European Structured Finance
New Issue

FonCaixa Hipotecario 2, Fondo de Titulización Hipotecaria

Ratings

Floating-Rate Mortgage-Backed Notes due 2049

EUR 580,500,000 Class A ....AAA
EUR 19,500,000 Class B.....................A

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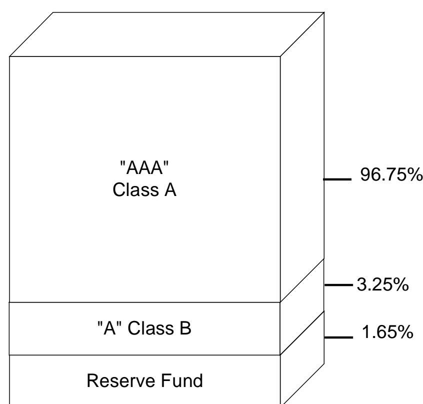
CAPITAL STRUCTURE



Summary

FonCaixa Hipotecario 2, Fondo de Titulización Hipotecaria's (FonCaixa H2) EUR 580.5 million class A and EUR 19.5 million class B floating-rate, mortgage-backed notes due 2049 are rated as indicated at left.

FonCaixa H2 is regulated by Law 19/1992 of 7 July in Spain. Its sole purpose (as note issuer) is to transfer the mortgage loan participations acquired from the participation issuer, Caixa d'Estalvis i Pensions de Barcelona ('la Caixa', "LC", rated 'AA-/F1+'), into fixed-income securities. The participations will be subscribed by GestiCaixa, S.G.F.T.H., S.A. ("Sociedad Gestora") on behalf of FonCaixa H2. The Sociedad Gestora is a corporation whose sole purpose is managing mortgage asset-backed funds in accordance with the provisions of the previously mentioned law and the Royal Decree 926/1998 of 14 May in Spain.

The ratings are based on the quality of the collateral, available credit enhancement, adequate underwriting, servicing of the mortgage loans and interest rate swap provided by LC, the Sociedad Gestora's administering capabilities, and the sound financial and legal structures. Credit enhancement for the class A notes, totalling 4.9%, is provided by the subordinated class B notes (3.25%) and the reserve fund (1.65%). Credit enhancement for the class B notes, totalling 1.65%, is provided by the reserve fund.

In accordance with the priority of payments described in the Financial Structure section on page 3, interest and principal to the class A and B notes will be paid on a quarterly basis, commencing 17 April 2001. The notes will receive interest payments based on the three-month Euro Interbank Offered Rate (EURIBOR) plus a margin of 0.15% and 0.40% respectively. The class A and class B notes will be redeemed in line with the principal amortisation of the collateral. The amortisation of class B notes will begin when the class A notes are fully paid.

The notes are backed by a pool of residential mortgages originated in Spain by LC, the parent of the country's third largest banking group by total assets as at end 1999, offering all the retail and wholesale services of a commercial bank on a national scale.

Key Information

Structure

Note Issuer: **FONCAIXA HIPOTECARIO 2, FONDO DE TITULIZACIÓN HIPOTECARIA**

Participation Issuer/Originator/Paying Agent/ Collections Accountholder/Swap Provider:
Caixa d'Estalvis i Pensions de Barcelona
(rated 'AA-/F1+')
Fund Administrator (Sociedad Gestora): **GestiCaixa, S.G.F.T.H., S.A.**

Cut-off Date: **February 2000**

Interest and Principal Payments: **Quarterly, commencing 17 April 2001**

Final Legal Maturity: **15 January 2049**

Underlying Assets: **Residential mortgage loans backed by property located in Spain**

Collateral

WA Original LTV: **70.5%**

WA LTV (at the Cutoff Date): **59.2%**

WA Term to Maturity (at the Cutoff Date): **16 years**

Number of Loans: **13,269**

Avg. Loan Balance: **Pta 9,767,567 (EUR 58,706)**

WA Interest Rate (at the Cutoff Date): **5.82%**

Floating Interest Rate Loans: **100%**

WA – Weighted average. LTV – Loan-to-value ratio.
Pta – Spanish peseta.

To determine appropriate levels of credit enhancement, Fitch analysed the collateral using a loan-by-loan mortgage default model *(see Appendix 1)*. The agency also modelled the cash flow contribution from excess interest using stress scenarios determined by its default model. The cash flow test showed that each class of rated notes, taking available credit enhancement into account, can withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

Collateral

The collateral pool consists of 13,269* mortgage loans with a total outstanding balance of approximately Spanish pesetas (Pta) 99.8 billion (EUR 599.8 million). The loans are first-ranking mortgages originated by LC in its normal course of business. All the loans are secured by residential properties in Spain. The security for the loans are mortgages registered in the 'Registro de la Propiedad' (the official register).

