

# Foncaixa Hipotecario 10, Fondo de Titulización de Activos

RMBS / Spain

*This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 22 April 2007. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The **definitive** ratings may differ from the **provisional** ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities, and it may not be used or circulated in connection with any such offer or solicitation.*

## Estimated Closing Date

29 May 2007

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## PROVISIONAL (P) RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A	(P) <b>Aaa</b>	€1,458.0	97.20	Apr. 50	3mE + [0.10]%
B	(P) <b>Aa3</b>	€30.0	2.00	Apr. 50	3mE + [0.25]%
C	(P) <b>Baa2</b>	€12.0	0.80	Apr. 50	3mE + [0.50]%
D	(P) <b>C*</b>	€12.0	0.80	Apr. 50	3mE + [1.50]%
Total		€1,512.0	108.00		

The ratings address the expected loss posed to investors by the legal final maturity. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

\* In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date on Classes A/B/C, and for ultimate payment of interest and principal at par on or before the rated final legal maturity date on Class D

## OPINION

### Strengths of the Transaction

- Very good performance data on previous deals (the subordinated classes of three Foncaixa transactions have been recently upgraded)
- Very good quality collateral in terms of LTV, seasoning, and occupancy type
- The loans consist of first-lien mortgages on first residential properties
- Excess spread-trapping mechanism through an 18-month “artificial write-off”
- Swap-to-hedge interest rate risk in the transaction that also secures the weighted average interest rate on the notes, plus 50 bps
- Repeat originator and the expertise of La Caixa as originator and servicer
- 100% of the loans are paid via direct debit
- Strict triggers in the line of credit amortisation and pro-rata amortisation

### Weaknesses and Mitigants

- The transaction consists exclusively of the securitisation of some additional drawdown of a flexible mortgage product which is structured like a line of credit and it is currently La Caixa's flagship product. Under this product borrowers are allowed to make additional drawdowns up to a certain LTV limit (as explained below) and for an amount equal to the amortised principal. Generally, such additional drawdowns are subject to La Caixa's credit review and approval. Moody's determines the severity based on the all withdrawn amounts (not securitised in this pool), the additional drawdown loan balance to be securitised and potential maximum drawable amount, rather than the current withdrawn amounts. The withdrawn amounts not securitised in this pool are modelled as *pari passu* ranking loans, the additional drawdowns to be securitised in this pool are modelled as the outstanding amount and the potential additional drawdowns are modelled as the flexible amount of the loan.



However, to determine the default frequency of an additional drawdown, all withdrawn amounts that are secured by the same property are aggregated. Hence, a loan's default frequency is driven by the default frequency based on a property price level. Therefore, all prior and equal ranking claims on the property (regardless of whether they are securitised or not) are taken into account.

- 100% of loans are flexible, which leads to a higher expected default frequency and more severe losses than for traditional mortgage loans.
- Payment holidays permitted (only on the principal amount, as explained below)
- Geographical concentration in the region of Catalonia (52%), mitigated in part by the fact that La Caixa has its origins in this region, where it has greatest expertise

## STRUCTURE SUMMARY *(see page 3 for more details)*

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Issuer:	FONCAIXA HIPOTECARIO 10, FONDO DE TITULIZACIÓN DE ACTIVOS
Structure Type:	Senior / Mezzanine / Subordinated / Equity
Seller/Originator:	La Caixa ( <b>Aa1/P-1</b> )
Servicer:	La Caixa ( <b>Aa1/P-1</b> )
Interest Payments:	Quarterly on 15 March, 15 June, 15 September, 15 December
Principal Payments:	Pass-through on each payment date
Credit Enhancement/Reserves:	Spread in the portfolio Reserve fund Subordination of the notes Guarantee Investment Contract (GIC) account
Hedging:	Swap guaranteeing 50 bppa of margin
Interest Rate Swap Counterparty:	La Caixa ( <b>Aa1/P-1</b> )
Paying Agent:	La Caixa ( <b>Aa1/P-1</b> )
Management Company:	Gesticaixa , S.G.F.T., S.A.
Arranger:	Gesticaixa , S.G.F.T., S.A.
Lead Managers:	La Caixa ( <b>Aa1/P-1</b> )

