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November 7, 2008

Presale:

Foncaixa FTPYME 2, Fondo de Titulización de Activos

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Presale:

Foncaixa FTPYME 2, Fondo de Titulización de Activos

€1.1 Billion Floating-Rate Notes

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Class	Prelim. rating*	Prelim. amount (Mil. €)	Available credit support (%)	Interest	Legal final maturity
Series AS¶	AAA	533.7	16.95	Three-month EURIBOR plus a margin	Sept. 1, 2050
Series AG§	AAA	456.3	16.95	Three-month EURIBOR plus a margin	Sept. 1, 2050
B	AA	27.5	14.45	Three-month EURIBOR plus a margin	Sept. 1, 2050
C	BBB	82.5	6.95	Three-month EURIBOR plus a margin	Sept. 1, 2050
D	CCC-	76.4	N/A	Three-month EURIBOR plus a margin	Sept. 1, 2050

*The rating on each series of securities is preliminary as of Nov. 7, 2008, and subject to change at any time. Initial credit ratings are expected to be assigned on the closing date subject to a satisfactory review of the transaction documents and legal opinion, and completion of a corporate overview. Standard & Poor's ratings address timely interest and ultimate principal. ¶Four classes of notes will be issued: A, B, C and D. Class D will fund the reserve fund. The class A notes will comprise series AS and series AG notes. The class B and C notes will not be split into series. §The series AG notes will benefit from a guarantee from the Kingdom of Spain.

Transaction Participants	
Originator	Caja de Ahorros y Pensiones de Barcelona
Arrangers	Gesticaixa S.G.F.T., S.A.
Trustee	Gesticaixa S.G.F.T., S.A.
Servicer	Caja de Ahorros y Pensiones de Barcelona
Interest swap counterparty	Caja de Ahorros y Pensiones de Barcelona
GIC and bank account provider	Caja de Ahorros y Pensiones de Barcelona
Paying agent	Caja de Ahorros y Pensiones de Barcelona
Underwriters	Caja de Ahorros y Pensiones de Barcelona
Startup loan provider	Caja de Ahorros y Pensiones de Barcelona

Supporting Ratings

Institution/role	Ratings
Caja de Ahorros y Pensiones de Barcelona as servicer, GIC and bank account provider, and interest swap counterparty	AA-/Negative/A-1+

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Transaction Key Features*	
Expected closing date	Nov. 17, 2008
Collateral	Loans granted to Spanish SMEs
Principal outstanding (€)	1,527,747,308.17
Country of origination	Spain
Concentration	Largest 10 obligors (2.18% of provisional pool). Regional concentration: Madrid (24.29%), Andalucia (12.77%), and Valencia (12.09%). Industrial concentration: retail commerce (13.22%), lodging (12.08%), other business activities (10.55%), and construction (9.91%). The five major industries represent 54.47% of the pool
Average current loan size balance (€)	50,162.44
Seasoning (months)	34.68
Loan size range (€)	127,33 to 3,983,604.68
Weighted-average interest rate (%)	5.96
Arrears	At closing no loans will be in arrears
Redemption profile	Amortizing (100%)
Excess spread at closing¶ (bps)	50
Cash reserve (%)	6.95

*Pool data as of Oct. 22, 2008. ¶Available through the interest swap contract.

Transaction Summary

Standard & Poor's Ratings Services has assigned preliminary credit ratings to the floating-rate notes to be issued by Foncaixa FTPYME 2, Fondo de Titulización de Activos.

The originator is Caja de Ahorros y Pensiones de Barcelona (AA-/Negative/A-1+; La Caixa) which is the third-largest Spanish banking group. At closing, La Caixa will sell to the issuer a €1.1 billion closed portfolio of secured and unsecured loans granted to Spanish SMEs and self-employed borrowers based in Spain.

To fund this purchase, Gesticaixa S.G.F.T., S.A., the trustee, will issue four classes of floating-rate, quarterly paying notes, on the issuer's behalf.

The guarantee program by the Kingdom of Spain was set up in late 1998 to promote access to a more diversified source of financing for the Spanish small and midsize enterprise (SME) sector. The legal framework for the guarantee has evolved and the latest amendments took place in April 2003.

The following conditions must be met to access the guarantee program:

- The lending entity must have signed an agreement with the Ministry of Industry, Tourism and Commerce.
- The assets to be securitized must not be lent to financial entities.
- The borrowers must comply with the definition of an SME as provided in the European Commission (EC) circular dated May 6, 2003.
- The assets to be securitized must have a maturity greater than one year.
- At least 80% of the portfolio to be securitized must be loans to SMEs.
- The tranche that benefits from the guarantee must be rated at least 'AA' without the guarantee.

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The guarantee by the Kingdom of Spain can be drawn either for interest or principal payments on the class AG notes as per the priority of payments, when available funds are insufficient.

Notable Features

This transaction will be the eighth SME transaction to be completed by La Caixa of its loans to SME corporate clients and the second under the FTPYME program. This securitization will comprise a mixed pool of underlying mortgage-backed and other guarantee assets.

The purpose of this transaction is for the notes to be used in repo arrangements with the ECB.

The preliminary ratings on the notes reflect the subordination of the respective classes of notes below them, the reserve fund, comfort provided by various other contracts, the rating on La Caixa (AA-/Negative/A-1+), and the downgrade language in all of that entity's roles, including that of servicer.

Strengths, Concerns, And Mitigating Factors

Strengths

- Unlike other SME transactions, in the preliminary pool there are no loans granted to developers and the concentration in the real estate and construction industry is lower than average; together these two industry sectors represent less than 15% of the preliminary pool.
- Compared with previous Spanish SME transactions, the Foncaixa FTPYME 2 preliminary pool is granular, with 30,456 loans made to 27,535 borrowers.
- Credit enhancement adequately covers the various stresses we have applied to the transaction. Subordination and available excess spread will provide credit enhancement. Excess spread will be provided by the swap counterparty. Credit enhancement is also provided by the issuance proceeds of the class D notes, which will fully fund the reserve fund on the closing date.
- La Caixa is an experienced originator and servicer, with eight SME transactions and 10 residential mortgage-backed securities (RMBS) transactions to date.
- Of the pool, 61.78% represents mortgage loans with a higher level of recoveries.
- Principal amortization of the notes will be accelerated if there are loans more than 12 months past due. This will be done using trapped excess spread and by the amount equivalent to the outstanding balance of those overdue loans.
- We were provided with good-quality historical information. Although this information covers a benign cycle in the Spanish economy, we were also provided with La Caixa's latest delinquency rate for its SME loan book and probabilities of default (PDs) for most of the obligors. These PDs were approved by the Bank of Spain, in its regulatory capacity.
- The Kingdom of Spain (AAA/Stable/A-1+) provides a guarantee to the series AG notes.