*The audited mortgage pool statistics published in the transaction documents describe the initial pool, from which the final mortgage pool, profiled in this report, was selected.

At the cut-off date, the average principal balance was Pta 7.5 million, and the weighted average loan-to-value ratio (LTV) in the portfolio 59.2%. The LTV is computed using original appraisal values, which essentially reflect market values. 100% of the loans are variable-rate, with 43.6% linked to the 12-month Madrid Interbank Offered Rate (MIBOR), and the remainder linked to the average mortgage interest rate offered by commercial and savings banks in Spain. The weighted average interest rate at the cut-off date was 5.82%.

The loans in the portfolio have been originated since 1995, with a weighted average remaining term of 188 months. The vast majority of the borrowers pay monthly by direct debit. As of the closing date, no mortgage loan had payments in arrears.

In terms of geographic concentration, the properties securing the portfolio are predominantly in the Cataluña (32.7%), Madrid (26.8%), Canarias (10.4%), Andalucía (8.1%), Valencia (5.4%), and Aragón (4.2%) regions. No other region represents more than 3% of the portfolio.

Credit Issues

Fitch analysed the collateral for FONCAIXA H2 by subjecting the mortgage loans to stresses resulting from its assessments of historical home price movements and defaults *(see Appendix 1)*.

Default Probability

Generally the two key determinants of default probability are the borrower's willingness and ability to make the mortgage payments.

As is the case with many Spanish originators, information on the borrowers' ability to pay (usually measured as the borrower's net income in relation to the mortgage payment) was not available on a loan-by-loan basis for FONCAIXA H2's portfolio. However, LC has a strong focus on ability to pay and comparatively strict origination guidelines in this respect. Historical data available for Spain shows low levels of default. Therefore, Fitch assumed that borrowers generally have an average ability to pay.

Origination and Servicing

In addition to the pool analysis, Fitch has reviewed and analysed LC's origination and servicing guidelines. Fitch has conducted several interviews with the respective originator and servicer managers responsible for LC's mortgage loan department. LC follows a stringent underwriting process using a detailed procedures underwriting manual.

LC has employed a credit scoring system since November 1997, a factor that Fitch views as highly prudent and puts a lot of emphasis on. The borrower's ability to pay is determined primarily by their credit profile, risk profile of the property, and purpose and LTV of the transaction.

The loans in the portfolio have been originated by LC's local branch network. The residential mortgage business is regionally organised, with approximately 4,226 branches. A branch manager can approve mortgage loans within certain maximum limits, depending on the credit analysis. If the amount of the mortgage loan exceeds the maximum, approval by a regional manager is mandatory. Exceeding this level of authorisation, approval must be given by a centralised committee. Appraisals for residential properties are usually performed on-site by independent estate agents registered with, and governed by, the Bank of Spain.

All the borrowers will make their mortgage payments via direct debit. Generally, in the event of a payment being about four days in arrears, the borrower will be contacted by the local branch. During this initial stage, which lasts until the payment is 14 days past due, local branches try to work out the outstanding arrears. The system will generate reminder letters on the 15th, 30th, and 45th day after the missed payment date. After 14 days in arrears, a modern centralised telephone recovery centre, with 12 telephone operators, will contact the debtor to reach an agreement on a new payment date. After 30 days in this centre without positive results, the local branches will start pre-foreclosure procedures. On or before 210 days in arrears, the client's account will be transferred to the legal department of the regional unit to handle the foreclosure process.

Financial Structure

The mortgage loans will be serviced by LC. The Sociedad Gestora will administrate FONCAIXA H2. To protect investors in the event that LC is not able to continue performing the mortgage servicing functions adequately, the Sociedad Gestora is able to appoint a replacement administration company, in accordance with Law 19/1992 of 7 July in Spain, meeting the rating requirements.

All principal payments received monthly by LC will be passed daily to the collections account, which will be maintained at LC in the name of FONCAIXA H2. The amounts deposited in the collections account will be kept in cash and will receive a guaranteed interest rate equal to the notes' index interest rate. In the event of a downgrade of LC below 'F1' a guarantee from a company meeting the rating agency requirements must be provided within 30 days to cover LC's obligations with respect to the collections account. If this is not possible, a replacement company meeting the rating agency requirements must be appointed by the Sociedad Gestora.