## COLLATERAL SUMMARY (AS OF 22 APRIL 2007) *(see page 7 for more details)*

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Total Amount:	€1,911,226,498
Number of Contracts:	60,997
Number of Borrowers:	60,997
WA Current LTV:	58,23%
WA Seasoning:	4.75 yrs
WA Remaining Term:	21.59 yrs
Interest Rate Type:	100% floating
WA Interest Rate:	4.89%
Geographic Diversity:	Catalonia (51.98%), Madrid (14.86%)
Loan Purpose:	Securitisation exclusively of some additional drawdown of a flexible mortgage product
Average Loan Size:	€31,333
Delinquency Status:	No loans more than 30 days in arrears at the time of securitisation

## TRANSACTION SUMMARY

### **100% flexible loans**

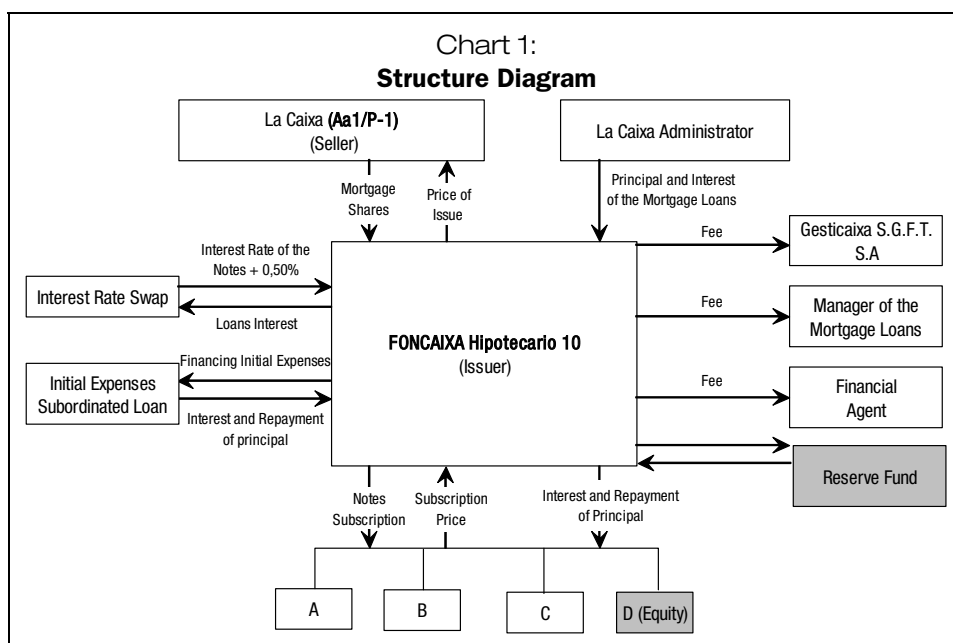
The transaction consists of the securitisation of some additional drawdowns of a mortgage product that is structured like a line of credit and is currently La Caixa's flagship product (Crédito Abierto (CrA)).

The CrA product consists of a revolving line of credit by which the debtor will be allowed to draw on the line for an amount equal to the amortised principal. The draw can be made as many times as permitted by the revolving period. However, for this transaction, only some of the additional drawing of this line of credit is securitised. This CrA product offers the following two advantages to the debtor:

- The possibility of withdrawing additional funds as soon as the funds have been amortised
- The possibility of taking Payment Holidays

## STRUCTURAL AND LEGAL ASPECTS

**Structure incorporating the following key features: hedging of the interest rate risk, deferral of interest based on the size of the principal deficiency, and reserve fund**



**Reserve fund fully funded upfront with the proceeds from the issuance of the Series D notes**

Initially funded with the benefits from the issuance of the Series D notes, the reserve fund will be used to cover any potential shortfall on items (1) to (8) of the order of priority (detailed below) on an ongoing basis. At every point in time, the amount requested under the reserve fund will be the lesser of the following amounts:

- 1) [0.80%] of the initial balance of the notes excluding series D
- 2) The higher of the following amounts:
  - [1.60%] of the outstanding balance of the notes excluding series D
  - [0.40%] of the initial amount of the notes excluding series D

This total amount requested will not be reduced on the payment date on which any of the following scenarios occurs:

- The arrears level (defined as the percentage of non-written-off loans which are more than 90 days in arrears) exceeds 1.00%
- There is any amount drawn from the reserve fund

Additionally, the reserve fund will not amortise during the first two years of the life of the transaction

**Guarantee Investment Contract (GIC) account**

The treasury account will be held at La Caixa. The proceeds from the loans and the amounts received under the swap agreement will be deposited in the treasury account. La Caixa guarantees an annual yield from the amounts deposited in the treasury account equal to the three-month Euribor rate applicable on the notes.

Moody's has set up some triggers in order to protect the treasury account from any possible downgrade of La Caixa. Should La Caixa's short-term rating fall below **P-1**, the management company will have 30 days to find a suitably rated guarantor or substitute as holder of the treasury account.

***Interest rate swap hedging the interest rate risk***

According to the swap agreement entered into between the Fondo and La Caixa, on each payment date:

- The *Fondo* will pay the interest actually received from the loans
- La Caixa will pay the sum of the weighted average coupon on the notes plus 50 bppa, over a notional calculated as the daily average of the outstanding amount of the performing loans

***Priority of payments***

On each quarterly payment date, the *Fondo's* available funds (principal and interest received from the asset pool, the reserve fund, amounts received under the swap agreement and interest earned on the transaction accounts) will be applied in the following simplified order of priority:

- 1) Cost and fees, excluding servicing fee
- 2) Any amount due under the swap agreement and swap termination payment if the *Fondo* is the defaulting or the sole affected party
- 3) Interest payment to Series A
- 4) Interest payment to Series B (if not deferred)
- 5) Interest payment to Series C (if not deferred)
- 6) Principal Payment to A, B and C,
- 7) Interest payment to Series B notes (if deferred)
- 8) Interest payment to Series C notes (if deferred)
- 9) Replenishment of the reserve fund
- 10) Interest payment to Series D notes
- 11) Principal payment to Series D notes
- 12) Termination payment under the swap agreement (except if the *Fondo* is the defaulting or the sole affected party)
- 13) Junior expenses

***Interest deferral trigger***

The payment of interest on the series B and C will be brought to a more junior position if, on any payment date, the following criteria are met. (Thereafter, and until the end of the transaction, these interest payments will be deferred):

- 
- |                  |   |
|------------------|---|
| <b>Series B:</b> | <ul style="list-style-type: none"><li>- The accumulated amount of written-off additional drawdown is higher than 7.5% of the initial amount of the assets pool</li><li>- Series A is not fully redeemed</li></ul> |
| <b>Series C:</b> | <ul style="list-style-type: none"><li>- The accumulated amount of written-off drawdown is higher than 5.0% of the initial amount of the assets pool</li><li>- Series A and B are not fully redeemed</li></ul>     |
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***Principal due to the Notes incorporates an 18-month "artificial write-off" mechanism***

The transaction's structure benefits from an "artificial write-off" mechanism. This mechanism is implicit in the definition of the principal due under the notes, which is calculated as the difference between (1) the outstanding amount of the notes and (2) the outstanding amount of the non-written-off additional drawdowns (the "written-off additional drawdown" being defined as those additional drawdowns with any amount due but unpaid equal to or more than 18 months (or earlier, if the management company considers that there are no reasonable expectations of recovery under each such additional drawdown)).