Concerns and mitigating factors

- Increasing delinquencies and cycle adjustment lead to an increase of our default base case. This also leads to an increase in subordination for the senior noteholders.
- Although lower compared with most Spanish SME transactions that we have rated, there is borrower concentration risk in this deal; the top 10 borrowers represent 2.18% of the provisional pool and the biggest

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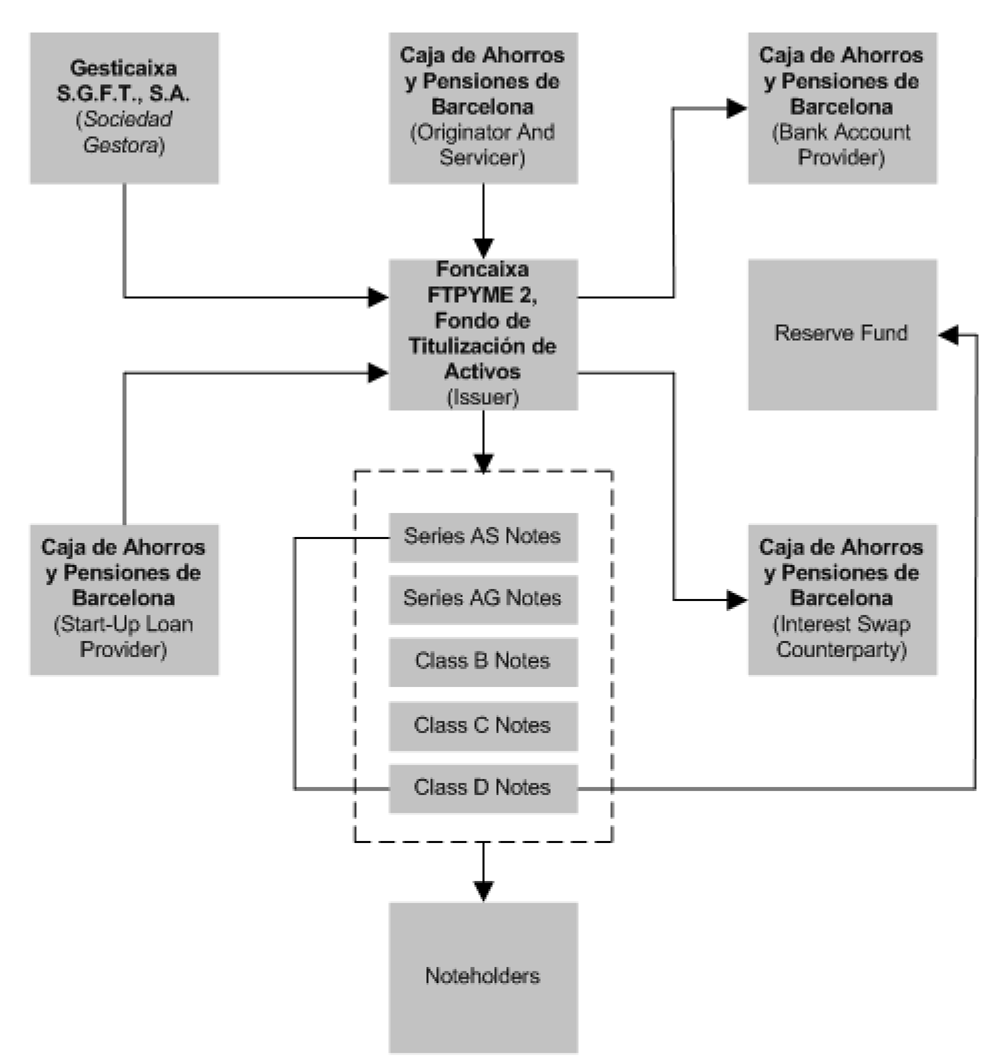
borrower represents 0.33% of the provisional pool. We took borrower concentration into account in the credit analysis, stressing the default rates at each rating level.
- There is a limited geographical concentration risk as 57.03% of the provisional pool is concentrated in four regions: Madrid (24.29%), Andalucia (12.77%), Valencia (12.09%), and the Balearic Islands (7.88%). We took geographical concentrations into account in the credit analysis, stressing the default rates at each rating level.

Transaction Structure

At closing, Foncaixa FTPYME 2 will fund the purchase of the closed portfolio by issuing three classes of notes through the trustee, Gesticaixa S.G.F.T. (see chart 1a).

Chart 1a: Foncaixa FTPYME 2, Fondo de Titulización de Activos Transaction Structure



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The issuer is not a separate entity at law, but will hold a distinct and closed pool of assets available for distribution to the noteholders.

The issuer is a "fondo de titulización de activos" created for the sole purpose of purchasing the unsecured loans and the mortgage certificates from La Caixa, issuing the notes, and carrying out related activities. The assets will be insulated from the insolvency of the originator and the trustee.

The principal and interest on the notes will be paid quarterly following a determined priority of payments. The transaction will feature some structural enhancements provided by the swap agreement, amortization of the notes, the reserve fund, and the servicing provided by La Caixa.

The series AG notes will amortize sequentially to the series AS notes unless a breach of trigger occurs (see "Redemption of the notes"). As in other Spanish transactions, interest and principal from the underlying assets will be combined into a single priority of payments. A cumulative default ratio test will protect senior noteholders by subordinating the payment of junior interest further down the priority of payments.

Trustee Or "Sociedad Gestora"

Gesticaixa S.G.F.T., as trustee, will, on the issuer's behalf, enter into certain contracts (such as GICs, a swap agreement, and subordinated credit facilities and loans). These contracts are needed to protect it against certain credit losses and liquidity shortfalls that are assumed to arise in connection with the holding of the mortgage participations and the unsecured loans.

In this transaction, the main responsibilities of the trustee will be to create the issuer, issue the notes on the issuer's behalf, calculate the interest rate on the notes, notify noteholders of any relevant information applicable to the notes and mortgage participations, and organize the annual audit.