The paying agent will be LC. Quarterly payments of interest and principal will be passed through to the paying agent from the collections account. In the event of a downgrade of LC below 'F1' a replacement company will be provided, meeting the rating agency requirements, to be able to adequately perform the paying agent functions.

Interest payments to the class A and B noteholders will be made in arrears quarterly, commencing 17 April 2001 based on the three-month EURIBOR plus a margin of 0.15% and 0.40% respectively.

On an ongoing basis, the class A and B notes will be redeemed in line with the principal balance of the collateral amortisation. The amortisation of class B notes will begin when the class A notes are fully amortised.

The notes are subject to a cleanup call if less than 10% of them remain outstanding. Additional provisions allow for redemption upon the occurrence of legal changes affecting the financial equilibrium of FONCAIXA H2.

On each distribution date, the priority of payments will be as follows:

1. Expenses and taxes due to FONCAIXA H2, including the Administration fee to the Sociedad Gestora and the fee to the paying agent.
2. Amounts due to the swap counterparty with reference to the class A notes *(see Swap Agreement section)*.
3. Interest to the class A notes.
4. Amounts due to the swap counterparty with reference to the class B notes.

5. Interest to the class B notes.
6. Replenishing the reserve fund to its minimum required balance *(see Credit Enhancement section).*
7. Amortisation of the principal of the class A notes.
8. Amortisation of the principal of the class B notes.
9. Interest accrued by the subordinated loan *(see Subordinated Loan section, page 4).*
10. Amortisation of subordinated loan's principal.
11. Servicing commission to LC.
12. Financial intermediation margin to LC.

In the event that LC is replaced as administrator of the mortgage loans, the servicing commission, described in item number 11, will be paid as item number 6.

Credit Enhancement

Credit enhancement for the class A notes, totalling 4.9%, is provided by the subordinated class B notes (3.25%) and the reserve fund (1.65%). Credit enhancement for the class B notes, totalling 1.65%, is provided by the reserve fund.

The reserve fund initially amounts to 1.65% of the original note balance, funded by a subordinated loan provided by LC. The size of the reserve fund will always be equal to the lower of the initial reserve fund or 4% of the outstanding notes, with a floor of 0.50% of the original note balance.

The prior test, notwithstanding any reduction of the reserve fund, will be discontinued if one of the following events occurs:

- The outstanding balance of the mortgage loan participations with payments in arrears of three months is greater than 2.5% of the outstanding mortgage loan participations.
- The mortgage loan participations with payments in arrears for more than 12 months are greater than the amount obtain from multiplying 0.025% of the original mortgage loan participations balance by the quarterly payments made since closing.

Swap Agreement

The class A and B notes benefit from the existence of a swap agreement with LC. This agreement provides for the swap counterparty to pay to the Sociedad Gestora the interest applicable to the class A and B notes on behalf of FONCAIXA H2. The Sociedad Gestora, on behalf of FONCAIXA H2, will pay the swap counterparty an amount equal to previous quarter's accrued interest rate on the loans minus a margin of 65 basis points. In the event of a downgrade of LC below 'F1', within 30 days, qualified with the highest Short-term rating category, will be provided to cover the obligations assumed by LC as swap counterparty. If this is not possible, or if LC is not able to continue performing under the swap agreement, for any reason, a replacement swap counterparty meeting the rating requirements must be provided. The swap agreement does not follow the international standards of the International Swaps & Derivatives Association (ISDA); however, Fitch has reviewed the agreement and found that this has no negative credit impact.

Subordinated Loan

Additionally, LC has granted a subordinated loan of approximately EUR 10,260,000, which has been used to: (i) initially fund the reserve fund; (ii) pay constitution and underwriting expenses of FONCAIXA H2; and (iii) cover, at closing, the initial difference between the balance of the notes and the balance of the mortgage participations. The subordinated loan is to be redeemed in line with the decrease of the reserve fund for the amount used for (i), in an amount equal to the amortisation of (ii) and, in the first payment date, in an amount equal to (iii). The loan will receive interest payments equal to three-month EURIBOR plus a margin of 0.40%.

Legal Structure

At closing, the mortgage loans have been sold by LC to the Sociedad Gestora on behalf of FONCAIXA H2. The Sociedad Gestora is a special purpose company with limited liability incorporated under the laws of Spain and is owned by:

- Caixa Holding, S.A., 80%.
- VidaCaixa, S.A. de Seguros y Reaseguros, 9%.
- Caixa de Barcelona Seguros de Vida, S.A. de Seguros y Reaseguros, 6%.
- HipoteCaixa, E.F.C., S.A., 5%.

