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Structured Finance

Other Mortgage & Real Estate-Related
Residential Assets/Spain
New Issue

FONCAIXA ICO-FTVPO 1, Fondo de Titulizacion de Activos

Ratings

Series	Amount (EURm)	Legal Maturity	Rating[a]	CE (%)
AS	5.6	Nov 2031	AAA	8.0
A (G)	478.0	Nov 2031	AAA	8.0
B	20.8	Nov 2031	A	4.0
C	15.6	Nov 2031	BBB	1.0
D	5.2	Nov 2031	CC	0.0

[a] Each rated series in this transaction has a Stable Outlook

Closing Update

Closing occurred on 11 February 2009. The structure and portfolio characteristics described in this report remain applicable. The collateral information throughout the report and on the data sheet is based on the final loan pool as of 6 February 2009.

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Related Research

The following special reports provide additional detail on Fitch's rating approach to the RMBS market; all are available at www.fitchratings.com:

- *"Fitch Issuer Report Grades May 2007 Update"*, (May 2007)
- *"Credit Analysis on Caja de Ahorros y Pensiones de Barcelona (La Caixa)"*, (June 2008)
- *"Spanish Residential Mortgage Default Model Criteria"*, (December 2007)
- *"A Guide to Cash Flow Analysis for RMBS in Europe"*, (December 2002)
- *"Commingling Risk in Structured Finance Transactions"*, (June 2004)
- *" Securitisation of Spanish Subsidised Housing"*, (March 2009)
- *"Credit Update on Instituto de Credito Oficial"*, (December 2008)

Summary

This EUR525.2m transaction is a securitisation of Spanish mortgage loans backed by subsidised housing originated by Caja de Ahorros y Pensiones de Barcelona (La Caixa, or the seller, rated 'AA-/F1+'). Fitch Ratings has assigned ratings to the notes issued by FONCAIXA ICO-FTVPO 1, Fondo de Titulización de Activos (FONCAIXA ICO 1 or the fund) as indicated at left.

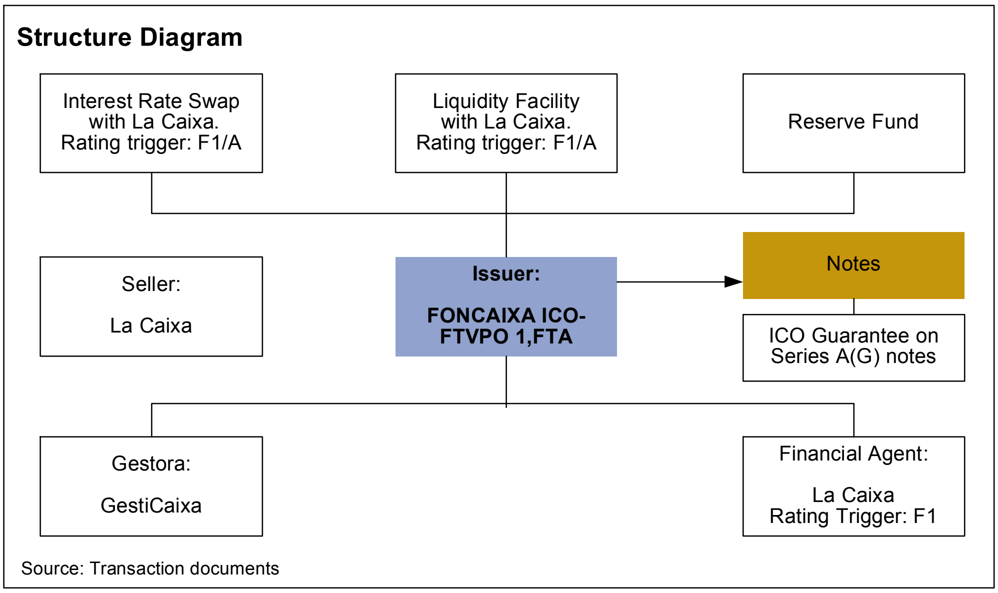
This is the first securitisation of mortgage loans backed by subsidised housing ("Vivienda de Proteccion Oficial", VPO) assets done by La Caixa. These are social housing properties sponsored by national or local governments with protected re-sale prices. Subsidised housing properties are targeted at low-income and first-time home buyers based on eligibility criteria that have changed over time. An in-depth analysis of Spanish subsidised housing can be found in "*Securitisation of Spanish Subsidised Housing*", dated 3 March 2009 and available on www.fitchratings.com. For a detailed explanation of how loans backed by subsidised housing have been treated for probability of default (PD) and recovery purposes, refer to *Credit Analysis*.

The securitised loans are mortgage loans originated by La Caixa under the VPO98-01 and VPO02-05 subsidised housing programmes. The VPO02-05 programme accounts for 85.9% of the loans in the pool with the remainder originated under the VPO98-01 programme. The loans originated under these VPO programmes are priced according to a government-established formula based on a percentage of IRPH Entidades.

The fund is regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to transform a portfolio of mortgage certificates (certificados de transmisión de hipoteca or CTHs) acquired from the seller into fixed-income securities. The CTHs are acquired from the seller on behalf of the fund by GestiCaixa, S.G.F.T., S.A. (the sociedad gestora), a limited liability company incorporated under the laws of Spain and whose activities are limited to the management of securitisation funds.

The ratings are based on the quality of the collateral, the underwriting and servicing capabilities of La Caixa, the available credit enhancement (CE), the integrity of the legal and financial structure and the sociedad gestora's administrative capabilities. The ratings address payment of interest on the notes according to the terms and conditions of the documentation, subject to a deferral trigger on the series B and C notes, as well as the repayment of principal on each note by legal final maturity. Should the deferral trigger on the series B and C notes be hit, interest on these notes will be deferred as per the priority of payments and might not be received for a time, but will be received by legal final maturity.

To verify that the CE available for each series of notes is in line with its respective rating, Fitch analysed the collateral using its loan-by-loan mortgage default model specific to Spain. The agency also modelled the cash flow contribution from excess spread using the stress scenarios determined by its default model.



