FitchRatings

Structured Finance

CDO/Spain
New Issue

Foncaixa FTPYME 1, FONDO DE TITULIZACIÓN DE ACTIVOS

Ratings

Class	Amount (EURm)	Legal Final Maturity	Rating	CE (%)
A1	185.0	Sep 2036	AAA	8.8
A2	89.9	Sep 2036	AAA	8.8
A3G	223.5	Sep 2036	AAA	8.8
A3S	56.0	Sep 2036	AAA	8.8
B	37.8	Sep 2036	A	2.6
C	7.8	Sep 2036	BBB	1.3
Line of Credit	7.8		N/a	

*Class A3G is Guaranteed by the Kingdom of Spain (‘AA+/F1+’)

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■ Summary

Foncaixa FTPYME 1, FONDO DE TITULIZACIÓN DE ACTIVOS’ (“Foncaixa FTPYME 1” or “the fund”) class A1, A2, A3G, A3S, B and C floating–rate notes have been assigned ratings by Fitch Ratings as indicated at left. The transaction represents a cash flow securitisation of a static EUR600million portfolio of loans to small and medium-sized Spanish enterprises (“SMEs”) granted by Caixa d’Estalvis i Pensions de Barcelona, S.A. (“La Caixa”, rated ‘AA-/F1+’). The class A3G notes are backed by a guarantee from the Kingdom of Spain (rated ‘AA+/F1+’).

Foncaixa FTPYME 1 is a special purpose vehicle incorporated under the laws of Spain with limited liability. Its sole purpose is to acquire a portfolio of loans from La Caixa as collateral for the issuance of fixed-income securities. The assets of the fund will be acquired at closing by GestiCaixa, S.G.F.T., S.A. (“the Sociedad Gestora”) on behalf of Foncaixa FTPYME 1. The Sociedad Gestora is a special purpose management company with limited liability incorporated under the laws of Spain.

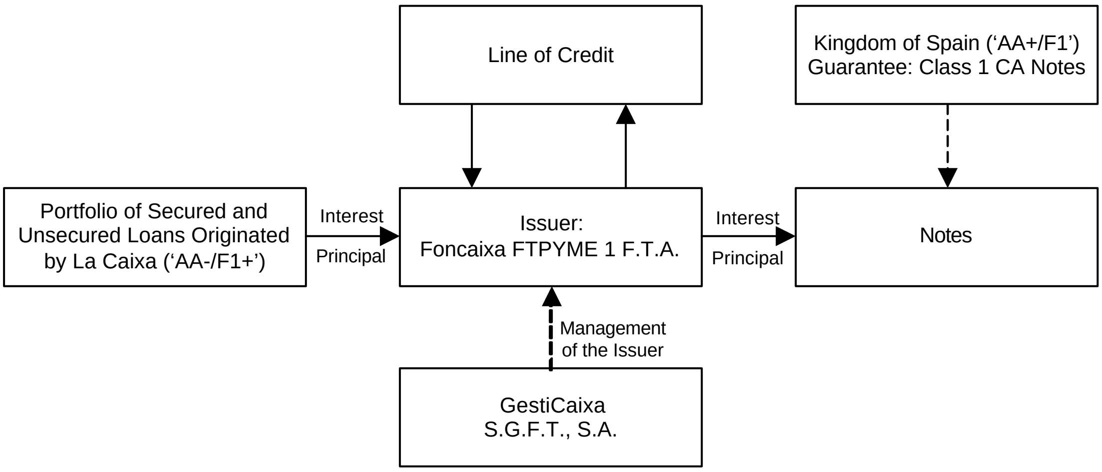
The provisional loan portfolio is composed of 15,313 loans. 25.5% of the current outstanding balance of the pool is secured by first ranking residential mortgages and 48.1% by first ranking commercial mortgages, with the remainder either unsecured or secured with guarantees, private backing or non-first ranking mortgages. The pool is well distributed geographically, with 14.83% by current balance located in Madrid, 9.29% in Barcelona, 6.79% in Las Palmas, 6.14% in Baleares and 5.51% in Valencia, with no other province accounting for more than 5%. The largest industry sectors are real estate (14.10%) and construction (12.26%). All the credits in the pool are variable rate, of which 64.47% are linked to EURIBOR (Euro Interbank Offered Rate).

The ratings are based upon the quality of the collateral, available credit enhancement, the priority of payments, adequate underwriting and servicing of the loans, the Sociedad Gestora’s administrative capabilities, the guarantee from the Kingdom of Spain, and the sound financial and legal structure of the transaction.

