CDO/Spain
New Issue

# GC FTGENCAT II, FONDO DE TITULIZACIÓN DE ACTIVOS

## Ratings

| Class | Amount (EURm) | Legal Final Maturity | Rating | CE (%) |
|---|---|---|---|---|
| AG* | 706.8 | 2025 | AAA | 9.5 |
| AS | 176.7 | 2025 | AA+ | 9.5 |
| BG* | 17.6 | 2025 | AA | 5.8 |
| BS | 17.6 | 2025 | A | 5.8 |
| C | 31.3 | 2025 | BBB | 2.5 |

* Guaranteed by Generalitat de Catalunya ('AA-/F1+')


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## Summary


GC FTGENCAT II, FONDO DE TITULIZACIÓN DE ACTIVOS ("GC FTGENCAT II" or "the fund") class AG, AS, BG, BS and C floating rate notes have been assigned ratings by Fitch Ratings as indicated at left. The transaction represents a cash flow securitisation of loans to small and medium-sized Spanish enterprises ("SMEs") granted by seven Spanish banks. The class AG and BG notes are backed by a guarantee from the *Generalitat de Catalunya* (Catalan autonomous government) (rated 'AA-/F1+').

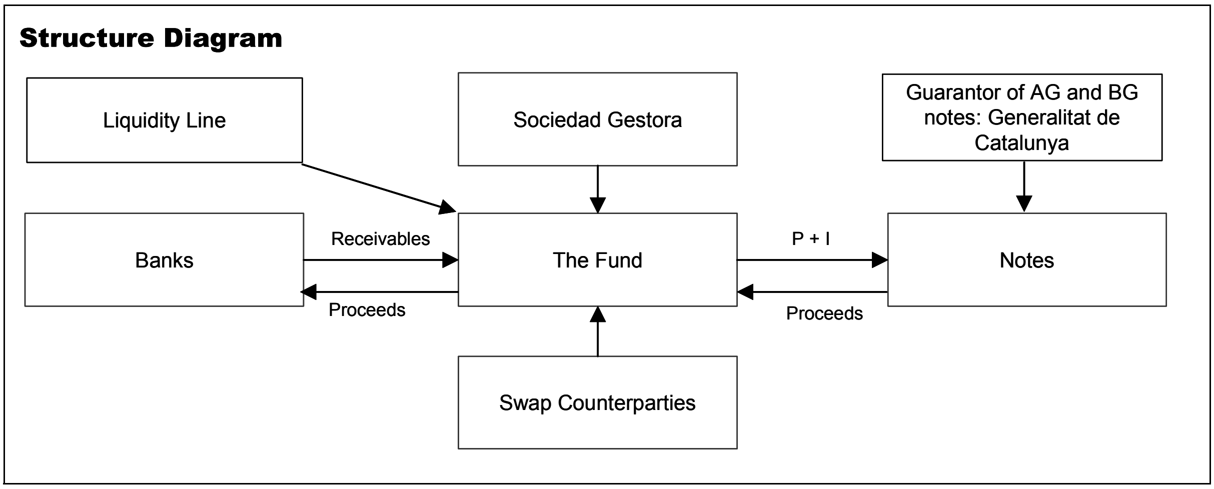

GC FTGENCAT II is a special purpose vehicle incorporated under the laws of Spain with limited liability. Its sole purpose is to acquire a portfolio of loans from seven Spanish banks as collateral for the issuance of fixed-income securities. The assets of the fund were acquired by GestiCaixa, Sociedad Gestora de Fondos de Titulización, S.A. ("GestiCaixa", or "the Sociedad Gestora") on behalf of GC FTGENCAT II. The Sociedad Gestora is a special purpose management company with limited liability incorporated under the laws of Spain.