Credit Committee Highlights

- The series A(G) 'AAA' notes benefit from a guarantee facility provided by Spain's Instituto de Credito Oficial (ICO, 'AAA/F1+'). The guarantee covers series A(G) interest and principal and will pay required amounts within 90 days of these being requested by the sociedad gestora on behalf on the noteholders. Fitch did not consider the guarantee in assigning initial ratings to the series A(G) notes but did consider the cost of the guarantee in its cash flow modelling.
- The securitised pool consists of mortgage loans originated under the VPO98-01 and VPO02-05 subsidised housing programmes, and are regulated by the Royal Decrees 1186/1998 and 1/2002, respectively. The VPO02-05 programme accounts for 85.9% of the loans in the pool with the remainder originated under the VPO98-01 programme. The loans originated under these VPO programmes are priced according to a government-established formula based on a percentage of IRPH Entidades.
- At closing, 65.3% of the pool benefited from a debt service instalment subsidy granted by the Spanish government ('AAA/F1+', Outlook Stable, see "*Credit Update on Kingdom of Spain*", dated 6 June 2008 and available on www.fitchratings.com) via the Ministry of Housing to the borrower. These subsidies were granted to borrowers that met minimum eligibility requirements and cover a portion of the monthly debt service. The borrower debt service subsidies represented 12.3% of total monthly debt service payments at closing. While the borrower is the beneficiary of these subsidies, the Spanish government sends the subsidy funds directly to the servicer (La Caixa), albeit with a delay that can range from three to 12 months. These subsidies are not fixed for the life of the loan and the borrower must re-apply for them over time. Given that the borrower subsidies represent a material component of monthly debt service, Fitch considers that there is an indirect rating link between the rating on the senior notes and the rating of the Kingdom of Spain. In the possible event of any future rating action on the rating of the Kingdom of Spain, Fitch will proceed to evaluate the possible effect on the securitised structure at the time.
- The structure benefits from a total return swap provided by La Caixa ('AA-/F1+', Outlook Stable). The swap pays the fund the notes' weighted-average margin plus 50bps on a notional defined as loans performing and up to 90 days in arrears. The swap structure also mitigates the liquidity risk associated with the interest component of monthly debt service subsidies that are paid by the Spanish government with a delay.

- To compensate for the delay in the receipt of the principal element of the subsidised monthly debt service payments, the structure includes a liquidity facility provided by La Caixa for a maximum amount of EUR12m. The liquidity facility will be drawn to meet any monthly principal subsidy shortfalls and reimbursed by subsequent collection from the government. The liquidity facility will remain in place for the duration of the deal.
- Lack of debt-to-income (DTI) Information: Fitch was not provided with loan-by-loan DTI information for the pool in this transaction. *Mitigated by:* The agency has assumed that legal entity borrowers have a DTI of Class 4, representing a DTI between 40 and 50% (see *Appendix 1* for a summary of Fitch's rating methodology).
- Should deferral triggers be hit, interest on the series B and C notes would be postponed to a lower rank in the priority of payments and, as such, might not receive interest payments on a timely basis. Nevertheless, all interest due will be paid prior to legal final maturity.
- 66.8% of the pool benefited from an upfront government subsidy for the purchase of the VPO asset. These upfront subsidies ranged from EUR900 to EUR25,500. As these subsidies must be repaid under certain circumstances, Fitch did not consider them fully as equity. Rather, the agency allowed for partial equity treatment and increased the default probability on these loans by increasing the original loan-to-value ratio (OLTV) by 50% of the upfront subsidy.
- In comparison to the Spanish average, the pool in well seasoned at 41.8 months.
- At closing, none of the loans were in arrears nor had they been delinquent in the past 12 months.

Key Information

Structure

Originator and Seller: Caja de Ahorros y Pensiones de Barcelona (La Caixa)
Servicer of the Collateral: La Caixa
Financial/Paying Agent: La Caixa
Fund: FONCAIXA ICO-FTVPO 1, FTA (the fund)
Sociedad Gestora: GestiCaixa, S.G.F.T., S.A.
Swap Counterparty: La Caixa ('AA-/F1+')
Final Maturity of the Series: November 2031

Portfolio Characteristics

Total Amount at Closing: EUR520m
WA Original LTV: 78.7%
WA Current LTV: 68.8%
WA Indexed Current LTV: 64.1%
WA Remaining Maturity: 17.0 years
WA Seasoning: 41.8 months
Concentration in Madrid: 30%

VPO Programme

VPO98-01: 14.1%
VPO02-05: 85.9%

Subsidies

Upfront Subsidy: 66.8% of pool
Debt Service Subsidy: 65.3% of pool

Financial Structure

The fund is a limited-liability special-purpose vehicle (SPV) incorporated under the laws of Spain, whose sole purpose is to acquire CTHs from La Caixa as collateral for the issuance of the floating-rate notes. All the notes pay interest quarterly in arrears based on three-month Euribor plus a margin. La Caixa acts as the financial agent, servicer of the collateral, liquidity facility provider, and as swap counterparty in the structure.

For the protection of investors, if La Caixa is unable to continue to service the collateral, the sociedad gestora will appoint a replacement administration company, in accordance with Spanish securitisation law. The transaction documents stipulate that if the seller becomes insolvent or if the sociedad gestora considers it appropriate, the seller must notify the obligors and provide them with new payment instructions within five working days. Due to the subsidised nature of the securitised loans, the sociedad gestora will have to request approval from the Spanish authorities to proceed with a servicer replacement. Fitch does not believe that the authorities will in any way hinder a servicer replacement as the change will be in the interest and for the protection of the borrowers.

Interest and principal collections will be handled jointly through the combined priority of payments (see *Priority of Payments* below). Amounts received on the mortgages will be transferred by La Caixa into the fund's treasury account held at La Caixa on a daily basis. Amounts standing to the credit of the treasury account will receive a guaranteed interest rate of three-month Euribor.

If La Caixa , as financial agent, is downgraded below 'F1', the sociedad gestora must take one of the following actions within 30 natural days:

1. appoint a counterparty rated at least 'F1' to guarantee La Caixa's obligations under the treasury account agreement; or
2. transfer the treasury account to a counterparty rated at least 'F1'.

