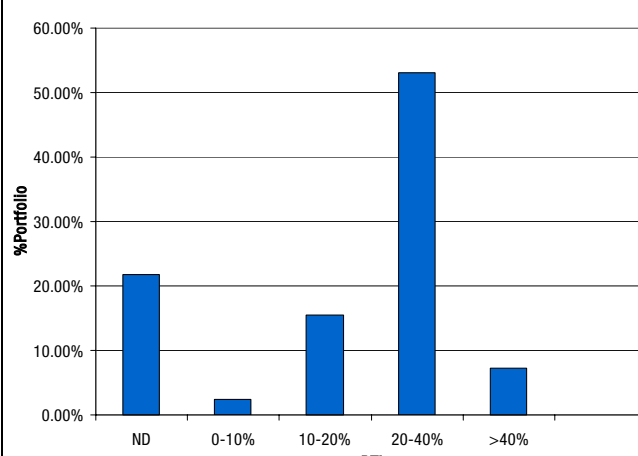
### **Special Reports**

- Structural Features in the Spanish RMBS Market Artificial Write-Off Mechanisms: Trapping the Spread, January 2004 (SF29881)
- 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 (SF21607)
- Introducing Moody's Arrears Index for Spanish Mortgage-Backed Securities, March 2002 (SF12700)

### **Pre-Sale Reports**

- Bankinter 13, November 2006 (SF86262)
- Bankinter 12, March 2006 (SF70460)
- Bankinter 11, November 2005 (SF65749)

*To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.*

Chart 2:  
LTVChart 3:  
Regional DistributionChart 4:  
Origination DateChart 5:  
DTI

SF94370isf

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