The notes are backed by a static EUR950 million portfolio of loans to SMEs advanced by, and purchased from, the following seven banks:

**Banks**

| | EURm | % of Portfolio |
|---|---|---|
| La Caixa | 125 | 13.16 |
| Banco Espanol de Credito | 60 | 6.32 |
| Banco Pastor | 40 | 4.21 |
| Banco Popular | 25 | 2.63 |
| BSCH | 225 | 23.7 |
| Banco Sabadell | 250 | 26.3 |
| BBVA | 225 | 23.7 |

The portfolio is composed of 10,864 loans, consisting of mortgages (both first and second-ranking, comprising 67% of the portfolio), as well as loans secured with guarantees and private backing (33% of the portfolio). In terms of geographic concentration, all the loans are to obligors in Catalunya. The ratings are based upon the quality of the collateral, the available credit enhancement, the priority of payments, adequate underwriting and servicing of the loans, the Sociedad Gestora's administrative capabilities, the guarantee from the *Generalitat de Catalunya*, and the sound financial and legal structure of the transaction.




Credit enhancement for the class AG and AS notes, totalling 9.5%, is provided by the class BG and BS notes (3.7%), the class C notes (3.3%), and a reserve fund (2.5%), granted by the seven banks at closing. In addition, 50bps of excess spread serves as a first layer of loss protection. The *Generalitat de Catalunya* guarantees the class AG and BG notes.

To determine appropriate credit enhancement levels, Fitch analysed the collateral and the financial structure and subjected them to various stress scenarios. Under these stress scenarios, cash flows derived from the collateral are sufficient to make full and timely payment of interest and full and ultimate payment of the principal at the legal final maturity for the correspondingly rated notes.

## Credit Committee Highlights

- The base default rate used by the agency was drawn from historic data provided by the majority of the savings banks. The data showed the default rate of quarterly vintages, in most cases dating back to 1996.
- The structure of the guarantee from the *Generalitat de Catalunya* reflects similar conditions to the guarantee granted by the Kingdom of Spain under several other Spanish SME deals rated by Fitch.
- Full credit was given for the 50bps excess spread provided for under the swaps.

## Structure

The loans are serviced by the seven banks. All payments received by banks from the collateral will be passed to a collection account before each payment date, which will be maintained at the paying agent, Caixa d'Estalvis i Pensions de Barcelona ('AA-/F1+'), in the name of the fund.

The reserve fund will be composed of cash – deposited in this account – and credit lines from the originators. The amounts deposited in the fund's account are kept in cash, receiving a guaranteed interest rate equal to three-month EURIBOR minus 25 bps. In the event that the paying agent's Short-term rating falls below 'F1', the Sociedad Gestora will, within 30 days, either:

1. find a third party to guarantee its obligations; or
2. select a suitable replacement with the required short-term rating of 'F1'.

In accordance with the priority of payments described below, the notes' interest and principal will be paid on a quarterly basis.

Class AG and AS notes:

- will be redeemed in line with the repayment of the loans;
- amortisation will be *pro rata*; and
- interest will be based on three-month EURIBOR plus a margin (11 and 48 bps respectively)

Class BG and BS notes:

- are subordinated to the class A notes and will be redeemed after the class A notes have been redeemed;
- will be redeemed in line with the repayment of the loans; and
- interest will be based on three-month EURIBOR plus a margin (28 and 70 bps respectively)

Class C notes:

- are subordinate to the class A and B notes and will be redeemed after the class A and B notes have been redeemed. Interest payments will be based on three-month EURIBOR plus 145 bps.

**Key Information**

**Provisional Portfolio Characteristics**
**Type of Loans:** loans to Spanish SMEs
**Total Amount:** EUR950 million
**Swaps Excess Spread:** 0.50%

**Structure**
**Fund:** GC FTGENCAT II, Fondo de Titulización de Activos
**Seller/Servicers:**

- Caixa d'Estalvis i Pensions de Barcelona ('AA-/F1+')
- Banco de Sabadell ('A+/F1')
- Banco Bilbao Vizcaya Argentaria ('AA-/F1+')
- Banco Santander Central Hispano ('A+/F1')
- Banco Espanol de Credito ('A+/F1')
- Banco Pastor ('A/F1')
- Banco Popular Espanol ('AA/F1+')

**Sociedad Gestora:** GestiCaixa
**Paying Agent / Collection Account:** Caixa d'Estalvis i Pensions de Barcelona
**Guarantor:** Generalitat de Catalunya ('AA-/F1+')
**Swap Provider:** 'F1' rated institutions
**Liquidity Provider:** Caixa d'Estalvis i Pensions de Barcelona ('AA-/F1+')

The legal final maturity date for the notes will be 25 July 2025, two years after the maturity of the longest dated underlying loan.