More information on Fitch's standards for commingling risk can be found in the special report "*Commingling Risk in Structured Finance Transactions*", dated 9 June 2004, and available at www.fitchratings.com. It should be noted that Fitch's commingling criteria are currently under review as indicated in the press release "*Fitch: Counterparty Criteria for Global Structured Finance Under Review*", dated 15 October 2008 and available at www.fitchratings.com.

Priority of Payments

On each quarterly payment date, commencing in March 2009, the combined ordinary priority of payments will be applied as follows:

1. ordinary and extraordinary expenses of the fund;
2. payments under the swap agreement (if applicable);
3. interest payments of the liquidity facility;
4. interest payments on the series AS and series A(G) notes not paid at previous payment periods and repayment of ICO guarantee to ICO in the event of draw-downs not having been repaid in full;
5. interest payments on the series AS and series A(G) notes;
6. interest on the series B notes (if not deferred);
7. interest on the series C notes (if not deferred);
8. principal in order of seniority on the A to C notes (see *Amortisation of the Notes*);
9. interest on the series B notes if deferred;

10. interest on the series C notes if deferred;
11. replenishment of the reserve fund;
12. interest and principal payments on the series D notes; and
13. subordinated amounts.

Interest due on the series B notes will be deferred if the cumulative amount of defaults (i.e. loans more than 12 months in arrears) reaches 11% of the original collateral balance. Similarly, interest due on the series C notes will be deferred if the cumulative amount of defaults reaches 9%of the original collateral balance.

Amortisation of the Notes

Principal redemption of the notes will be allocated sequentially, beginning with the series AS and series A(G) notes and only moving through the B and C series' once the senior notes have been redeemed in full. The documents allow the series AS and A(G) notes to amortise pro rata among themselves, and the B and D notes to amortise pro rata with the series A notes if the following conditions are met:

- The series AS and A(G) notes will amortise pro rata if the outstanding amount of loans current and up to 90 days in arrears plus the amortisation amounts for a respective payment period, divided by the series AS and series A(G) outstanding amount plus amounts owned to ICO in case the guarantee had been previously exercised, is less than one.
- The required reserve fund is fully funded on the previous payment date.
- The outstanding balance of the B and C notes has increased to 8% and 6% (plus amounts owned to the ICO in respect to draw-down amounts in the ICO guarantee) from 4% and 3% of the outstanding balance of series' AS, A(G), B and C, respectively.
- The total outstanding note balance is equal to or higher than 10% of the initial notes balance.
- The current balance of loans more than 90 days in arrears, excluding losses, is less than 1.25% of the outstanding balance of the collateral for series B and 1% for series C.

All the notes will be subject to a clean-up call when less than 10% of the initial collateral remains outstanding.

Swap Agreement

The fund has entered into an interest rate swap agreement with La Caixa (the swap counterparty). Under this agreement, the fund will pay La Caixa an amount equivalent to interest payments received from all current loans on a notional of loans current and up to 90 days in arrears. In return, the swap counterparty will pay to the fund three-month Euribor on the same notional amount plus the weighted-average margin of the notes plus 50bps.

If the swap counterparty is downgraded below 'A/F1', La Caixa, within 30 days, will take one of the following steps:

- find a replacement counterparty with a rating of at least 'A/F1';
- find an entity rated at least 'A/F1'to guarantee its obligations under the swap agreements; or
- cash- or security-collateralise its obligations in an amount consistent with existing Fitch criteria.

More information on Fitch's standards for swaps can be found in the special report "*Counterparty Risk in Structured Finance Transactions: Hedge Criteria*", dated 1 August 2007 and available at www.fitchratings.com. It should be noted that Fitch's

VPO Programme Loan Characteristics

Programme	Interest rate	Rate revision frequency	Rate	Amortisation possible	LTV max (%)	Amortisation	Term
VPO 98/01	Variable	Bi-annual	Approx. 85% of two last IRPH Entidades	Yes	80	Geometric increase	20 years
VPO 02/05	Variable	Annual	91.75% of two last IRPH Entidades	Yes	80	French	20 years

Source: Fitch, VPO Programme Royal Decrees, and other sources

hedge criteria are currently under review as indicated in the press release "*Fitch: Counterparty Criteria for Global Structured Finance Under Review*", dated 15 October 2008 and available at www.fitchratings.com.

Reserve Fund

The reserve fund was created at closing via the sale of the series D notes for an amount equivalent to 1% of the collateral original balance, and is held in the treasury account at La Caixa.

Subject to the following conditions, the reserve fund will be permitted to amortise to the greater of: i) half its initial percentage, calculated on the basis of the original note balance; and ii) twice the initial reserve fund percentage, calculated on the basis of the outstanding note balance:

- The ratio of delinquent loans to outstanding loans is equal to or less than 1.0% of the collateral outstanding balance.
- The reserve fund was at its required level on the previous payment date.
- The closing date for the transaction was more than three years earlier.

Liquidity Facility

The structure will benefit from a EUR12m liquidity facility provided by La Caixa. The liquidity facility will advance to the fund the principal amortisation component of the subsidised debt service payments made by the Spanish authorities to La Caixa on behalf of the VPO subsidy beneficiaries. As the subsidy payments may be paid with delay, the liquidity facility will mitigate any liquidity stress resulting from the delayed payment of subsidies to the fund.

If La Caixa is downgraded below 'A/F1', La Caixa, within 30 days, will take one of the following steps:

- find a replacement counterparty with a rating of at least 'A/F1';
- find an entity rated at least 'A/F1'to guarantee its obligations under the liquidity facility agreement; or
- cash- or security-collateralise its obligations in an amount consistent with existing Fitch criteria.

More information on Fitch's standards for swaps can be found in the special report "*Liquidity Support in Structured Finance Transactions: Liquidity Provider Rating Criteria*", dated 13 July 2004 and available at www.fitchratings.com. It should be noted that Fitch's liquidity support criteria are currently under review as indicated in the press release "*Fitch: Counterparty Criteria for Global Structured Finance Under Review*", dated 15 October 2008 and available at www.fitchratings.com.