***Principal due allocation mechanism***

The amount retained as principal due on item '6' of the order of priority will be dedicated to the amortisation of Series A, B and C according to the following rules:

- 1) Until the payment date on which the outstanding amount of Series B and C exceeds 4.00% and 1.60% of the outstanding amount under Series A to C, respectively, the amount retained as principal due will be used for the amortisation of Series A.
- 2) Once amortisation commences on Series B and C, the amount retained as principal due will be distributed pro rata between Series A, B and C, so that the percentages indicated above for Series B to C are maintained on any payment date thereafter.

- 3) Nevertheless, amortisation of Series B and C will not take place on the payment date on which any of the following events occurs:
- The arrears level exceeds 1.25% and 1% for Series B and C, respectively
  - If the available amount under the reserve fund is not equal to the required amount
  - The outstanding amount of the non-written-off additional drawdown is lower than 10% of the pool's initial amount

## COLLATERAL

Foncaixa 10's collateral is strong compared to a Spanish benchmark portfolio. On the negative side, the portfolio consists exclusively of securitisation of additional drawdown of flexible mortgage loans that could potentially increase the probability of default for these loans.

Flexible mortgages should not harm the positive impression that the market may have for the performance of Spanish plain vanilla mortgage loans. In fact, to date, the performance of La Caixa's previous transactions has been very good; however, we still cannot make any future prediction as to how these products could perform in the future.

As of 22 April 2007, the provisional portfolio comprises 60,997 additional drawdowns for a total amount of €1,911,226,489. The collateral backing the notes' issuance is entirely composed of first-lien mortgage additional drawdowns.

The current WALTV is 58.23%. The average additional drawdown size is €31,333. The additional drawdowns are originated between 1993 and 2007 with a weighted average seasoning of 4.75 years. All the additional drawdowns are paid via direct debit.

Table 1:

Original Balance:	2,152,630,406	Average seasoning in months:	56.99
Current Balance:	1,911,226,489	Average seasoning in years:	4.75
Number of Loans:	60,997	Average time to maturity in years:	21.59
Number of Borrowers:	60,997	Maximum maturity date:	April 2047
Average Loan (Borrower):	31,333	WA interest rate:	4.89%
Average Loan (Property):	31,333	Borrower top 20 as % of Current	
WA Current LTV	58.23%	Balance:	0.49%
Arrears (between 30 and 90 days)	0%		

### "Crédito Abierto" product

The Crédito Abierto (CrA) product is in essence a line of credit that is granted for the sole purpose of giving the borrower flexibility in terms of the payment of his/her mortgage loan. Borrowers are allowed to withdraw an amount equal to the already amortised amount or up to the established credit limit.

The securitised loans have two distinct features that need to be taken into account: (a) additional drawdowns and (b) grace periods.

### Additional Drawdowns

Note that, although the revolving period is outstanding throughout the life of the deal, the following two points apply:

- 1) Subsequent redraws are not automatic, with La Caixa having full discretion as to whether or not a subsequent redraw is feasible.
- 2) There is a period during the last four years of the life of the loan during which subsequent redraws will not be allowed.

Each additional redraw on the line of credit will be treated as an independent loan, although all the different loans will have a *pari passu* treatment among them.

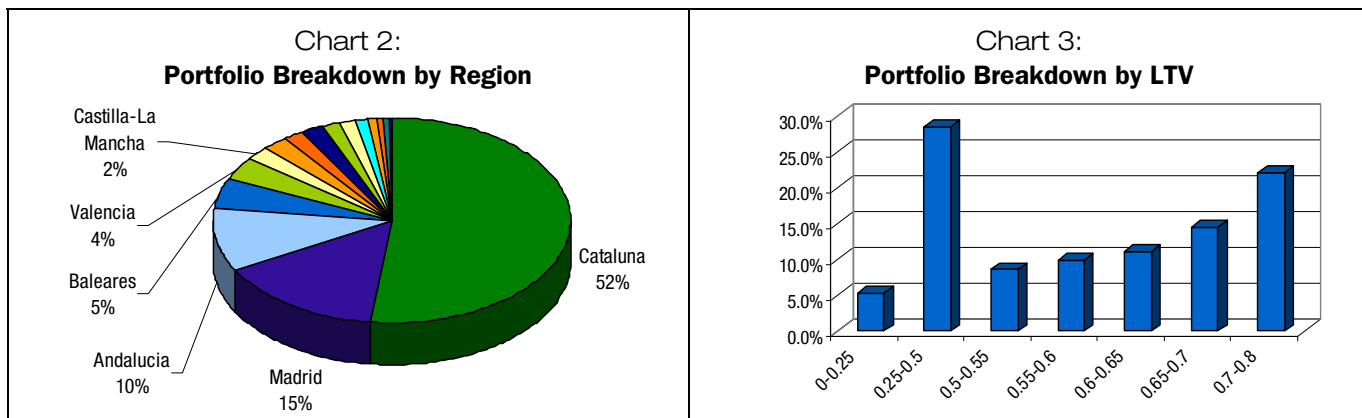
Each client will receive a single monthly payment bill although each different redraw will be separately stated.