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

1. Expenses, including those due to the Sociedad Gestora and the paying agent.
2. Amounts due to the swap.
3. Reimbursement of guarantee drawn to pay class AG interest.
4. Interest to the class AS and AG notes.
5. Reimbursement of guarantee drawn to pay class BG interest.
6. Interest to the class BS and BG notes.
7. Interest to the class C notes, if not deferred.
8. Interest on the liquidity facility.
9. Reimbursement of guarantee drawn to pay class AG principal.
10. The principal on class AS and AG notes.
11. Reimbursement of guarantee drawn to pay class BG principal.
12. The principal on class BS and BG notes.
13. Interest to the class C notes, if deferred.
14. The principal on the class C notes.
15. Replenish reserve fund.
16. Cost resolution of the swap.
17. Interest subordinated loan.
18. Interest on subordinated line of credit.
19. Principal on subordinated loans.
20. Principal on the subordinated line of credit.
21. Administration fee.
22. Financial intermediation margin to originators.

Note that principal includes defaulted amounts in addition to principal receipts.

On any payment date, the interest payment to the class C notes, described in item seven above, will be paid as item number thirteen if loans in arrears for more than 90 days exceed 6% of the outstanding balance of loans.

The effect of these provisions is to subordinate interest payments of the junior notes to the principal to be paid to senior notes, in the event that the senior notes are no longer fully collateralised by loans or if arrears have reached a certain level.

## Redemption

The redemption of the fund will occur after the amortisation of its assets and/or liabilities.

Unwinding provisions are included, relating to legal changes that adversely affect the efficiency of the transaction for the originators. Additional provisions allow for liquidation in the event of exceptional circumstances affecting the financial equilibrium of the fund, or a non-payment indicative of a serious imbalance in relation to any of the securities. These provisions are subject to the availability of resources to pay the outstanding notes.

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 liquidation will also take place.

The Sociedad Gestora has the right to enact a clean-up call when the balance of the loans is less than 10% of the original balance.

## Reserve Fund

At closing, the savings banks will provide a reserve fund equal to 2.5% of the initial balance of the portfolio. This reserve will consist of cash amounts deposited in the collection account and held at the paying agent on behalf of the fund, and of lines of credit.

## Guarantee

The *Generalitat de Catalunya* guarantees the class AG and BG notes. This guarantee has essentially the same structure as that provided by the Kingdom of Spain in several other Spanish SME deals rated by Fitch. Under the terms of the guarantee, all the loans securitised must be to Catalan corporates, and at least 50% must be to small and medium-sized companies (PYMES), as defined by the European Union. The banks securitising loans must reinvest the proceeds from the securitisation in the same type of company described above. All the guaranteed notes must be traded. The amounts paid through the guarantee will be considered an obligation of the fund.

The guarantee becomes due from the *Generalitat de Catalunya* within three months of its drawing. In view of the potential timing mismatch between the date on which the guarantee is required and the date of its payment, the fund has entered into a liquidity facility with La Caixa ('F1+' rated). In the event that the counterparty falls below 'F1', an alternative liquidity provider or guarantor must be found. No interest is due on the amounts drawn under the guarantee. The principal drawn under the guarantee will be repaid through the priority of payments as described above.

## Subordinated Loan

As additional support to the structure, the savings banks will grant a loan to fund the initial expenses of the transaction. It will be repaid through the priority of payments as detailed above.