Disclaimer

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Legal Structure

As part of the transaction analysis, Fitch relies on legal and/or tax opinions provided by transaction counsel. At closing, the seller transferred the mortgages to the sociedad gestora on behalf of the fund. However, under Spanish law, the mortgage loans are not actually transferred via a true sale as this would entail a lengthy process of re-registering them at the property registry. Instead, the seller issues mortgage participations (PHs) and, since the new Finance Act of December 2003, mortgage certificates (CTHs). Mortgages transferred in the form of PHs are subject to certain restrictions with which CTHs do not have to comply. In particular, PHs must be first-ranking mortgages with a current LTV (CLTV) below 80%, and the properties underlying the mortgage must be properly insured.

Representations and Warranties

The seller provided representations and warranties in relation to the collateral, including the following:

- All borrowers are residents in Spain.
- All properties are used as first residences.
- All loans have been granted for the purchase, refurbishment or construction of VPO assets under legislation specified in the respective VPO royal decrees.
- All properties are constructed and are located in Spain.
- All loans have a fixed amortisation schedule and contain no debt service deferral option except for the VPO unemployment grace period described in *Credit Analysis*.
- At closing, none of the loans have been delinquent during the past 12 months.
- All debt service payments are monthly via direct debit.
- Each mortgage credit must be registered in the relevant property registry and represents an economic first-ranking claim on the corresponding property.
- None of the mortgage loans may be more than 30 days delinquent at closing.
- All properties have a government set maximum sale price while they remain classified as VPO.
- The originator will pay the Spanish government any claims it may have on the fund resulting from any subsidies received by the borrowers with regards to the VPO asset or loans.
- All properties must have undergone a valuation process carried out by a valuation company registered at the Bank of Spain.

Set-Off Risk

In the event of a default by La Caixa, the fund could be affected by the exercise of set-off rights by borrowers with deposits in an account held with La Caixa. However, this risk is mitigated as the seller commits in the documentation that, if this situation arises, it will pay the fund the amount set off plus interest. According to Spanish law, the set-off rights should cease to be applicable following the notification of the assignment of the receivables to another party. In the event of the bankruptcy of one of the parties, set-off rights would be applicable only for the amounts incurred prior to the declaration of bankruptcy.

Cash Bond Administration

The cash bond administration (CBA) function for this transaction is carried out by the sociedad gestora, a company regulated and supervised by the Comisión Nacional del Mercado de Valores (CNMV) whose activities are limited to the management of securitisation funds. GestiCaixa, S.G.F.T., S.A. was actively involved in the pre-closing phase of the deal.

After closing, the sociedad gestora is responsible for cash reconciliation, waterfall calculations and reporting, including the monitoring of applicable triggers. It is also responsible for taking any action in the interest of the noteholders, such as the replacement of the servicers, account bank or swap counterparty according to the terms and conditions of the documentation.

Collateral

Above is a table with the main VPO loan programme characteristics for loans securitised in this deal.

As of 6 February 2009, the portfolio at closing had an outstanding balance of EUR520m, comprising 8,771 mortgage loans. All mortgage loans were secured VPO loans guaranteed by subsidised residential properties in Spain. The portfolio had a WA OLTV of 78.7% and a WA CLTV of 68.8%, calculated based on each individual loan amount as a percentage of the guaranteeing asset value, as indicated by the seller. Security for the mortgage loans took the form of mortgages on subsidised real estate housing assets registered in the Registro de la Propiedad (the official property register).

Taking into consideration the VPO asset specifics and their government regulated sale prices, Fitch, rather than relying on the residential price indexed for free market housing as done in standard RMBS deals for its recovery calculations, used an indexed valuation of the underlying properties based on regional residential indices for subsidised housing assets as provided by the Ministry of Housing. After giving 50% credit to increases, and 100% credit to decreases in property prices, the WA indexed CLTV of the pool is 64.1%.

The portfolio had a WA seasoning of 41.8 months, reflecting the good seasoning of the pool.

All mortgage loans are based on a government set index based on a percentage of IRPH Entidades. Loans originated under the VPO98-01 programme are based approximately on 85% of IRPH Entidades, with a new base rate being fixed every two years subject to the current base rate having a difference of more than 70bps to the previous base rate. The loans originated under the VPO02-05 programme are based on 91.75% of IRPH Entidades and a new base rate is fixed on a yearly basis.

Credit Analysis

Fitch analysed the collateral for the transaction by subjecting the mortgage loans to stresses resulting from its assessments of historical house price movements and defaults in Spain. The agency's analysis is based on the probability of default and expected recoveries determined by the portfolio's individual mortgage loans (see *Appendix 1*).

Default Probability

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

Ability to pay is usually measured by the ratio of the mortgage payment to the borrower's net income, called debt-to-income (DTI). Fitch takes into account the specific characteristics of the product in its default probability analysis.

Base-case default probabilities were calculated using these LTVs and DTIs as parameters and Fitch adjusted them on a loan-by-loan basis to account for the specific loan and borrower characteristics.

Affordability

Fitch was not provided with loan-by-loan DTI information for the pool in this transaction. The agency has made the conservative assumption that all borrowers have a DTI of Class 4 (see DTI definitions in *Appendix 1*).

Employment Status

La Caixa provided employment data on a loan-by-loan basis on the individual borrowers. This resulted in 95.1% of the pool being employed individuals and 4.9% being self-employed individuals. Fitch increased the base default probabilities on the self-employed individuals by 10%. Additionally, due to the young and lower income characteristics of VPO borrowers, Fitch assumed that 50% of the pool was comprised of borrowers under a temporary employment contract, to which a 10% increase to the base default probability was applied.

Portfolio Summary

Pool characteristics	
Current principal balance (EURm)	520
Number of mortgage loans	8,771
Average original loan balance (EUR)	68,749
Average current loan balance (EUR)	59,286
WA original LTV (%)	78.7
WA current LTV (%)	68.8
WA indexed CLTV (%)	64.1
Oldest loan in portfolio	May 1999
Most recent loan in portfolio	September 2007
WA original term to maturity (years)	20.4
WA current term to maturity (years)	16.9
WA seasoning (months)	41.8
Interest rate type	
Floating-rate mortgage loans (%)	100.00
WA interest rate (%)	4.95
Interest index	85.9% VPO02/05 rate, 14.1% VPO98/01 rate
WA margin over interest index (%)	0.0
Payments (%)	
Loans up to 30 days in arrears at closing	0.0
Regional concentration (%)	
Madrid	30.0
Second homes or other uses other than first home acquisition	0

Source: Fitch - based on the portfolio at closing, dated X February 2009

Short Employment History and Non-Resident Borrowers

The originator confirmed that all loans have been granted to borrowers resident in Spain and of Spanish nationality.