Caja de Ahorros y Pensiones de Barcelona

The ratings on Caja de Ahorros y Pensiones de Barcelona (la Caixa) reflect its robust retail banking franchise in Spain; strong management and successful strategy; low-risk profile; comfortable liquidity; improving core banking performance (albeit somewhat weaker than that of similarly rated peers); and sound capitalization and financial flexibility. Although to a lesser extent than in the past, the ratings also factor in la Caixa's large portfolio of equity stakes, which exposes it to market risk and results in a relatively high contribution of equity-related income to profits, as well its geographic concentration in Spain.

La Caixa's growth strategy, supported by meaningful branch expansion outside its home markets of Catalonia and the Balearic Islands, has enabled it to become an indisputable leading nationwide player, serving more than 10 million clients and holding a 10% market share. Prospects for growth remain strong, particularly outside its home markets.

The institution's focus on residential mortgage lending and its conservative underwriting and provisioning policies underpin the low-risk profile and sound track record of its lending operations, which continue to outperform the industry. Exposure to real estate developers is limited.

La Caixa is well-positioned to weather the challenges poised by the capital markets' currently tight liquidity, thanks

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to both its large, stable retail deposit base and its strong balance sheet liquidity.

La Caixa's recurrent banking performance continues to improve, thanks to the combination of solid volume growth, widening spreads (benefiting from rising interest rates), increased seasoning of the branch network, and lower investments in branch openings. Thus, although la Caixa's returns are still supported by (potentially volatile) equity-related income, the contribution of traditional banking profits is gaining ground.

The initial public offering in October 2007 of 22% of Criteria Caixa Corp. (the holding company that groups la Caixa's equity investments and banking-related subsidiaries) significantly boosted la Caixa's capitalization, enabling it to comfortably afford its internationalization plans. Although investments abroad will gradually put pressure on core solvency levels, the internal capital generation domestically (as growth decelerates) and la Caixa's strong financial flexibility, provided by sizable latent gains, should ensure comfortable capitalization in the future. Moreover, through new investments abroad, Standard & Poor's Ratings Services expects la Caixa to increase geographic diversification, something we value positively given the institution's currently greater geographic concentration with respect to other top Spanish players.

By opening the doors to minorities in Criteria, la Caixa has reduced its market risk exposure, sharing the risk with investors. Overall, however, its equity portfolio is still one of the largest among European banks.

Cash Collection Arrangements

At closing, the Sociedad Gestora will open two bank accounts on behalf of Foncaixa FTPYME 2. La Caixa, as servicer, collects the amounts due under the loans and transfers them daily to the treasury account held on behalf of the issuer with La Caixa. During the lock up period, the first 24 months of the transaction, the amortization amounts will be held on the amortization account and will be used to amortize the bonds in a single payment on the Jan. 15, 2011; then the amortization account will be cancelled.

According to our current criteria, if the account provider is downgraded below 'A-1', it becomes an ineligible counterparty, and it has 60 calendar days to:

- Find a replacement with a short-term rating of at least 'A-1'; or
- Find an adequate guarantor with a short-term rating of at least 'A-1' complying with our guarantee criteria.

The downgraded counterparty will bear all the costs of the remedies.

Commingling reserve

To mitigate commingling risk, if La Caixa is downgraded below a short-term rating of 'A-2', then:

- Within 30 calendar days, the servicer should find an eligible guarantor with a short-term rating of at least 'A-1'. The guarantor should provide the issuer with a first-demand, unconditional, and irrevocable guarantee equal to the commingling reserve amount to be applied to pay any amounts the servicer fails to pay to the issuer for the loans. This amount, if required to be paid, would be deposited in an issuer bank account in accordance with the bank account and cash management agreements. We would expect to review the guarantee at the time the downgrade occurs; or
- Within 10 calendar days, the servicer should deposit in the issuer's bank account an amount equal to the commingling reserve amount to be applied to pay any amounts the servicer fails to pay the issuer for the loans.

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On the date this commingling reserve is required, the initial amount is expected to be a sufficient proportion of the principal amount outstanding to avoid affecting the ratings on the notes.

Cash reserve

The structure will benefit from a cash reserve fund, which will be fully funded at closing by the issuance of class D notes. The reserve fund will be fixed for the first three years and will be used on each payment date to pay the different items of the priority of payments described below.

The reserve fund required on each IPD will be the minimum of:

6.95% of the initial balance of the notes (excluding the class D notes); or

The higher of: (i) 13.90% of the outstanding principal balance of the notes (excluding the class D notes) and (ii) 3.475% of the initial balance of notes.

After the third anniversary of the closing date and on each subsequent IPD, the cash reserve account will amortize if the following conditions are met:

The outstanding balance of the loans in the pool with any payment in arrears for more than 90 days is higher than 1% of the outstanding balance of the nondelinquent loans (for the cash reserve, loans in arrears for more than 90 days) in the pool; or

The reserve fund is below its required level.

Interest swap agreement

On the issuer's behalf, the trustee will enter into a swap agreement with La Caixa. This swap will provide protection against adverse interest rate resetting and movements. The issuer will pay the swap counterparty the total of interest actually received from the loans.

The issuer will receive from the swap counterparty an amount equivalent to the weighted-average coupon on the notes (excluding the class D notes) plus 50 bps per year on the outstanding balance of the performing loans (up to three months in arrears), and the servicing fee amount.

This type of swap not only provides a hedge for the interest rate risk, but it also provides credit support to the transaction, given that it covers the substitute servicing fee, the weighted-average coupon on the notes, and it also guarantees a spread of 50 bps in the transaction. The swap therefore contributes to the credit support of the transaction. Documents will provide that if the swap provider is downgraded below 'A-1', it would become an ineligible counterparty and within 10 business days must collateralize 125% of the contract's mark to market complying with our requirements. The downgraded swap provider would also have to:

Within 60 calendar days, find a replacement with a short-term rating of at least 'A-1'; or

Within 60 calendar days, find a guarantor with a short-term rating of at least 'A-1'.

If an ineligible counterparty is not replaced within the remedy period, the ratings on the notes may be lowered to levels that could be supported by the counterparty's then-current rating. Our analysis assumes that a replacement of the ineligible counterparty will occur. However, given the bespoke nature of this swap, it may be more difficult to find replace. Therefore, market participants should understand and consider the increased risk that the ratings on the notes might be lowered, if a replacement is not found, as a result of the deal-specific features of this swap.

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All the costs of the remedies will be borne by the downgraded counterparty.

Redemption of the notes
Amortization will occur for the:

- Series AS notes (soft bullet), after a 24 month lockup period until fully amortized;
- Series AG notes plus the reimbursement of the amounts owed to the Kingdom of Spain (Guarantee), once the series AS notes are fully amortized;
- Class B notes, once the series AS and AG notes are fully redeemed; and
- Class C notes, once the class B notes are fully redeemed.