Credit enhancement for the class A notes, totalling 8.8%, is provided by the class B (6.2%) and C notes (1.3%), as well as a line of credit (‘LOC”) of 1.3%. In addition, available excess spread serves as a first layer of loss protection.

The Kingdom of Spain guarantees the timely payment of interest and principal on the class A3G notes under a Ministerial Order.

Structure Diagram



Source: Transaction Documents

Credit Committee Highlights

- The base default rate used by the agency was drawn from historic data provided by the originator and an on-site review of La Caixa's underwriting and servicing system.

- La Caixa was able to provide loan-to-value ("LTV") and regional information on an asset-by-asset basis for the mortgages. It was also able to show which loans were backed by first ranking residential mortgages (25.5%) and first ranking commercial mortgages (48.1%). Other loans were treated as unsecured. All of the above enabled Fitch to assign a recovery rate of between 57% and 66%.

- There is virtually no asset concentration in the pool, with the largest obligor accounting for 0.05%. This is significantly lower (and therefore less of a concern) than recent PYME transactions.

- While there is a Spanish sovereign guarantee for principal and interest on the class A3G bonds, these would likewise have achieved a Fitch rating of 'AAA' if such guarantee was not provided. Therefore, the rating assigned is not linked to the rating of the Kingdom of Spain.

- 75bps excess spread (gross of senior expenses) is guaranteed on the note balance by a swap transaction. This level of excess spread is greater than typically seen in such transactions.

Structure

The loans are serviced by La Caixa. On a monthly basis, all payments will be passed to a treasury account maintained at La Caixa in the name of Foncaixa FTPYME 1. In addition, amounts standing to the credit of the reserve fund (if any, see *Line of Credit and Reserve Fund* below) will be deposited in this account. A separate amortisation account will also be maintained at La Caixa in the name of the fund for the express purpose of holding principal extracted from the priority of payments to fund the bullet payments expected to be made to redeem the class A1 and A2 notes.

The amounts deposited in either account are kept in cash, receiving a guaranteed interest rate equal to three-month EURIBOR. In the event La Caixa's Short-term rating falls below 'F1', the Sociedad Gestora will, within 30 business days (and until such downgrade has been reversed), either:

i. find a suitably-rated third party to guarantee La Caixa's obligations as account bank and paying agent, or

ii. select a suitable replacement for La Caixa with the required Short-term rating of 'F1'.

In the event neither (i) or (ii) is achieved, the Sociedad Gestora can obtain from La Caixa (or a third party) collateral rated at least as strong as the Kingdom of Spain in an amount sufficient to guarantee its obligations.

Alternatively, the Sociedad Gestora can invest cash in short-term, fixed-rate securities rated 'F1+' and maturing before the following payment date.

The legal final maturity date for the notes will be 15 September 2036, three years after the maturity of the longest dated underlying loan. However, early

Key Information

Provisional Portfolio Characteristics

Number and Type of Loans: 15,313 Loans to SMEs in Spain

Total Amount: Approximately EUR600million

1st Ranking Mortgages: 73.6% by current balance

Top Regional Concentration: 14.83% in Madrid

Structure

Issuer: Foncaixa FTPYME 1, Fondo de Titulización de Activos

Management Company: GestiCaixa S.G.F.T. S.A.

Seller: Caixa d'Estalvis i Pensions de Barcelona, S.A. ("La Caixa", rated 'AA-/F1+')

Account Bank: La Caixa

Paying Agent: La Caixa

Class A3G Guarantor: Kingdom of Spain ('AA+/F1+')

redemption may occur, *inter alia*, once the outstanding note balance falls below 10% of that at closing (see *Redemption* below).

Priority of Payments

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

1. Expenses and taxes of the fund and a fee to the Sociedad Gestora.
2. Net swap payment if applicable.
3. Overdue interest on the class A notes and repayment of any drawdown made under the Spanish guarantee in respect of interest on the class A3G notes.
4. Interest under the class A notes and in respect of any outstanding drawdown on the liquidity facility.
5. Interest under the class B notes, if not deferred.
6. Interest under the class C notes, if not deferred.
7. Principal to the notes (or deposited in the amortisation account in advance of A1 and A2 note bullet maturity dates), broadly speaking equal to principal received plus the balance of loans in excess of 18 months in arrears and any unpaid principal from the previous payment date. The repayment to the Kingdom of Spain of any outstanding drawdown under the guarantee in respect of principal on the class A3G notes will rank equal to principal on that class of notes.
8. An amount to replenish the LOC to its required balance or, if applicable, to replenish the reserve fund to its required amount.
9. Interest under the class B notes if deferred. This will occur if the balance of loans over 90 days in arrears exceeds 10.4% of the initial balance of loans at closing for two consecutive periods.
10. Interest under the class C notes if deferred. This will occur if the balance of loans over 90 days in arrears exceeds 6.15% of the initial balance of loans at closing for two consecutive periods.
11. Subordinated amounts including any swap termination payment owed by the fund.