## Interest Rate Swaps

The liabilities of the fund pay interest based on three-month EURIBOR, while the assets pay interest based on a variety of floating-rate indices or on a fixed-rate basis. To mitigate this interest rate risk, the fund has entered into interest rate swaps. Under the terms of the swaps, the fund will pay what it has received from the assets and will receive three-month EURIBOR plus the weighted average spread on the notes, plus 50bps. This will be paid on the outstanding balance of the assets. Replacement language exists for the swaps counterparties, in the event that its short-term rating falls below 'F1', and is the same as that detailed above for the replacement of the paying agent.

## Collateral

The notes are backed by a EUR950 million portfolio of loans to SMEs advanced by, and purchased from, seven banks. About 90% of the SMEs fall under the European Commission definition of PYMES (1996), which includes:

1. <250 employees
2. Annual revenues <=EUR40 million
3. Total assets <=EUR27 million

The portfolio is composed of 10,864 loans, secured either by mortgages (67%) or personal guarantees (33%). For the purpose of assigning recovery rates, those loans secured by personal guarantees were deemed unsecured by the agency. In terms of geographic concentration, the loans are all located in Catalunya. According to the 10 industry classifications of the CNAE (*Código Nacional de Actividades Económicas*), the largest industry sectors are Real Estate (18%), Wholesale Trading (9%), and Construction (8%).

The average principal balance of each loan is approximately EUR124,000. The largest obligor represents 0.54% of the portfolio.

## Credit Analysis

Credit enhancement for the class AG and AS notes, totalling 9.5%, will be provided by the class BG and BS notes (3.7%), the class C notes (3.3%), and a reserve fund (2.5%), granted by the seven savings banks at closing. In addition, excess spread (0.50%) serves as a first layer of loss protection. Classes AG and BG will benefit from the guarantee of the Generalitat de Catalunya.

Using default data provided by the majority of the banks – dating back, in most instances, to 1996 – Fitch was able to establish a base default rate. The base rate took into account the agency's view that the data provided did not incorporate a full economic cycle and that some of the banks were unable to provide measurable and complete default data. The base default rate, which represents a 'B' stress scenario, was approximately 3%. The agency applied multiples to this base rate for the various rating scenarios and ran these through its cashflow model, for the life of the deal, to arrive at its required credit enhancement. The timing of defaults was stressed for front-loaded, back-loaded and evenly distributed defaults.

Most of the banks provided recovery data on their PYMES portfolios, in most instances dating back to 1996. Fitch derived scenario-specific recovery rates between the average and minimum recorded rates based on quarterly vintage bank data, giving more credit to average results in less severe scenarios. In the absence of data, Fitch assumed the Spanish recovery rate for that bank.

Excess spread provides the first layer of protection, and this was applied to the agency's cashflow model.

Prepayment rates were stressed using the agency's standard methodology. This ranges from 8% in a base case stress scenario to 25% in a 'AAA' stress scenario.

Credit was given to the guarantee of the Generalitat de Catalunya for the guaranteed tranches (AG and BG). Given the fact that (default) correlation between the guarantor and the loans in the portfolio is difficult to determine, no "joint" probability of default was considered in order to determine the ratings for those tranches. Hence, credit to the guarantee relied mostly on a qualitative assessment, and was reflected when determining certain inputs for the model (determination of the base case default scenario, recovery assumptions for different rating categories, etc).

## ■ Origination and Servicing

As the loans were originated by different banks, the origination policies vary in certain respects. However, it is possible to outline certain common characteristics:

- Loans to SMEs, all located in Catalunya.
- Although some of the loans do not have physical assets as collateral, some kind of guarantee is required (personal, co-debtors, others, etc.).
- Before lending, a severe credit scoring process is undergone, involving several sources: centralised information from credit bureaux; officially audited financial and economic accountancy; and a full credit history, dating back up to 10 years.

Different servicing systems have been implemented, with direct debit on the accounts of the lender being the most common method for collection. Additionally, in most cases, agreements have been signed between borrowers and lenders, which allow the bank to cancel unpaid amounts by debiting them from other accounts held by the debtor in the same institution.

## ■ 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 analysts listed on the first page of this report for any queries regarding the initial analysis or the ongoing surveillance.