The available amortization fund on each payment date will be equal to the balance of the capital repayment fund.

The capital repayment fund, on each payment date, will be the difference between:

- The principal outstanding balance under all the classes of notes; and
- The principal outstanding balance of all outstanding nondelinquent loans (for the capital repayment fund loans no more than 12 months in arrears).

The class AS and AG notes may pay or be provisioned for as pro rata if the ratio of performing assets to senior notes is lower than 1; otherwise, these notes will pay sequentially.

The conditions for the pro rata amortization of the class B and C notes are that they will amortize pro rata with the series AS and AG notes if:

- The ratio of the aggregate balance of delinquent loans to the aggregate balance of nondelinquent loans is below 1.25% for the class B notes and below 1.00% for the class C notes;
- The total outstanding principal balance of the class B and C notes represents at least 5% and 15% of the outstanding principal balance of all the notes;
- The cash reserve is at the required amount after the previous payment date; or
- The total outstanding balance of the nondelinquent loan portfolio is equal to or greater than 10% of the initial balance of the loan portfolio.

Priority Of Payments

On each quarterly interest payment date, the issuer will pay in arrears the interest due to the noteholders. To make these payments, the issuer's available funds will include the proceeds of the interest swap, the reserve fund, and, if necessary, principal received under the loans and any other proceeds received in connection with the loans.

All interest and principal received can be mixed to pay principal and interest due under the notes in the following order:

- Ordinary and extraordinary expenses of the fund;
- Net payments under the swap agreement (other than swap termination payments due to a default or breach of contract by the swap counterparty);
- Interest on the series AS and AG notes;
- Interest on the class B notes, if not deferred;

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- Interest on the class C notes, if not deferred;
- Amortization of the series AS, AG notes, and the class B and C notes;
- Interest on the class B notes, if deferred;
- Interest on the class C notes, if deferred;
- Replenishment of the cash reserve;
- Interest on class D (cash reserve)
- Principal on class D (cash reserve)
- Swap termination payments, if any, when the issuer is not the defaulting party;
- Interest on the subordinated start-up loan;
- Principal on the subordinated start-up loan;
- Servicer fees. If the servicer is replaced the servicer fee will be paid at the top of the waterfall; and
- Payment of financial brokerage fee.

A trigger will ensure that in a stressful economic environment the more senior notes are amortized before interest on the subordinated classes of notes is paid.

Interest on the class B and C notes will be subject to a deferral on a given payment date to a lower position in the priority of payments in the following situations.

Class B notes

If the cumulative ratio of defaulted loans (outstanding balance of the loans when qualified as defaulted divided by the balance of the pool at closing) is greater than 19%, interest on the class B notes will pay in a lower position in the priority of payments, until the series AS and AG notes, and class B and C notes redeem.

Class C notes

If the cumulative ratio of defaulted loans is greater than 15%, interest on the class C notes will pay in a lower position in the priority of payments until the series AS and AG notes and class B notes redeem. We define the cumulative ratio as the outstanding balance of the loans when qualified as defaulted divided by the balance of the pool at closing.

Collateral Description

As of Oct. 22, 2008, the provisional pool comprised 30,456 secured and unsecured loans, and the total number of borrowers was 27,535. The pool was originated between November 1990 and June 2008, and the weighted-average seasoning is 34.68 months. Of the outstanding amount of the pool, 61.78% is secured by mortgages over properties and commercial premises in Spain.

Table 1 shows loans by industry sector that have guarantees (representing 61.78% of the collateral pool).

Table 1

Guarantees

	Loans		Outstanding balance	
	Number	(%)	Number	(%)
Retail Spaces	2,575	37.17	288,736,592.00	30.59
Industrial Warehouse	1,433	20.68	287,635,282.03	30.47
Residential Properties	1,805	26.05	218,354,659.84	23.13

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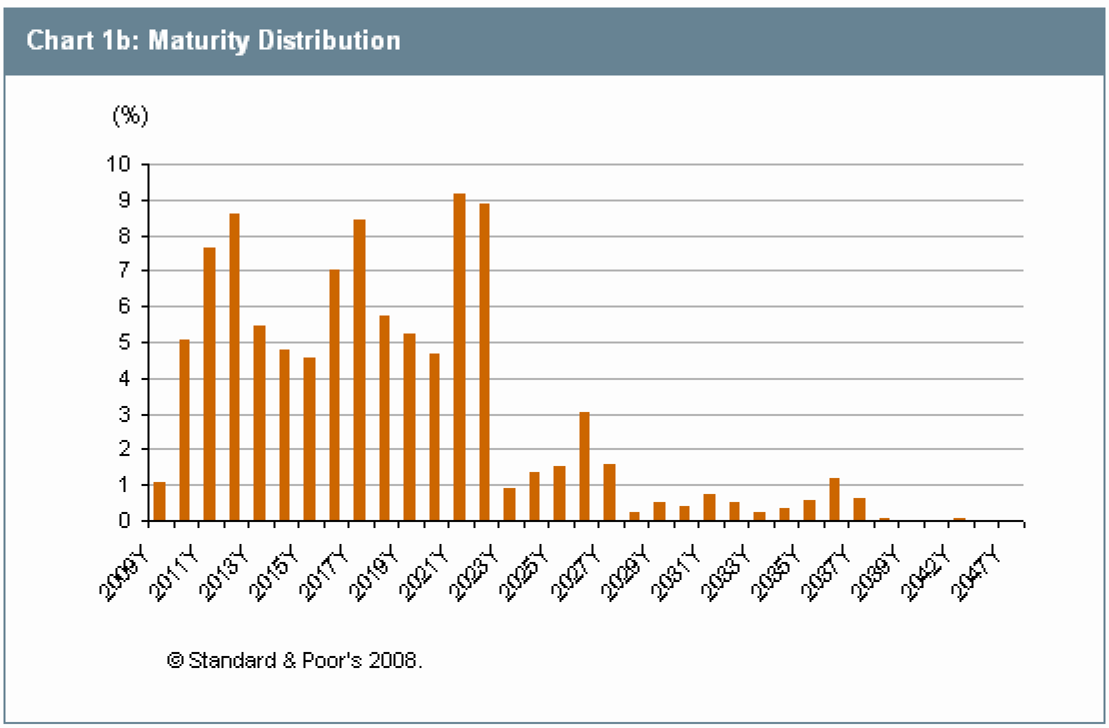
Table 1

Guarantees(cont.)				
Office	294	4.24	37,489,159.98	3.97
Rustic Land	159	2.30	31,256,329.23	3.31
Hotel	63	0.91	25,660,753.77	2.72
Other Types of Mortgage Guarantees	419	6.05	21,629,605.61	2.29
Office in Residential Building	122	1.76	16,900,511.93	1.79
Buildings	58	0.84	16,227,676.26	1.72
Total	6,928	100.00	943,890,570.65	100.00

The pool has concentration at the obligor level. The largest obligor represents 0.33% of the provisional pool and the largest 10 obligors represent 2.18%. Of the pool, 99.57% is more than 12 months' seasoned. The weighted-average remaining life of the pool is 113.64 months, with 26.98% of the pool maturing within five years.