The first redraw cannot exceed an 80% LTV limit, with additional redraws capped at 70% LTV levels. In any case, the combination of both first and second drawdowns on the line of credit will never exceed the 80% LTV limit.

Disposal of additional drawdowns is never automatic, with La Caixa having full discretion (based on factors such as the borrower's payment history and the loan purpose) as to whether or not an additional drawdown is feasible.

### Grace Periods

Each borrower has the option to request a maximum 36-month grace period, during which interest must be paid, but not principal. Once again, La Caixa has full control over whether or not to grant these grace periods

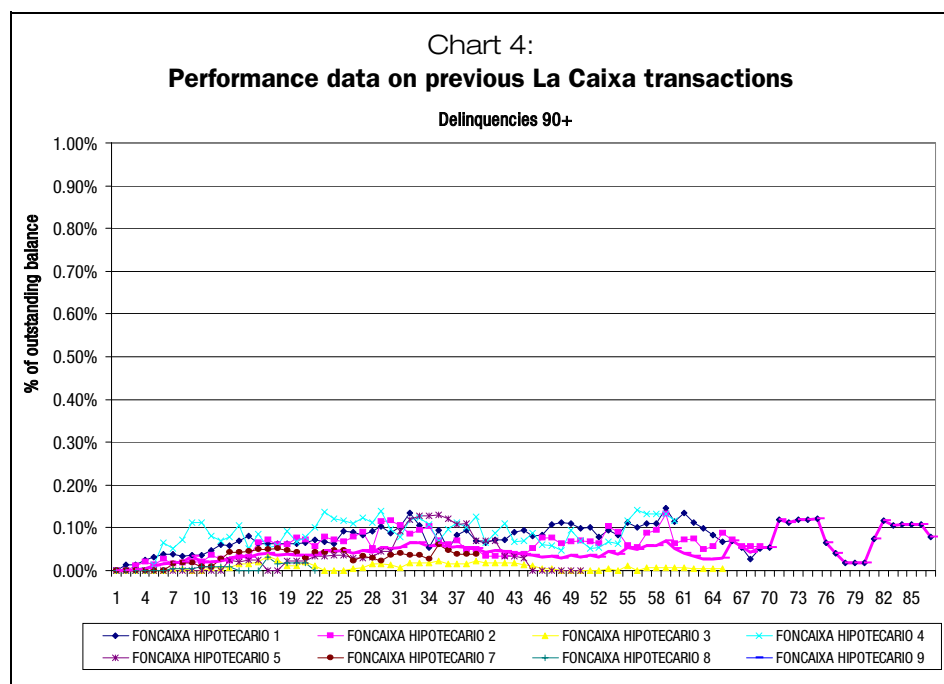


### Limitations on renegotiation of both the interest rate and the maturity of the loans

Any renegotiation of the terms and conditions of the loans is subject to the management company's approval. In exceptional circumstances, the management company may authorise La Caixa to renegotiate the interest rate or maturity of the loans without requiring its approval. However, La Caixa will not be able to:

- 1) Renegotiate the interest rate of any loan if the weighted average interest rate of the pool falls below the index reference rate of the notes plus 0.50%, or
- 2) Extend the maturity of any loan beyond April 2047. Moreover, the renegotiation of the maturity of the loans is subject to various conditions, of which the following are the most significant:
  - The global initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the pool.
  - The frequency of payments cannot be decreased.
  - The amortisation profile cannot be modified

### Performance data on previous La Caixa transactions



## ORIGINATOR, SERVICER AND OPERATIONS REVIEW

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**La Caixa's Aa1/P-1/B ratings reflect the institution's solid credit fundamentals**

With total assets of €189.1 billion as at end-March 2006, Caja de Ahorros y Pensiones de Barcelona (La Caixa; rated **Aa1/P-1/B**) is Spain's largest savings bank, its third-largest banking group and the biggest financial institution in Catalonia and the Balearic Islands, where it holds market shares of 28.8% of customer funds and 18.2% of loans, and where 23.4% of its branches are located. Catalonia is one of Spain's most prosperous and fastest-growing regions and benefits from a diversified economy.

La Caixa is also one of the leading providers of retail financial services in Spain, and has a sound customer base of 9.7 million customers. Nationwide, La Caixa has a 10.1% share of deposits, 9% of loans and 11.8% of total branches. La Caixa's targeted model is that of a universal bank, although the bulk of its business comes from providing standardised banking products. The bank is increasingly providing more value-added services to private individuals — primarily mortgages, in which it has a 10.9% share in Spain — through a highly automated distribution network backed by a decentralised business model.

## MOODY'S ANALYSIS

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**Moody's used a lognormal approach**

The first step in the analysis is to determine a loss distribution for the pool of mortgages to be securitised. Due to the high volume of loans and supporting historical data, Moody's uses a continuous distribution model to approximate the loss distribution: lognormal distribution.

In order to determine the shape of the curve, two parameters are needed: the expected loss and the volatility associated with this expected loss. These parameters are derived from the Moody's Individual Loan Analysis ("MILAN") model.

In order to extrapolate expected losses for the loan pool, Moody's has compared the underwriting criteria of the originators with those of other mortgage originators in Spain.

Moody's thus determines a number representing the enhancement that would be required for a pool of mortgages to obtain a Aaa rating under highly stressed conditions. This credit enhancement number (the "Aaa CE" number) is obtained by means of a loan-by-loan model.

**The "Aaa CE" number is determined by using "MILAN", Moody's loan-by-loan model for rating RMBS transactions**

The MILAN model looks at each loan in the pool individually and based on its individual characteristics, such as LTV or other identified drivers of risk, computes a benchmark CE number. This number assumes stressed recovery rates (through house price decline), interest rates and costs of foreclosure, as well as a stressed recovery time. The weighted average benchmark CE number is then adjusted according to the positive and negative characteristics of each loan and to those of the pool as a whole, in order to produce the Aaa CE number.

The Aaa CE number and the expected loss number form the basis of rating committee discussions are used to derive the lognormal distribution of the pool losses.

The standard deviation of the distribution is found by setting the probability of a loss greater than the expected loss that is consistent with the idealised expected loss target of the Aaa CE number.

The flexible loans analysis in the previous transaction – Foncaixa 9 – leads us towards tailor made analysis for these types of loans. As a result, when calculating the severity, the maximum amount of line of credit is used rather than the actual current additional withdrawn amount.

The rationale behind this is that since any additional redraw will be treated as an independent loan and it will rank *pari passu* among the outstanding amounts, the total limit of credit should be considered while calculating the principal and interest loss gross. Consequently, the adjusted LTV (calculated as limit of line of credit/property market value) will be used in the MILAN.



***“MARCO”, Moody’s cash-flow model, is used to assess the impact of the structural features of RMBS transactions***

Once the loss distribution of the pool under consideration has been computed, a cash flow model – Moody’s Analyser of Residential Cash-Flows (“MARCO”) – is used to assess the impact of structural features of the transaction, such as the priorities of interest and principal, and the related triggers, swap features and excess margins, liquidity mechanisms and the value of excess spread.