Redemption

Prior to the redemption of the class A1 notes, principal paid out at its position in the priority of payments is deposited in the amortisation account held at La Caixa, where it will earn three-month EURIBOR. At the expected maturity date (15 December 2005), an amount sufficient to redeem the notes will be paid out from the amortisation account (to the extent available). Any remaining balance will be amortised over time from funds extracted as principal from the priority of payments.

Prior to the redemption of the class A2 notes, the same mechanism will be used to trap cash. At the expected maturity date (15 March 2007), an amount sufficient to redeem the notes will be paid out from the amortisation account (to the extent available). Any remaining balance will be amortised over time from funds extracted as principal from the priority of payments.

Following the redemption of the class A2 notes, amortisation will be on a "pass-through", sequential basis, first for the class A3 notes, then the class B and finally the class C (noting that any surplus cash in the amortisation account will be immediately available for amortisation).

The redemption of the fund will occur after the amortisation of its assets and/or liabilities. Should there be a need to substitute the Sociedad Gestora due to insolvency or bankruptcy and no suitable substitute has been found after four months, then the fund will be liquidated.

La Caixa has the right to exercise a clean-up call when the outstanding balance of the loans is less than 10% of the original balance.

Line of Credit and Reserve Fund

A EUR7.8million LOC is to be established at closing (1.3% of the original note balance). If La Caixa's Short-term rating falls below 'F1', the Sociedad Gestora will either:

- obtain a guarantee from a suitably-rated entity for the obligations of La Caixa under the LOC agreement; or
- establish a reserve fund to be deposited in the treasury account by drawing down the available LOC.

The required LOC (or, as the case may be, reserve fund) amount on any payment date is to be the minimum of:

- 1.3% of the original note balance and
- 2.6% of the current loan balance

subject to an absolute floor of EUR4.5million (0.75% of the note balance at closing).

Amortisation of the LOC (or the reserve fund) will cease if either (i) it is not at its required amount, or (ii) the cumulative balance of loans over 90 days in arrears exceeds 1% of the current note balance.

Hedging

A swap is in place to hedge the basis risk in the transaction arising from any potential divergence between any of the indices to which the loans are referenced and three-month EURIBOR that might result in a compression of excess spread. The fund will owe to La Caixa as swap counterparty all interest earned on the portfolio balance in the period less a margin of 0.75% plus the interest earned on the balance of the amortisation account, and in return will be owed the weighted average coupon on the then current balance of the notes, settled in net terms. The swap hedges the risk of negative carry arising as a result of holding a cash balance in advance of the two note bullet maturity dates.

An additional benefit of this swap is that it mitigates not only the risk that higher margin borrowers may prepay at a faster rate but also the inevitable increase in the weighted average cost of funding as the notes amortise.

If La Caixa is downgraded below 'F1', it will have to opt for one of the following:

i. find a suitably-rated guarantor for its swap obligations;

ii. find a suitably-rated replacement counterparty to assume its swap counterparty duties; or

iii. post collateral in favour of the fund in satisfaction of Fitch's then current criteria.

Guarantee and Liquidity Facility

The Kingdom of Spain guarantees the timely payment of interest and principal on the class A3G notes under a Ministerial Order. Any such amounts paid through the guarantee will be considered an obligation of the fund. The guarantee becomes due from the Kingdom of Spain within three months of its drawing. In view of the potential timing mismatch between when the guarantee is required and its payment, a EUR4.5million liquidity facility, provided by La Caixa, can be drawn to meet any interest shortfall on the A3G notes, and is repaid when the guarantee pays. The facility will cost 0.01% p.a. on the undrawn amount in commitment fees and three-month EURIBOR p.a. on any drawn amounts. However, no interest is due on amounts drawn under the guarantee.