Chart 1b



The pool is exposed to different Spanish regions (see chart 2) and at closing the pool will have no loans with arrears.

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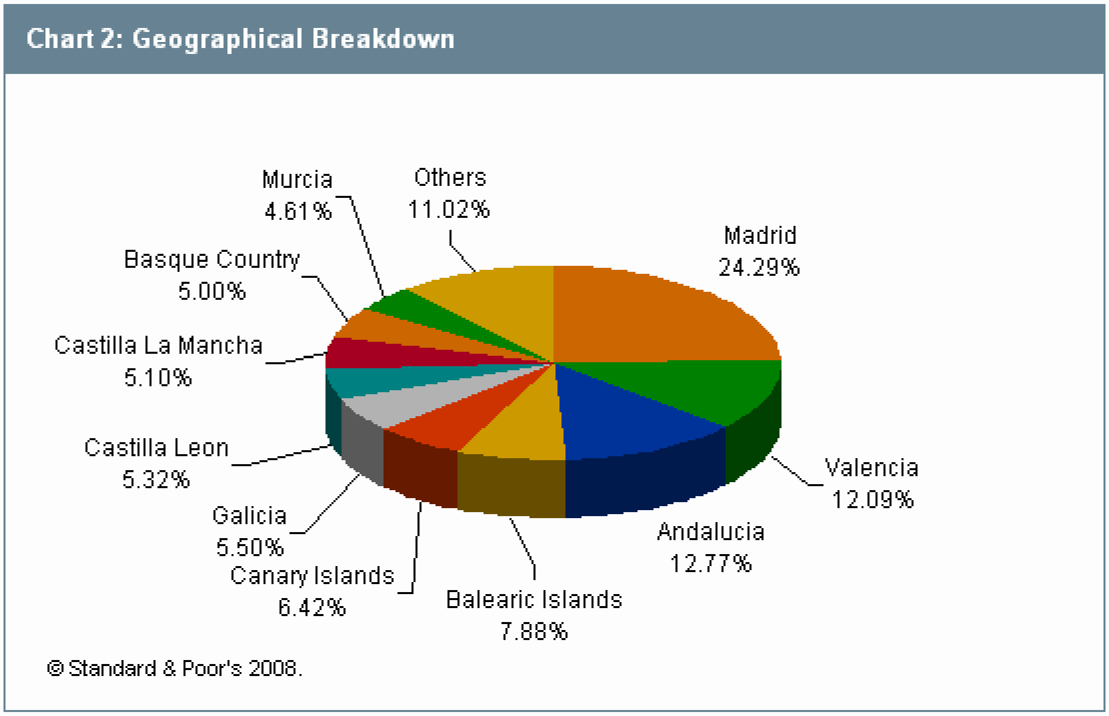
Chart 2



The largest industry concentration is retail commerce, which represents 13.22% of the pool (see chart 3). The second-highest concentration is lodging activities (12.08%), followed by other business activities (10.55%). The five major industries represent 54.47% of the pool.

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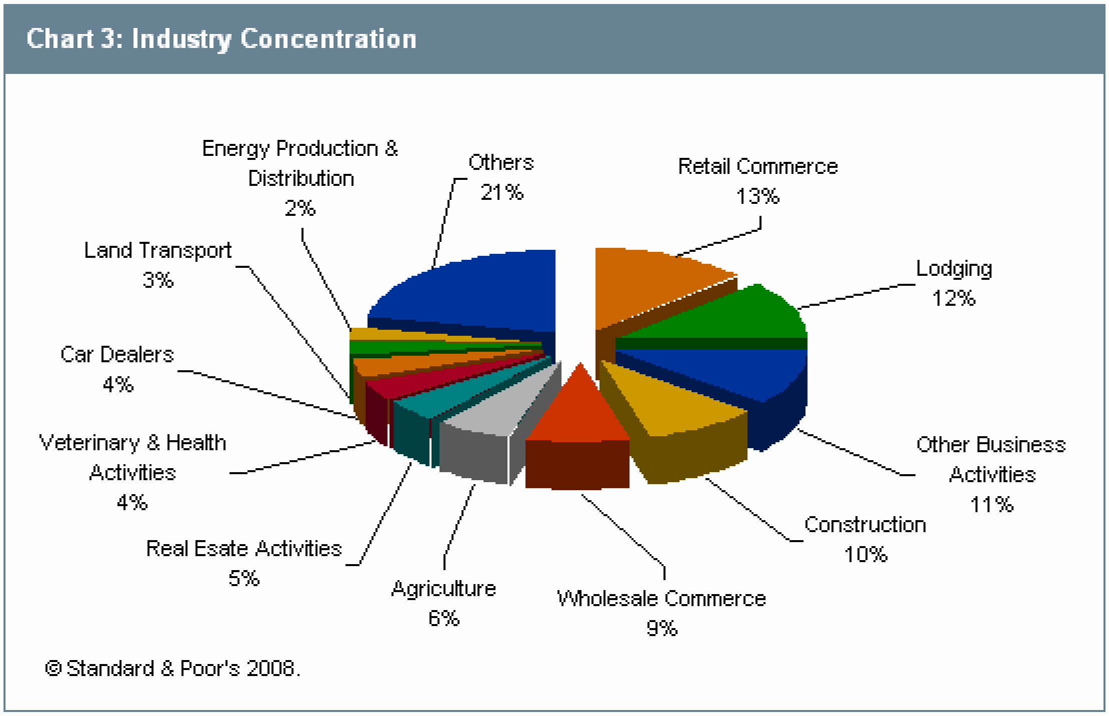
Chart 3



Of the pool, 85.45% is indexed to floating rates, EURIBOR, MIBOR (Madrid interbank offered rate), I.R.P.H Cajas (Indice de referencia de préstamos hipotecarios) and I.R.M.H. (Indice de referencia del Mercado hipotecario) (see table 2). The weighted-average interest rate of the assets is 5.96% and the weighted-average margin is 103 bps over the floating-rate pool.

