

Bancaja 2

Fondo de Titulización Hipotecaria, Bonos de Titulización Hipotecaria

Spain

CLOSING DATE:

October 26, 1998

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TRANSACTION IN BRIEF

	Senior Series A	Mezzanine Series B
Rating:	Aaa	A2
Amount:	Ptas 38,575,000,000	Ptas 1,425,000,000
Coupon:	LIBOR 12M + 0.18%	LIBOR 12M + 0.55%
Payment Dates:	22nd, September, annually	
Final Maturity:	22nd September, 2023	
Issuer:	Bancaja 2 Fondo de Titulización Hipotecaria	
Originator/Administrator:	Bancaja (Caja de Ahorros de Valencia, Castellón y Alicante)	
Management Company:	Europea de Titulización S.A., S.G.F.T. (Gestora)	
Swap Provider:	Bancaja (A1)	
Depository/Paying Agent:	Bancaja (A1)	
GIC Provider:	Bancaja (A1)	
Lead Manager:	Bancaja	

Collateral Characteristics

Type:	Mortgage Participations (Participaciones Hipotecarias: PHs)		
Coupon:	100% of underlying mortgage rate		
Count:	6,859		
Total Amount (Approx.):	Ptas 40 bn		

Provisional Pool of Underlying Mortgage Loans

Type:	Primary residential mortgage loans		
WALTV:	61,38%	Max: 79.6%	
Average Loans:	6,262.901	Max: 37,725,718	Min: 2,001,919
WAC (Current):	5,70%	Min: 3,50%	Max: 8,75%
Interest Basis:	Variable rates		
Indices:	Various (95.15% MIBOR, 1.60% CECA and 3.25 MHCA).		
Orig Loan Purpose:	Purchase, construction and renovation		
Geog. Concentrations:	Valencia 92.8%, Castilla-La Mancha 4.1%, Others: 3.1%		
Structure:	Senior/Mezzanine/Reserve Fund		
Credit Enhancement:	Reserve Fund (Ptas 832,000,000) and Excess Spread		
Expected Issue Date:	October 27, 1998		



OPINION

Moody's has assigned a rating of **Aaa** to the Series A Notes and a rating of **A2** to the Series B Notes of Bancaja 2 Fondo de Titulización Hipotecaria. The **Aaa** rating of Series A Notes is based on: (1) the legal characteristics of the mortgage participations (participaciones hipotecarias-PHs) and a loan by loan analysis of the quality of the mortgage loans underlying them; (2) the credit enhancement provided by the reserve fund in the structure, (3) the strength of the cash flows, including excess spread available for losses; (4) the contractual obligations of parties in the transaction, particularly the swap between Europea de Titulización on behalf of the issuer and Bancaja (**A1**); (6) The experience of the Europea de Titulización as a Gestora.

The ratings of the Class B Notes are based on the above factors and on an assessment of the extent of their subordinate position within the structure.

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

The ratings of each of the Notes address the timely payment of interest, and ultimate payment of principal.

RATING SUMMARY

Structure

The Bonos de Titulización Hipotecaria (BTHs) are issued by a mortgage securitisation fund (fondo de titulización hipotecaria) which was created and is managed by Europea de Titulización S.A, the management company or "Gestora". The BTHs 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 legal personality, any such action must be taken on its behalf by the Gestora. In this transaction the PHs entitle the fondo 100% of the principal and 100% interest of the underlying mortgage loan. Payments of interest on PHs purchased by a mortgage securitisation fund are not subject to withholding tax.

All of the mortgage loan securing the PHs were originated by Bancaja (**A1**), 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.

Collateral/Credit Enhancement

Moody's believes that the provisional pool of mortgage loans underlying the PHs has several strong characteristics. The mortgages consist of first charges on residential properties that are all believed to be owner occupied. The average current loan to original valuation ratio is approximately 61%. The pool benefits from average seasoning of approximately 13 years while the short average life remaining on the mortgages loans allows equity to build up in the property relatively quickly. Moody's noted that the level of arrears since 1993 has been low and that no loans selected for inclusion in the transaction may not be delinquent at the time of the transfer of the PHs to the fund.

Moody's compared the expected performance of the mortgage pool in a variety of severe economic scenarios to determine the necessary credit protections needed to cover losses and arrears at a level consistent with the ratings assigned to the Series B Bonos. This analysis is benefited from the comprehensive data available to the issuer regarding the historic performance of the loans.

The first layer of protection is *spread* in the transaction, which is the difference between the note rate paid to the bondholders (Peseta LIBOR plus 18 bp on the Series A Bonos, and Peseta LIBOR plus 55 bp on the Series B Bonos) and the payment received from the swap counterparty. Bancaja, as provider of the swaps, receives the rate on the PHs less 65 bp and pays the Fondo the weighted average rate of the class A and B bonds. The value of this ongoing 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 the reserve fund within each interest period is not trapped within the structure.

The second layer of protection for investors is the reserve fund, which consists of 2.08% of the outstanding principal balance of the PHs growing to 3.21%. From that moment it declines in size along with the current principal balance of the PHs and is replenished from spread income to the extent that it is used. The interest earned on this reserve fund is also available to cover losses of principal or interest on both classes of Notes.

The Issuer benefits from a GIC with Bancaja that guarantees a rate of interest equal to the three month MIBOR rate, on all amounts deposited in the Collection Account opened in the name of the Fondo at Bancaja (**A1**). If the short term rating of Bancaja drops below **Prime-1**, Bancaja will undertake within 30 days to transfer any collections under the mortgage participations to an account established with a **Prime-1** rated institution.

Interest on the Series B Bonos is subordinated to both Series A interest and principal and Series B Principal. Series B will also only be amortised if the principal balances of mortgages over 90 days in arrears is less than 6.5% of the remaining pool.

Start-up expenses and the initial reserve fund are paid through a subordinated loan from Bancaja which is repaid with excess spread.

Origination/Servicing

Moody's reviewed the facilities, underwriting and collections procedures, and servicing systems of Bancaja, and compared them with the overall lending practices of banks and mortgage lenders in Spain. Moody's believes that Bancaja (**A1**) is an experienced servicer that is capable of fulfilling its servicing obligations in the transaction.

Management Company (Gestora)

The management company (Sociedad Gestora) has broad powers under the Spanish securitisation law. Europea de Titulización, has experience of Spanish mortgage securitisation structures.

The obligations of the Gestora within the structure are guaranteed by its shareholders in proportion to their holdings. Argentaria 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 154%, Bankinter 153%, Barclays Bank 153%, Citibank España 153%, Deutsche Bank 153%.

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