If La Caixa is downgraded below 'F1' it will either obtain a guarantee for its obligations under the liquidity facility agreement or transfer, at its own cost, the duties involved to a suitably-rated entity.

■ Collateral

The notes are backed by a EUR600million portfolio of loans advanced to SMEs by, and purchased from, La Caixa. All of the SMEs fall under the European Commission definition of PYMEs (1996), which includes;

i. <250 employees
ii. Annual revenues =EUR40million
iii. Total assets =EUR27million

The portfolio is composed of 15,313 loans with a current weighted average coupon of 4.04%. 73.6% of the current outstanding balance of this pool is secured by first ranking mortgages – 25.5% on residential properties and 48.1% on commercial properties. For the purpose of assigning recovery rates, no credit was given to any collateral reported in respect of loans secured by non-first ranking mortgages, while personal guarantees were deemed unsecured by the agency. The pool is well distributed geographically, with 14.83% by current balance located in Madrid, 9.29% in Barcelona, 6.79% in Las Palmas, 6.14% in Baleares, 5.51% in Valencia, with no other province accounting for more than 5%. The largest industry sectors are real estate (14.10%) and construction (12.26%).

As of 27 October 2003, the average principal balance was EUR49,292, very much smaller than in comparable deals. The largest obligor represented 0.05% of the portfolio. All of the credits are variable-rate loans, 64.47% of which are linked to EURIBOR. The loans have been originated between 1988 and 2003, with 51.23% of the portfolio coming from the 2002 and 2003 vintages.

■ Origination and Servicing

As part of its rating process, Fitch carried out an operational and servicer visit to La Caixa's premises.

La Caixa's 4,500 branches, located throughout the country, account for the bulk of loan origination, with around 30% of these accounting for around 80% of SME business. According to La Caixa's decentralisation strategy, corporate managers (*gestores de empresas*) and account managers (*gestores de cuenta*) in the various branches maintain contact with customers from the point of origination and throughout the life of the corresponding credits. La Caixa's risk policy places value both on thorough knowledge of the client as well as on more measurable factors such as payment capacity and available underlying guarantees.

Credit analysis of SME loans includes an examination of the client's preceding three years of accounts, tax declarations, current assets, status on CIRBE (a Bank of Spain database with information on any Spanish entity's debt profile and default history), RAI (a database of any outstanding legal proceedings), as well as checks with credit bureaus and its own internal rating system. Depending on the total (current plus new) exposures to a customer, approval can be obtained at branch, business division or regional division level. More complex applications may be referred to the credit committee and executive commission.

Loans up to three months in arrears will generate up to three warning letters before being passed to the pre-recovery department, which adopts a more personal approach while documents necessary for potential legal proceedings are being prepared. Those loans on which recoveries have not been made at the end of this stage will enter into the legal recovery phase with La Caixa's external counsel. Renegotiations of loans, which are fairly rare, can be authorised for a maximum of 12 months provided the borrower has successfully paid off at least 50% of the original loan balance and legal proceedings have not commenced.

■ Credit Analysis

Credit enhancement for the class A notes, totalling 8.8%, is provided by the class B (6.2%) and C notes (1.3%) as well as an LOC of 1.3%. In addition, available excess spread serves as a first layer of loss protection.

Using default data provided by La Caixa dating back to 1996, and after an on-site review of La Caixa's internal scoring system, Fitch was able to establish a base default rate, to which multipliers were applied in the rating scenarios run. The timing of defaults was stressed for front- and back-loaded defaults.

La Caixa provided LTV and regional information on each loan in the portfolio, identifying too mortgage type and if it is first ranking. Fitch applied its conservative market value decline assumptions for commercial and residential properties to derive a recovery rate for those loans backed by first ranking mortgages. Non-first ranking mortgage loans as well as unsecured loans were assigned the Spanish senior unsecured recovery rate (varying according to rating scenario). As a result, Fitch applied a recovery rate of between 57% and 66% to the portfolio as a whole, depending on rating scenario.

When combined with the default rate, recovery timing, excess spread and other structural characteristics (such as triggers, default provisioning, returns on cash accounts, hedging, etc) and a tailored cash flow model, Fitch concluded that each of the classes of bonds is expected to receive timely payment of interest and ultimate repayment of principal (by legal final maturity) without incurring any shortfall in its respective rating scenario.

■ Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance performance analytics team ensures 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. Further information on this service is available at www.fitchratings.com.

Please call the Fitch's analysts listed on the first page of this report for any queries regarding the initial analysis or the ongoing surveillance.