Table 2

Reference Index

Reference index	Outstanding balance (€)	% of preliminary pool
One-year official EURIBOR	1,231,453,670.99	80.61
Fixed Interest Rate	222,351,228.30	14.55
I.R.P.H. Cajas	68,690,663.94	4.50
Official MIBOR	5,000,243.33	0.33
I.R.M.H.	251,501.61	0.02
Total	1,527,747,308.17	100

Credit Analysis

We have conducted an actuarial analysis on historical data provided by the originator to assess the pool's credit risk, following the methodology explained in "Securitizing Spanish-Originated Loans to Small and Midsize Enterprises" (see "Related Articles"). In our analysis we have also included an adjustment to the historical rates provided by La Caixa due to the economic cycle. We have also adjusted the base case default rate for geographical concentration and for real estate and construction industry exposure reasons.

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With the historical data provided by the originator, we can determine a foreclosure probability and a loss rate at each rating level. The product of these two variables gives an estimate of the required loss protection during the life of the collateral in the absence of additional mitigating factors. The higher the targeted rating, the higher the required enhancement level.

Delinquency rate

In the transaction, the loss is recognized when an agreement defaults, if it is more than 12 months in arrears. The calculation of the cumulated default base-case assumption was based on the historical quarterly data provided by La Caixa (see chart 4) and the different concentrations shown in the pool, e.g., industry and geographic concentration.