Loan Arrears

At the pool cut date, all loans were current on their payment obligations.

Grace Period Loans

At closing, the pool had no loans under a grace period.

VPO Unemployment Grace Period

VPO borrowers can request, in the event of unemployment or financial difficulty, the possibility of up to 24 months of debt service grace period. This amount will be capitalised into the loan via a corresponding extension of its maturity. This grace period, however, is subject to the approval of La Caixa. The documents limit loan term extension to 10% of the pool's original balance, hence limiting this flexibility feature of the pool. La Caixa has indicated that to date none of the loans to be securitised has requested this grace period.

Regional Concentration

The fund's highest regional concentration was in the Madrid region at 30%, followed by Andalucia at 23.0% and Catalunya at 14.6%. Due to its good regional diversification, Fitch has applied no regional concentration hit on the pool.

Broker Originated Loans

La Caixa provided confirmation that no loans were originated via brokers.

Property Type

100% of assets guaranteeing the loans are currently classified as subsidised housing, originated under the VPO98/01 and VPO02/05 programmes. The principal restriction for a VPO owner is that the property cannot be sold for a fixed period after being awarded. In addition, once they can be sold, as long as they remain classified as VPOs, they must be sold at a price fixed by the local authority that backed and subsidised the VPO initiative. A property is classified as VPO for a finite time, as defined in the specific programme. After this time elapses, the property becomes an open market asset with no limitations with regards to its sale price or use. For assets under the VPO98-01 and VPO02-05 programmes, these cannot be sold for the first 10 years, can be sold at the government defined price from years 10-15 and can be sold as a free market property after 15 years if declassified.

In the event of the sale of the property once declassified, all the subsidies received during the ownership of the property must be returned. The obligation to return the subsidies will be of the party interested in the declassification, be it the owner or the financial institution that may have repossessed the asset and wishes to sell it at a "free market" price. Furthermore, it is important to note that the transaction documents reflect a commitment by La Caixa to cover any future claims of subsidy returns from the authorities with regards to the loans, thereby covering for any future liability that may arise to the fund.

Also, while seldom exercised, local authorities may retain a pre-emptive purchase right on the asset in the event of it being sold by the owner to another individual or repossessed by the bank.

Loan Type

100% of loans are subsidised housing loans belonging to the VPO98/01 and VPO02/05 subsidised loan programmes (14.1% and 85.9%, respectively). Refer to the *VPO Loan Features* table for details. These loans have no flexibility features apart from the VPO unemployment grace period feature described previously.

Borrower Type

The securitised pool consists of mortgage loans to individuals who are classified as subsidised housing purchasers and beneficiaries of a subsidised housing loan.

Recovery Proceeds

To estimate recoveries on the residential mortgage loans, Fitch examined Spanish historical housing market developments from 1987 to 2007. Based on this analysis, Fitch determined market value decline (MVD) assumptions for nine groups of autonomous communities with similarities of housing market movements (see *Appendix 1*).

For loans backed by subsidised housing, Fitch has applied the same MVDs applicable to free market assets, despite the significantly lower attachment point of the VPO prices.

In recognition of local housing market specificities, Fitch also adjusted upwards the MVDs applied to properties identified as more vulnerable to a property price downturn:

- Fitch applied a 25% increase to the MVDs of properties located in some coastal regions, as these regions may be more at risk of housing speculation and oversupply than their peers (13.7% of the pool).
- A 15% increase was also applied to the MVDs of properties located in some central regions that have experienced higher property price growth than their peers and which exhibit above average percentages of second homes (1.2% of the pool).
- Fitch has increased MVDs for higher-value and lower-value properties. These are generally subject to greater MVDs in a deteriorating market than homes with average or below-average market values for reasons of limited demand. The agency deems 30.6% of the pool to be secured on such illiquid properties.

When calculating recovery values, the agency's model reduces each property's worth by the adjusted MVD, external foreclosure expenses and the cost to the servicer of carrying the loan from delinquency through to default. This cost is estimated by applying to each loan balance its respective interest rate for the duration of the recovery period, estimated at 36 months.

Fitch has calculated that when fully drawn, the 10 largest loans in the pool represent 0.23% of the overall pool by current volume.

Cash Flow Analysis

To evaluate the contribution of structural elements such as excess spread, the reserve fund and other factors, Fitch modelled the cash flows from the mortgages based on the WA recovery rate and WA foreclosure frequency (WAFF) provided by the loan-by-loan collateral analysis. Recoveries included both interest and principal.

The cash flow model assumes that defaults are spread over the first seven years following origination, starting straight after closing. The analysis simulates the cost of carrying defaulted loans as the difference between the performing balance of the mortgages and the notional note balance. Excess spread, the reserve fund, principal and the benefit of deferring junior interest must be sufficient to cover the cost of carry until recoveries are received after 36 months.

Fitch ran a number of tests on the key variables affecting cash flows generated by the portfolio, including prepayment speed, interest rates, default and recovery rates, recession timing, WA margin compression and delinquencies. The agency also modelled cash flows according to the particular features of this transaction, as detailed below.

The cash flow analysis assumes a high level of annual prepayments on the mortgages, up to 25%, 21% and 18% under the 'AAA', 'A' and 'BBB' scenarios, respectively. For the low prepayment stress, Fitch applied an annual level of 5.0%.

The CE levels reflect the most severe stress assumptions under the terms and conditions of the transaction. CE analysis accounted for the interest deferral mechanism in place on the series B and C notes, which will redirect funds away from the junior notes and towards the more senior notes. Should the trigger be hit, interest on these notes might not be received for a time and Fitch's ratings address payment of interest by final maturity.

Origination and Servicing

The mortgages will continue to be serviced by La Caixa in its role as servicer. As part of its analysis, Fitch visited La Caixa in September 2008 and reviewed and analysed its general and subsidised housing-specific origination and servicing guidelines.

La Caixa is Spain's largest savings bank. By June 2008, it had 10.6m clients and 27,648 employees working out of 5,581 branches. Its biggest branch concentration is in Catalunya, with 1,830 branches, followed by Madrid and The Valencia Community with 782 and 508 branches, respectively.