The Sociedad Gestora's activities are limited to the management of mortgage asset-backed notes.

The participation issuer, LC, will transfer the purchased rights (the loan claims and collateral securing the loans) to FONCAIXA H2. LC will also transfer or pledge all present or future claims or rights under the various transaction documents to FONCAIXA H2.

Appendix I: Methodology

To determine appropriate levels of credit enhancement, Fitch analyses the collateral for Spanish residential transactions using a loan-by-loan mortgage default model *(see Fitch Research "Spanish Mortgage Default Model," dated 20 January 1999, available at www.fitchratings.com)*. The model subjects the mortgage loans to stresses resulting from its assessments of historical home price movements and defaults. Fitch's study showed that the LTV, reflecting the size of the borrower's down-payment, and the borrower's income multiple (original loan advanced divided by income) are the primary indicators of default risk in Spain. Fitch also modelled the cash flow contribution from excess interest using stress scenarios determined by its default model. The cash flow test showed that each class of rated notes, taking available credit enhancement into account, can withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss or interest shortfall.

Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make the mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch's model assumes higher default probabilities for high LTV loans and lower default probabilities for low LTV loans. The main reason is that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property.

The ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. Historical data available for Spain shows low levels of default. Base default probabilities are determined by using a matrix that considers each loan's affordability factor and LTV. The matrix classifies affordability into five classes, the lowest of which (Class 1), encompasses loans with Debt-to-Income ratios (DTI) of less than 20% and the highest of which (Class 5) encompasses all loans with DTIs exceeding 50%. The average DTI for the mortgage market in Spain is approximately 27%, which equates to a base default probability of 6-34% depending on LTV.

Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for individual loan characteristics of the collateral across all rating levels.

- **product type:** Fitch increases default probability assumptions by 0%-10% for the index volatility experienced by variable-rate mortgage holders
- **repayment type:** Fitch will increase base default rates by 5%-10% for loans to be paid by *cuota creciente*, whereby the amortisation of capital is always the same and the interest payment is increasing
- **loan purpose:** Fitch believes that a financially distressed borrower is more likely to default on a second home or investment property than on a primary residence. Accordingly, the agency will double the base default rates in both cases. If the purpose of the loan is not the acquisition of a property in Spain, Fitch will increase the default probability by 50%-100%
- **borrower profile:** Fitch increases default probability on loans to self-employed borrowers by 33%-50% to account for their lack of a fixed annual salary.
- **arrears status:** when rating portfolios combining current and arrears mortgages, Fitch increases base default rates for mortgages in arrears by 1-30, 31-60, and 61-90 days by 10%, 35% and 70% respectively, and mortgages over 91 days in arrears (non-performing status) by 100%
- **underwriting quality:** Fitch's review and analysis of the origination process determines whether it decreases default rates by up to 25% or increases them by 0%-200%.

Loss Severity

To estimate loss severity on the mortgage loans in Spain, Fitch examined home price movements in the country on a regional basis from 1987–1997. It found significant differences in price development among regions, mainly between those of Madrid, Cataluña, País Vasco, and the rest of the regions in Spain. The cities of these regions have experienced higher price increases than others in Spain. As in most other countries, rural areas tend to develop on a more stable basis. Based on its analysis of the real estate market, Fitch assumed slightly higher market value declines (MVDs) for certain regions as well as for some large urban areas.

To derive MVDs for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with markets in other European countries. As in its other European mortgage default models, it increased MVDs for higher value properties. These properties are generally subject to higher MVDs in a deteriorating market than homes with average or below-average market values due to limited demand for such properties.

When calculating recovery value, Fitch's model reduces each property value by the MVD, external foreclosure costs, and the cost to the servicer of carrying the loan from delinquency through default. For Spain, Fitch assumes external foreclosure costs represent 10% of the loan's balance at the time of default. Loss severity also incorporates the fact that the length of time of the foreclosure process might be longer than the actual one in a recession period. To calculate carrying costs, Fitch uses a worst-case scenario analysis, assuming that the borrower does not pay interest and the collateral is not realised for a period of 3.5 years.

Excess Spread

Excess spread represents the monetary difference between the income received by the issuer from the borrowers and the interest on the notes and other expenses paid by the issuer. Any reserve fund will be replenished from available excess spread, if it is drawn. The actual value of excess spread depends on levels of delinquencies, defaults, and prepayments, as well as the weighted average interest rate of the reference mortgage portfolio throughout the life of a transaction. The Threshold Rate calculation is designed to guarantee the issuer a minimum level of excess spread.

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