Chart 4

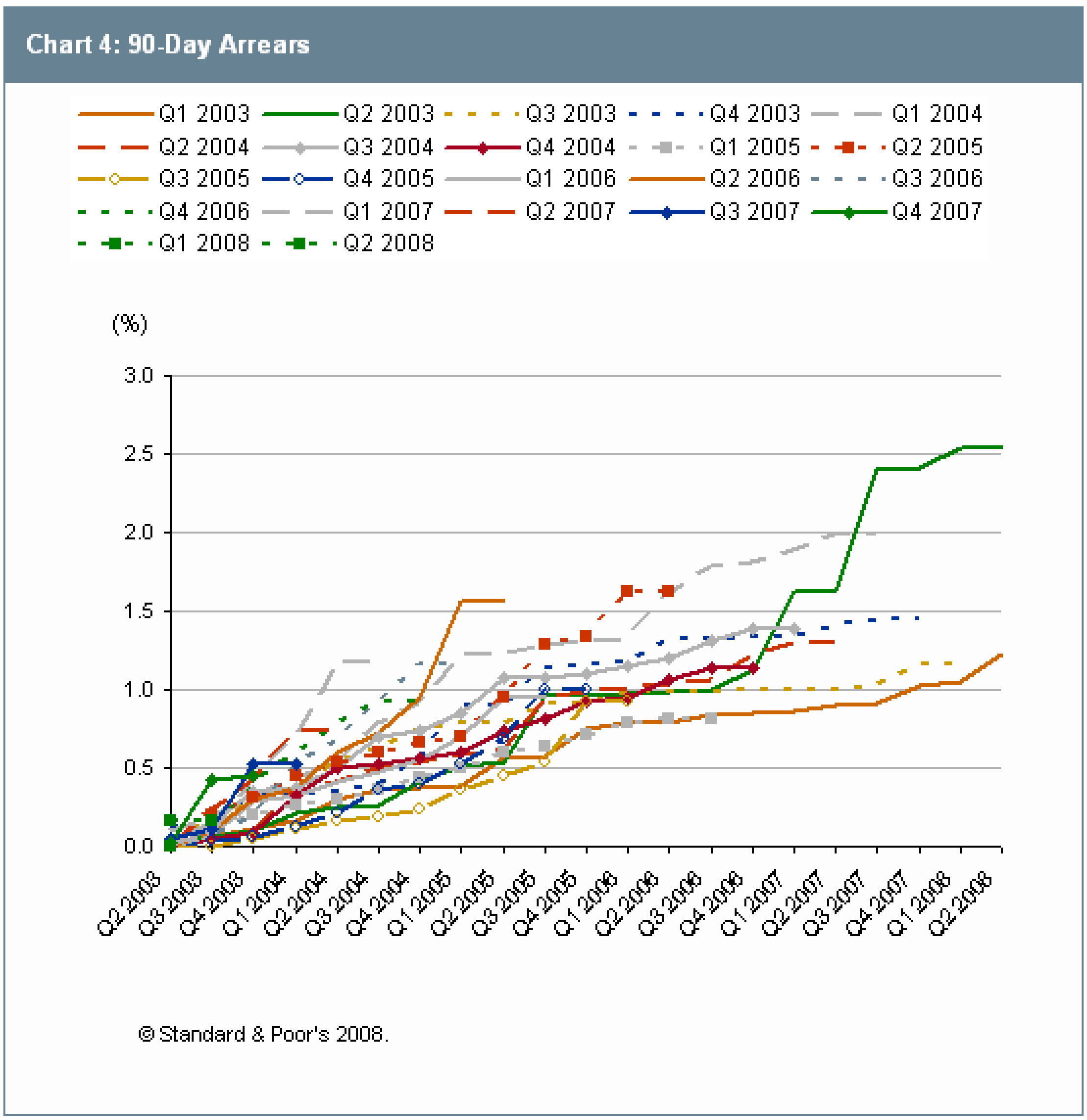

Chart 4: 90-Day Arrears

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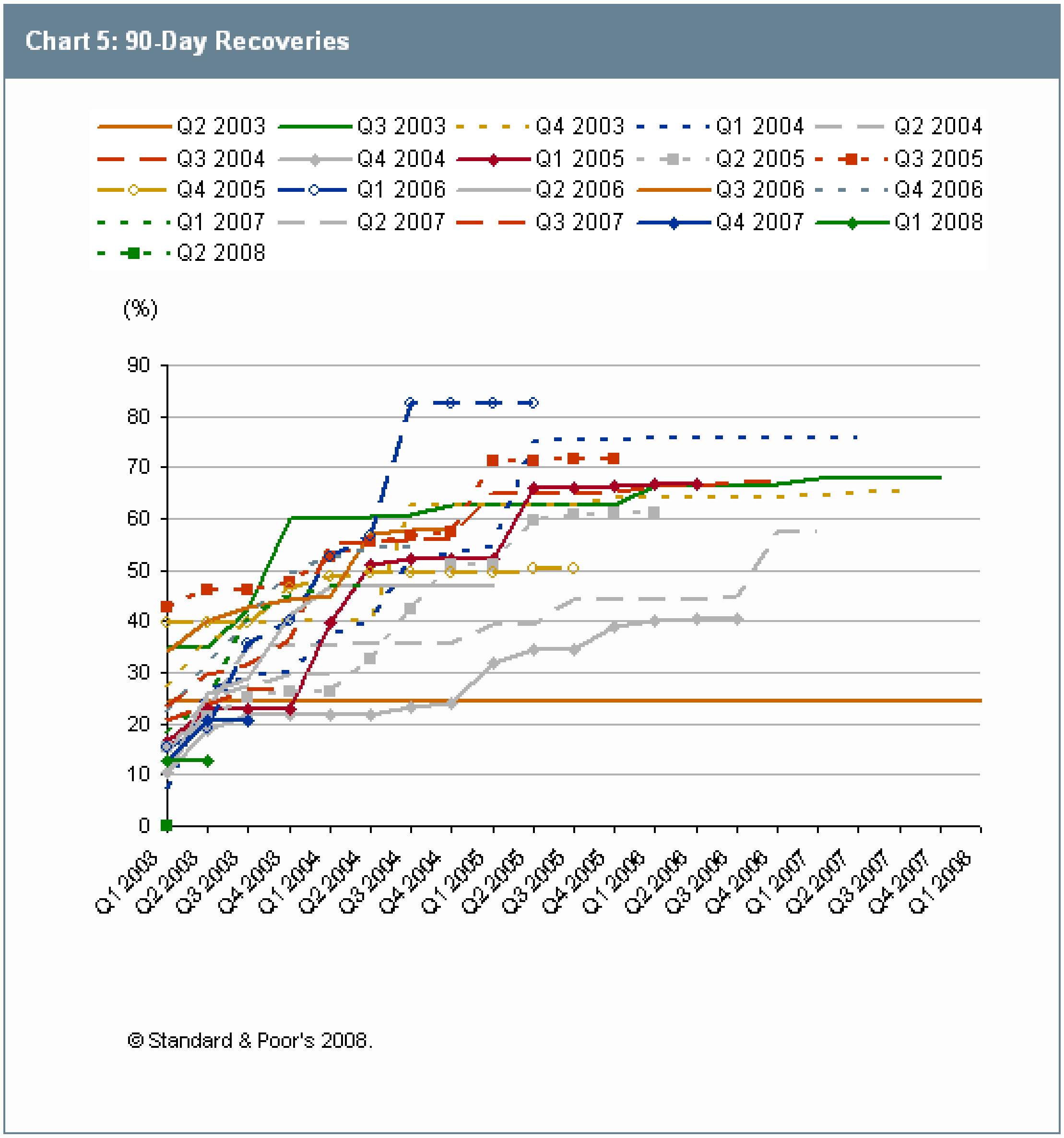
Recoveries

Chart 5 shows the historical levels of recoveries from the default (described as 90-day arrears) by quarter since origination.

Chart 5



Cash Flow Analysis

Prepayments

Prepayments correspond to the early exercise of the purchase option by loans and credit receivables. We stressed the annual prepayment rate up to 24.0% and down to 0.5%.

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Commingling

We did not model any commingling stress within the structure, as there is downgrade language that sets up the foundation of a contingent commingling reserve if the servicer is downgraded below 'A-2' (see "Commingling reserve").

Timing of Defaults

We assume defaults occur periodically in amounts calculated as a percentage of the default rate. Tables 3 and 4 show the timing of defaults.

Table 3

Timing Of Defaults

Percentage of DR (equal)	Months when applied	Percentage of DR (slow) (%)	Months when applied	Percentage of DR (fast) (%)	Months when applied
1/3	1	5	7	30	1
1/3	13	5	13	30	7
1/3	25	10	19	20	13
—	—	20	25	10	19
—	—	30	31	5	25
—	—	30	37	5	31

DR—Default rate.

Table 4

Timing Of Defaults

Percentage of DR (standard back) (%)	Months when applied	Percentage of DR (standard front) (%)	Months when applied	Percentage of DR (standard 5 year seven) (%)	Months when applied	Percentage of DR (standard 4 year seven) (%)	Months when applied
15	12	40	12	20	12	25	12
30	24	20	24	20	24	25	24
30	36	20	36	20	36	25	36
15	48	10	48	20	48	25	48
10	60	10	60	20	60		60

DR—Default rate.

Timing of recoveries

For this transaction, we assume that the issuer would regain recoveries 42 months after a payment default. The value of recoveries at the 'AAA' level will be 100% minus the loss severity assumed at each rating level.

Interest and prepayments rate

We have modeled three interest rate scenarios—up, down, and flat—using both high and low prepayment assumptions. Interest rates were 5% at the time of modeling and were modeled to rise by 2% a month to a cap of 12% ("up" scenario) and a floor of 2% ("down" scenario).

Sectoral Credit Highlights

In our May forecast, we warned that the Spanish economy was particularly vulnerable to the ongoing credit crunch given its high dependency on external financing reflected by its very large current account deficit (negative 10% of GDP), the second largest by value after the U.S. (see "European Economic Forecast: Credit Squeeze Threatens The