Given that retail banking is its core activity, La Caixa's strategy has been centred on building up a widespread national branch network in Spain, where, at end-2007, it held a 9% market share of loans and a 10.3% share of customer deposits. Soon after the merger in 1990 of two large Catalonian savings banks to form La Caixa, the group embarked upon an ambitious expansion plan throughout Spain, executed through acquisitions and organic growth, mainly the latter. Over the past 10 years, it has opened an average of about 220 branches per year (294 in 2007). New branches are small and are staffed by two to four people. The caja follows a multi-channel approach, offering online access to banking services, and has a network of more than 8,000 automatic teller machines.

VPO Mortgage Origination

Subsidised housing loans are predominantly originated via the subrogation of the end buyers into subsidised housing developer loans originated by La Caixa. VPO borrowers have to first qualify, according to the government's eligibility criteria, to apply for a VPO loan. Upon being eligible, the individual will proceed to request a VPO loan from La Caixa.

The lending approval process is centralised, with conservative limits at different exposure levels. VPO mortgages are mostly originated through the network of branches from subrogations of developer loans. La Caixa indicated that its subrogation rate from developer loans is over 80%. All VPO loans originated via subrogations or directly from a VPO purchaser, pass through the same approval process as loans for the purchase of open market properties.

Underwriting

La Caixa has indicated that there is no difference in the approval process or analysis done for a VPO loan to that done for any standard open market residential mortgage loan. La Caixa has been using a credit scoring system since 1997, which is mandatory for all mortgage loan applications, together with traditional underwriting practices for loans that are not automatically approved via scoring.

For loans not directly approved by scoring, La Caixa bases its decision-making on the following multi-level structure, based firstly at a retail network level and secondly on a centralised approval structure.

At the retail network level, approval authority begins at branch level with branches having different approval powers depending on their size and seniority. Higher levels are at business area management, general area management and territorial management levels.

The maximum recommended LTV for VPO assets is 80% according to the VPO financing frameworks. The maximum term for a VPO loan under the programmes to be securitised is 20 years.

The DTI is calculated taking into account the current loan and all other debts, as well as all verified income. La Caixa has a general maximum DTI of 40%, however the financing decision is based on the overall scoring result. In the case of VPO loans, La Caixa does not consider government subsidies when calculating disposable income for affordability calculations.

Credit checks are carried out using data from CIRBE and credit bureaus. References from other institutions are also requested for new clients.

Property appraisals are conducted by official Bank of Spain-registered valuation companies approved by La Caixa. For VPO loans, the value is limited to the maximum legal value of the subsidised asset, this value being set by the government and updated on a regular basis.

VPO Servicing

La Caixa services all loans.

La Caixa has indicated that from a servicing perspective there are very few differences between VPO and free market loans. As VPO loans may benefit from a monthly debt service subsidy, the servicer claims these amounts to the granting authorities and channels the payments upon arrival to the respective loan. In the event of the loan being delinquent, the servicer will notify the relevant authority so that subsidies are postponed until payments resume.

Arrears Management

La Caixa's arrears management timeline for all mortgage loans, including VPO loans, is as follows:

- Day 10 to 20. Telephone recovery indicating arrears situation.
- Day 30 to 55. Additional telephone recovery actions indicating need to pay amounts in arrears.
- Day 55 to 110. Special recovery companies visit or contact borrower by phone or letter.
- Day 61. At the latest, by this date the branch will contact the borrower to try to reach an agreement or will start preparing legal proceedings. If the LTV is >80%, this is done at day 35.

In the event of a VPO property entering legal proceedings leading to its auction, the local authorities are notified as they may choose to apply their pre-emptive purchase right; this, however, would be done at the same price as that agreed at the auction, hence there would be no additional loss of moneys to the fund.

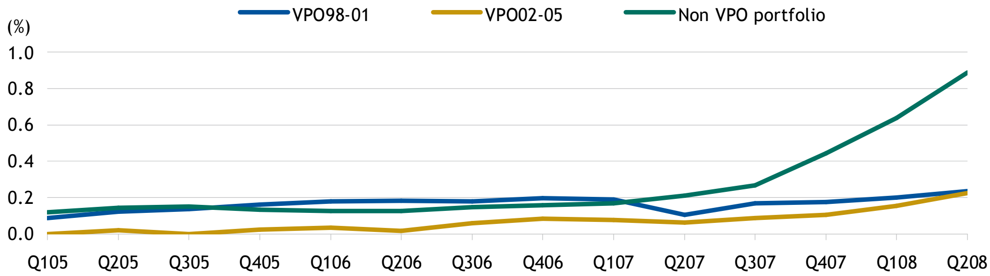
In the event of La Caixa repossessing a VPO property it will also have the option to, if possible, taking the time limitations into account, de-classify the asset from a VPO into a free market asset. To do so, La Caixa would have to return all subsidies associated with the asset and respective loan. The transaction documents indicate that due to the legal specifics of VPO assets, the repossession process could at times take longer than that for a free market asset.

Performance Analytics

La Caixa has provided historical dynamic performance information on its VPO portfolio and on its non-VPO mortgage portfolio as shown below.

The provided data indicates that the performance of VPO loans has historically been significantly better than that of La Caixa's free market mortgage portfolio. Fitch believes that this is because of the significantly lower purchaser price of VPO properties as well as the financial subsidies available to these borrowers, which improve the borrowers' ability and willingness to pay. Lastly, loans originated under older VPO plans also benefit from significant seasoning.

90+ Arrears La Caixa VPO98-01 and VPO02-05 Programmes



Source: Fitch

Fitch's performance analytics team monitors the transaction as warranted by events and information received in relation to the transaction, so that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk. Details of the transaction's performance are available to subscribers at www.fitchresearch.com.

Issuer Report Grade

Fitch has introduced Issuer Report Grades as part of an ongoing effort to improve the transparency of transaction performance to investors. Transactions are scored on a system ranging from one star (meets basic requirements) to five stars (outstanding). For further information on the agency's issuer report grades, please see the report entitled "*Fitch Issuer Report Grades May 2007 Update*", dated 31 May 2007, which is available at www.fitchratings.com.