The sum of the loss experienced per note Class in each scenario, weighted by the probability of such loss scenarios, will then determine the expected loss on each tranche and hence the rating, in line with Moody’s target losses for each rating category.

## **RATING SENSITIVITIES AND MONITORING**

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In its capacity as management company, Gesticaixa S.G.F.T. will prepare quarterly monitoring reports with respect to the portfolio and payments to the notes. These reports will detail the amounts received by the issuer during each collection period and will provide portfolio data.

Moody’s will monitor this transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes to the rating will be publicly announced and disseminated through Moody’s Client Service Desk. For updated monitoring information, please contact [monitor.rmbs@moody.com](mailto:monitor.rmbs@moody.com)

## **RELATED RESEARCH**

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For a more detailed explanation of Moody’s rating approach to this type of transaction, similar transactions and performance data, please refer to the following reports:

### **Rating Methodology**

- Cash Flow Analysis in EMEA RMBS: Testing Structural Features with the MARCO Model (Moody’s Analyser of Residential Cash Flows), January 2006 (SF58290)
- Moody’s Approach to Rating Spanish RMBS: The “MILAN” Model, March 2005 (SF49068)

### **Special Report**

- Spanish RMBS Q3 2006 Indices, February 2007 (SF91595)
- Structural Features in the Spanish RMBS Market Artificial Write-Off Mechanisms: Trapping the Spread, January 2004 (SF29881)
- Moody’s Spanish RMBS Arrears Index: Delinquency Levels Remained Persistently Low in 2002 But Are Likely To Rise Given Weakening Global Economy And Factors Affecting Homeowners’ Indebtedness, May 2003 (SF21607)
- Introducing Moody’s Arrears Index for Spanish Mortgage-Backed Securities, March 2002 (SF12700)

### **Pre-Sale Report**

- FONCAIXA HIPOTECARIO 2, Fondo de Titulización Hipotecaria, Bonos de Titulización Hipotecaria, February 2001 (SF9980)
- FonCaixa Hipotecario 3, Fondo de Titulización Hipotecaria, Bonos de Titulización Hipotecaria, June 2001 (SF10750)
- FONCAIXA 5 - FONDO DE TITULIZACION DE ACTIVOS, October 2002 (SF16788)
- FONCAIXA 7 FONDO DE TITULIZACIÓN HIPOTECARIO, October 2003 (SF26519)
- FONCAIXA 8 FONDO DE TITULIZACIÓN HIPOTECARIO, March 2005 (SF52069)
- Foncaixa Hipotecario 9, Fondo De Titulización De Activos, March 2006 (SF71080)

### **New Issue Report**

- FonCaixa Hipotecario 1, Fondo de Titulizacion Hipotecaria, Bonos de Titulizacion Hipotecaria, August 1999 (SF7794)
- FonCaixa Hipotecario 4, Fondo de Titulizacion Hipotecaria, Bonos de Titulizacion Hipotecaria, December 2001 (SF11682)

## Performance Overviews

- FonCaixa Hipotecario 1, Fondo de Titulizacion Hipotecaria, Bonos de Titulizacion Hipotecaria
- FONCAIXA HIPOTECARIO 2, Fondo de Titulización Hipotecaria, Bonos de Titulización Hipotecaria
- FonCaixa Hipotecario 3, Fondo de Titulización Hipotecaria, Bonos de Titulización Hipotecaria
- FonCaixa Hipotecario 4, Fondo de Titulizacion Hipotecaria, Bonos de Titulizacion Hipotecaria
- FONCAIXA 5 - FONDO DE TITULIZACION DE ACTIVOS,
- FONCAIXA 7 FONDO DE TITULIZACIÓN HIPOTECARIO)
- FONCAIXA 8 FONDO DE TITULIZACIÓN HIPOTECARIO
- FONCAIXA HIPOTECARIO 9, Fondo De Titulización De Activos

*To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.*

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