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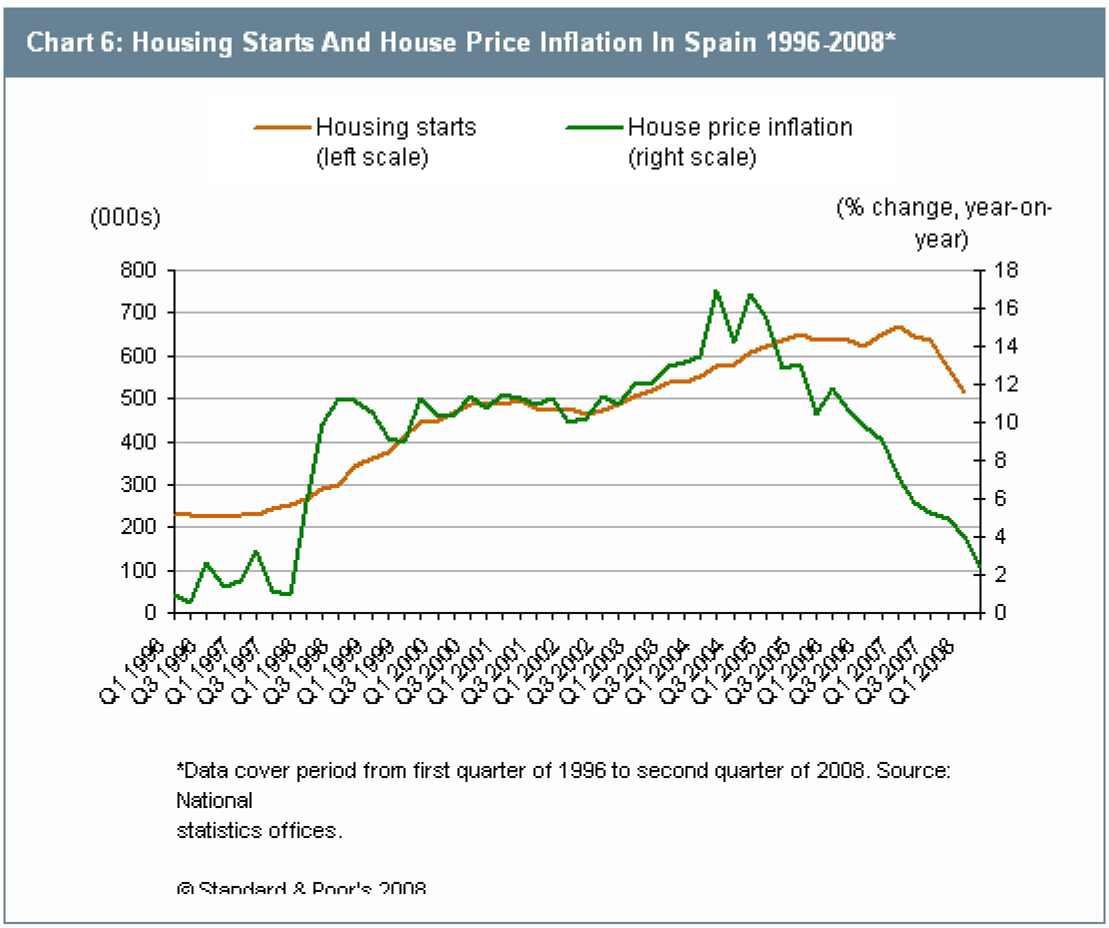
Sustainability Of Spain's Current Account Deficit," published May 29, 2008, on RatingsDirect.) We also explained that the end of abundant and cheap financing of domestic demand by the rest of the world would precipitate the necessary adjustments in Spain's growth model, formally based on rapid growth in corporate and household debt.

Recent developments confirm that the adjustment will be long and painful. Spain's unemployment rate shot up to 10.4% in the second quarter of 2008, from 8.0% a year earlier. Moreover, unemployment in the construction sector rose 70% in the 12 months to May 2008. Yet, that rise is occurring at an early stage of the downturn in construction. Housing starts started to plummet only in the third quarter of last year, albeit at a rapid pace, with a fall of 24% in the first quarter of 2008 compared with a year earlier (see chart 5). Trends in building permits since the middle of 2007 suggest that construction activity will contract more dramatically in the next 12 months. Permits for residential homes dropped 60% year-on-year in the first quarter of 2008, while the demand for cement, a leading indicator of construction activity, fell to its lowest level in 11 years.

Chart 6



The outlook for the construction sector in Spain is made worse by the fact that over the past eight years, housing completions have exceeded the levels required by demographic trends. While the overall population increased by 5 million between 2000 and 2008, primarily because of large inward migration, house completions averaged over 750,000 each year. As a result, a glut of unsold properties has appeared. Recent estimates point to close on 1 million of unsold properties across the country, one-half of which are new-build. Adding to that imbalance, the demand for

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secondary homes from residents in the rest of Europe is drying up. A good proportion of buyers of holiday homes in Spain were British (Britons own more than 500,000 properties in Spain). But the decline in the British pound sterling exchange rate against the euro, higher interest rates, and generally gloomy economic conditions in Britain imply that this support for Spanish property is rapidly diminishing.

In view of those worrying developments, the most recent house price inflation figures (2.4% in the 12 months to June 2008) appear suspiciously benign. The Bank of Spain's recent estimate finds the housing market overvalued by around 30%. The combination of higher interest rates, oversupply of dwellings, and a deteriorating economic climate evidenced by the rise in unemployment all point to a prolonged decline in house prices. In contrast with our projections for the U.K., Spain could experience a more elongated correction, albeit eventually leading to a similar decline in house prices (about 25% peak to trough). Given the size of the construction sector (15% of GDP, employing 2.7 million workers in 2007), the effects of the downturn will be dire. Therefore, we have revised our GDP forecast down to 0.5% for 2009, from 1.2% in July and 1.6% in our June forecast.

Key Performance Indicators

We will maintain continual surveillance on the transaction until the notes mature or are otherwise retired. To do this, we will analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, assess pool cuts, and make regular contact with the servicer to ensure that minimum servicing standards are sustained and that any material changes in the servicer's operations are communicated and assessed.

Key performance indicators for this transaction will include:

- Rating migration of the collateral and default levels;
- Different concentrations of the collateral;
- Collateral prepayment levels; and
- The evolution of the ratings on the supporting parties.

Criteria Referenced

- "Revised Framework For Applying Counterparty And Supporting Party Criteria" (published on May 8, 2007).
- "Methodology: Updated Counterparty Criteria For Derivatives: Eligibility Of 'A-2' Counterparties Removed In 'AAA' Transactions" (published on Oct. 22, 2008).
- "European Legal Criteria for Structured Finance Transactions" (published on March 23, 2005).
- "Global Interest Rate and Currency Swaps: Calculating the Collateral Required Amount" (published on Feb. 26, 2004).
- "Standard & Poor's Global Interest Rate and Swap Counterparty Rating Criteria Expanded" (published on Dec. 17, 2003).
- "Global Cash Flow and Synthetic Criteria" (published on March 21, 2002).
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Related Articles

- "Transition Study: European Structured Finance Ratings Stable In 2007, But Pockets Of Weakness Emerged" (published on Jan. 25, 2008).
- "Securitizing Spanish-Originated Loans to Small and Midsize Enterprises" (published on April 7, 2003).
- "Stellar Growth in Spanish Securitization to Help it Maintain Europe's Number Two Slot" (published on June 2, 2004).

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