Appendix 1: Rating Methodology

Model Approach

To determine appropriate levels of credit enhancement, Fitch analyses the collateral for Spanish residential transactions using a loan-by-loan mortgage default model (see the criteria report entitled "*Spanish Residential Mortgage Default Model Criteria*", dated 21 December 2007, available on www.fitchratings.com). Fitch adopts a three-stage approach in its analysis of Spanish RMBS:

1. **Asset Analysis:** the underlying collateral is first examined through the loan-level default model to calculate gross credit enhancement, or expected losses for the relevant rating level. The default model takes into account the loan-, borrower-, property- and lender-specific factors that most influence default probability and possible recoveries. Mortgage loans are also subject to stresses resulting from Fitch's assessment of historical defaults and house price movements in Spain;

2. **Cash Flow Analysis:** the outputs of the asset analysis are then placed in the context of the proposed transaction structure through Fitch's proprietary cash flow model, to determine the net credit enhancement appropriate for assigning certain ratings to the RMBS notes under analysis. The cash flow test showed that each class of rated notes, taking available credit enhancement into account, can withstand expected loan losses at a level corresponding to the related stress scenario;

3. **Legal Analysis:** finally, the deal's documentation is reviewed to assess the proposed structure in light of Spain's legal framework; to check if it is compatible with Fitch's rating criteria; and to detect any risk that could not be adequately assessed in the first two stages of the analysis.

The ratings assigned by Fitch address payment of interest on the notes according to the terms and conditions of the documentation, subject to the deferral trigger on the junior notes, if any, as well as the repayment of principal by legal final maturity. Should a deferral trigger by hit on the junior notes, interest might not be received during a period and Fitch's rating addresses payment of interest by final maturity.

Default Probability

Loan-by-loan base default probabilities are calculated using a base default probability matrix that considers the fundamental variables affecting a borrower's potential for default, their willingness to pay (based on loan-to-value or LTV) and their ability to pay (based on debt-to-income or DTI).

Fitch measures the willingness to pay by the amount of equity invested in the home, as determined by the original loan-to-value (OLTV). The agency assumes that the amount of equity the borrower initially invested for the purchase of the property significantly affects the likelihood of default when the borrower is in financial distress. Additionally, a large initial down-payment is usually indicative of a borrower with higher financial means or savings capacity. Fitch does not adjust for a borrower's willingness to pay during periods of rising house prices, as the unrealised "paper profit" does not have as much influence on willingness to pay as the original cash investment. However, Fitch will measure the willingness to repay with an adjusted OLTV in the case of bridge loans, flexible mortgages with multiple parts and multi loans per borrowers.

The ability to pay is usually measured by the overall DTI ratio, which Spanish lenders typically calculate by dividing total monthly debt obligations by monthly net income. Fitch splits affordability into five classes, the lowest of which (class 1) encompasses loans with DTIs of less than 20% and the highest of which (class 5) encompasses all loans with DTIs exceeding 50%.

Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for the specific lender, borrower and product characteristics. The adjustments are used to increase the base default probability for loans and the impact is cumulative so that, in the absence of case-by-case specific mitigants, all non-standard characteristics will be taken into account. Fitch conducts the following adjustments:

Appendix 1: Rating Methodology (cont.)

- **DTI Adjustment for Interest Rates:** Fitch recognises that DTI may change during the life of a mortgage. Spanish borrowers are especially vulnerable to interest rate variations as their mortgages are overwhelmingly floating rate and longer maturities have increased their sensitivity to interest rate rises. Using a specific DTI module, the agency actualises the initial DTI computed at loan origination, to account for potential variations due to rises in interest rates, given the residual mortgage term;
- **Lender Adjustments:** Fitch may apply an adjustment to base default probabilities on a portfolio-wide basis to reflect variances from the practices and experiences of an average standard lender, after considering, among other things, actual performance data, track record and general aggressiveness of underwriting standards and origination channels. Penalties for lack of diversity are also incorporated, such as a hit of 5% to 25% on borrowers in a region where the pool presents a significant geographical concentration;
- **Origination Channel:** The agency may also increase the default probability of loans originated in regions that are new to the lender and where the latter has shown aggressive lending. As available data suggest that loans originated through broker channels usually show higher arrears, Fitch will also increase the default probability of these loans by 15% to 30%;
- **Borrower Profile:** Fitch increases the default probability on loans to self-employed borrowers and borrowers with a temporary contract by 10%-15% as these borrowers are more susceptible to economic cycles and business interruption. An adjustment of 15% to 25% is also applied to borrowers with short employment and credit histories, depending on how comfortable the agency is with the lender's assessment of the borrower's ability to service the debt and job, and the credit checks carried out. The default probability of a mortgage loan signed by more than two borrowers from a different household will be increased by 20%, as evidence suggests that borrowers who pool resources are more likely to default. A 20% hit will also be applied to non-Spanish residents as such borrowers may have less incentive to repay a mortgage loan in periods of stress;
- **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 25%, 50% and 75%, respectively. Fitch assumes that mortgages over 91 days in arrears (non-performing status) will have a 100% probability of default;
- **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 increase the default probability on these borrowers by between 10% and 25%. If the purpose of the loan is not the acquisition of a property in Spain, such as loans taken for debt consolidation purposes or commercial purposes, Fitch will analyse the loans on a case-by-case basis;
- **Payment Frequency and Repayment Type:** Mortgage payments by Spanish borrowers are generally made monthly by direct debit. Fitch will increase base default rates for quarterly, semi-annual and annual payments by factors of 1.05, 1.10 and 1.15, respectively. Interest-only loans for the full loan amount are not common in Spain. For "partial" interest only products, whereby the borrower may elect to pay at maturity a given percentage of the loan, Fitch increases the default probability of these products by between 5% and 30%, depending on the size of the balloon payment;
- **Payment Options:** Beyond standard variable rate amortising loans, Spanish lenders offer products with reduced initial instalments and payment options during the remaining term, including initial principal grace periods, teaser margins, teaser rates, instalment build-up features, payment holidays and loans with a floating maturity and redraws. Fitch will assess the potential risks of payment shocks associated with these specific features and will then increase the default probability of these loans by between 5% and 25%, depending on the size of this potential payment shock and its probability of occurrence over the life of the loan.

Recoveries

Fitch's default model also calculates a recovery percentage, ie the recovery of principal and interest upon foreclosure of the loan, considering key factors that include current LTV, mortgage insurance, market value trends and property characteristics, recovery timing and costs, such as repossession expenses, and the cost of carrying the loan from delinquency to recovery (ie penalty and legal interest).

Appendix 1: Rating Methodology (cont.)

Possible recoveries are defined as the lower of: (i) the total amount due, defined as the loan's current balance plus interest accrued during the recovery procedure; (ii) net recovery proceeds, calculated as the indexed value of the property to which a regional market value decline (MVD) factor is applied, stressed by property-specific adjustments (if applicable) minus recovery costs.

Based on its analysis of Spanish historical housing market developments from 1987 to 2007, Fitch determined MVD assumptions for nine groups of Autonomous Communities with similarities of housing market movements. In recognition of local housing market specificities, Fitch also adjusts upwards the MVDs applied to properties identified as more vulnerable to a property price downturn.

Adjustments

- **Coastal Regions:** In the Spanish South and Mediterranean coast, Fitch applies a 25% increase to the MVDs of properties in four regions of Andalucía (Almeria, Cadiz, Huelva, Malaga), in Murcia and in the Castellón region of the Comunidad Valenciana. Fitch believes that these regions may be more at risk of housing speculation and oversupply than their peers due to higher supply and property price growth;
- **Centre Regions:** In the centre of Spain, Fitch applies a 15% increase to the MVDs of properties located in the regions of Guadalajara and Toledo, both in Castilla La Mancha. Due to their proximity to Madrid, these regions have experienced higher property price growth than their peers and they exhibit above average percentages of second homes;
- **Second Homes:** In all geographical areas, Fitch increases by 15% the MVDs of all properties purchased as second homes. The agency believes that demand for these properties is more volatile than for first homes and, in Spain, they are more liable to oversupply;
- **Low and High-Value Properties:** Fitch increases MVDs for lower- and higher-value properties: owing to limited demand, these properties are generally subject to larger MVDs in a deteriorating market than homes with average market values.

Additional stresses to property values may be applied on a case-by-case basis, for instance if the mortgage loans are backed by commercial properties or by subsidised properties.

In its analysis, Fitch gives credit to mortgage insurance according to the criteria set out in the report "*European Criteria for Mortgage Insurance in RMBS transaction*", published on 4 July 2007. The agency focuses on the rating of the insurer, the strength of the policies and the claims-paying history of the insurance. Fitch will calculate the value of the potential claim on a loan-by-loan basis.

Loss severity is the difference between the current balance on the loan plus the prior ranking mortgage (if any) inclusive of foreclosure and carrying costs, and the estimated realisation value of the property – computed as the indexed property value stressed by the MVD factors. The loss is adjusted to the extent that credit is given for mortgage insurance. Foreclosure costs include fixed costs estimated at EUR6,500 and variable costs estimated at 5.5% of the realisation value. The cost to the servicer of carrying the loan from delinquency to default is estimated by applying the stabilised rate of interest – ie after any teaser rate period - to the loan balance for the duration of the recovery period, estimated at 36 months.

The loan-by loan recovery is calculated by the agency for use in its cash flow model as the recoverable amount of the loan balance at foreclosure, divided by the current balance. The WA recovery rate (WARR) gives credit to the fact that the lender may be able to recover accrued interest in excess of the principal amount outstanding.

Appendix 2: Summary

FONCAIXA ICO-FTVPO 1, FTA

Series	Rating[a]	Size (%)	Size (EURm)	Credit enhancement (%)	Final scheduled maturity	I/P PMT frequency	Coupon	ISIN
AS	AAA	1.07	5.6	8.0	November 2031	Quarterly	3-month Euribor + 50bp	ES0337680005
A(G)	AAA	91.01	478.0	8.0	November 2031	Quarterly	3-month Euribor + 50bp	ES0337680013
B	A	3.96	20.8	4.0	November 2031	Quarterly	3-month Euribor + 80bp	ES0337680021
C	BBB	2.97	15.6	1.0	November 2031	Quarterly	3-month Euribor + 150bp	ES0337680039
D	CC	0.99	5.2	0	November 2031	Quarterly	3-month Euribor + 400bp	ES0337680047

[a] Each rated series in this transaction has a Stable Outlook
Source: Transaction documents

Key Information

Closing date	11 Feb 2009	**Seller/originator**	La Caixa
Country of assets	Spain	**Structurer**	GestiCaixa and La Caixa
Structure	Sequential/pass-through; pro rata under certain conditions	**Issuer**	FONCAIXA ICO-FTVPO 1, FTA
Type of assets	VPO mortgage loans		
Currency of assets	EUR	**Gestora**	Gesticaixa, S.G.F.T., SA
Currency of notes	EUR	**Swap provider**	La Caixa
Analysts	alvaro.gil@fitchratings.com carlos.masip@fitchratings.com	**Financial agent**	La Caixa
Performance analyst	sf_surveillance@fitchratings.com		

Source: Transaction documents

Fitch Default Model Outputs

Rating level (%)	AAA	A	BBB
WAFF	15.9	11.2	7.5
WARR	58.1	73.0	79.0

Source: Fitch

Collateral at 6 February 2009

Pool characteristics

Current principal balance (EURm)	520	**Regional concentration (%)**	
Average current loan per borrower (EUR)	59,286	Madrid	30.0
Average original loan per borrower (EUR)	68,749	Andalucia	23.0
Number of loans	8,771	Catalunya	14.6
WA seasoning (months)	41.8		
Oldest loan in portfolio	May 1999	**Mortgage characteristics (%)**	
Most recent loan in portfolio	September 2007	First-ranking	100
Loans up to 30 days in arrears (% balance)	0	Second homes	0
		VPO properties	100
Interest rate type (%)		Self-employed and other	4.9
Variable	100.00		
Fixed	0.00	**Loan-to-value (LTV) (%)**	
WA margin over index	0.0	WA original LTV	78.7
Interest index	VPO98-01 and VPO02-05 Indexes	WA indexed current LTV	64.1
		WA current LTV	68.8

Source: Transaction documents