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New Issue: Fondo de Titulizacion de Activos Santander Hipotecario 5

€1,375. 0 Million Mortgage-Backed Floating-Rate Notes And An Overissuance Of €24. 7 Million Floating-Rate Notes

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Ratings Detail

Class	Rating*	Amount (Mil. €)	Available credit support (%)¶	Interest	Legal final maturity
A	AAA	1,216.9	13.3	Three-month EURIBOR plus 32 bps	Aug. 15, 2051
B	AA	34.4	10.8	Three-month EURIBOR plus 50 bps	Aug. 15, 2051
C	A	34.4	8.3	Three-month EURIBOR plus 80 bps	Aug. 15, 2051
D	BBB	34.3	5.8	Three-month EURIBOR plus 175 bps	Aug. 15, 2051
E	BB	55.0	1.8	Three-month EURIBOR plus 250 bps	Aug. 15, 2051
F§	CCC-	24.7	—	Three-month EURIBOR plus 65 bps	Aug. 15, 2051

*Standard & Poor's ratings address timely interest and principal. ¶This credit support uses current figures. The credit support available at closing includes subordination and the fully funded reserve fund of €24.7 million (1.8% of the issued notes). §The class F note proceeds fully funded the reserve fund at closing. EURIBOR—European interbank offered rate.

Transaction Participants	
Originator	Banco Santander S.A.
Arranger	Santander de Titulización, S.G.F.T., S.A.
Mortgage administrator/servicer	Banco Santander S.A.
Seller	Banco Santander S.A.
Security trustee	Santander de Titulización, S.G.F.T., S.A.
Interest swap counterparty	Banco Santander S.A.
Transaction account (including GIC) provider	Banco Santander S.A.

GIC—Guaranteed investment contract

Supporting Ratings

Institution/role	Ratings
Banco Santander S.A. as transaction account provider and interest swap provider	AA/Stable/A-1+

Transaction Key Features*	
Closing date	Nov. 3, 2008
Collateral	First-lien mortgage loans backed by residential properties
Principal outstanding (€)	1,375,000,010.21
Country of origination	Spain
Concentration	20.78% of the pool is concentrated in the Andalucia region, 16.49% in Madrid, and 13.94% in Catalonia
Weighted-average LTV ratio (%)	89.58
Average loan size balance (€)	190,417
Loan size range (€)	14,092 to 1,764,619

Transaction Key Features*(cont.)	
Weighted-average seasoning (months)	17.4
Weighted-average asset life remaining (months)	381
Weighted-average mortgage interest rate (%)	5.46
Weighted-average margin at closing (%)	0.72
Redemption profile	100% of the loans are amortizing
Excess spread at closing (bps)	65
Cash reserve	1.80%
Mortgage priority	100% of pool are first-ranking mortgages
Maximum LTV ratio (%)	119.96
Jumbo loans (>€400,000) (%)	7.30

*All collateral data is based on the actual pool as of Nov. 3, 2008 and all statistics in this report have been calculated using Standard & Poor's standard methodology. LTV—Loan-to-value.

Transaction Summary

Standard & Poor's Ratings Services has assigned credit ratings to the €1,375.0 million mortgage-backed floating-rate notes issued by Fondo de Titulización de Activos Santander Hipotecario 5. In addition, an overissuance of the €24.7 million floating-rate class F notes was issued to fully fund the reserve fund.

At closing, Santander Hipotecario 5 purchased mortgage transmission certificates from the participation issuer, Banco Santander S.A. (Santander; AA/Stable/A-1+) and issued six classes of floating-rate notes.

The class A to E notes are backed by a pool of first-ranking mortgages secured over residential properties in Spain and originated by Santander. The class F notes funded the reserve fund and are repaid with excess spread.

The originator, Santander, is the largest banking group in Spain and among the 15 largest in Europe. It is also an experienced originator.

Notable Features

This is the 26th securitization originated by the Santander group over its residential mortgage portfolio.

As in the previous transactions, Santander Hipotecario 5 purchased high loan-to-value (LTV) ratio loans, 95.66% of which have LTV ratios above 80.00%. Santander reserves loans with LTV ratios lower than 80% for collateral of "cédulas hipotecarias" (Spanish covered bonds) and therefore uses collateral that is ineligible under the cédulas legal framework for securitization.

The transaction features mortgage insurance on a portion of the loans. This insurance is provided by AIG Europe S.A. (AIG) and Genworth Financial Mortgage Insurance Ltd. (GEMI), reducing the losses incurred.

The swap agreement provides credit enhancement to the transaction by providing additional excess spread and adjusted notional.

The transaction uses the proceeds from the principal and interest on the loans to pay interest and principal on the notes. However, to protect the most senior notes, the priority of payments features a trigger based on the amount of loans that are more than 18 months past due. Under certain stress scenarios, this protects the most senior tranches.

The transaction also features an artificial write-off mechanism, whereby the outstanding balance of loans more than 18 months past due is added to the amortization amount of the notes, and therefore the notes pay at a faster pace. The notes pay sequentially unless the pro rata triggers are hit.

Strengths, Concerns, And Mitigating Factors

Strengths

- There is adequate credit enhancement for the target ratings. The cash reserve, which was fully funded at closing by the issuance proceeds of the class F notes, and the excess spread, are both available to cover any interest or principal shortfalls.
- Loans with arrears more than 18 months past due are amortized through the trapping of excess spread. This accelerates the note amortization
- The swap structure provides support to the notes. We have given credit for this in our cash flow analysis (see "Interest swap agreement").
- Of the pool, 45.78% of the loans benefit from mortgage insurance from AIG and GEMI, which if the loans foreclosed would reduce (to some degree) the loss incurred (see "Mortgage insurance").
- Santander has substantial servicing and securitization experience; this is its 26th residential mortgage-backed securities (RMBS) transaction.

Concerns and mitigating factors

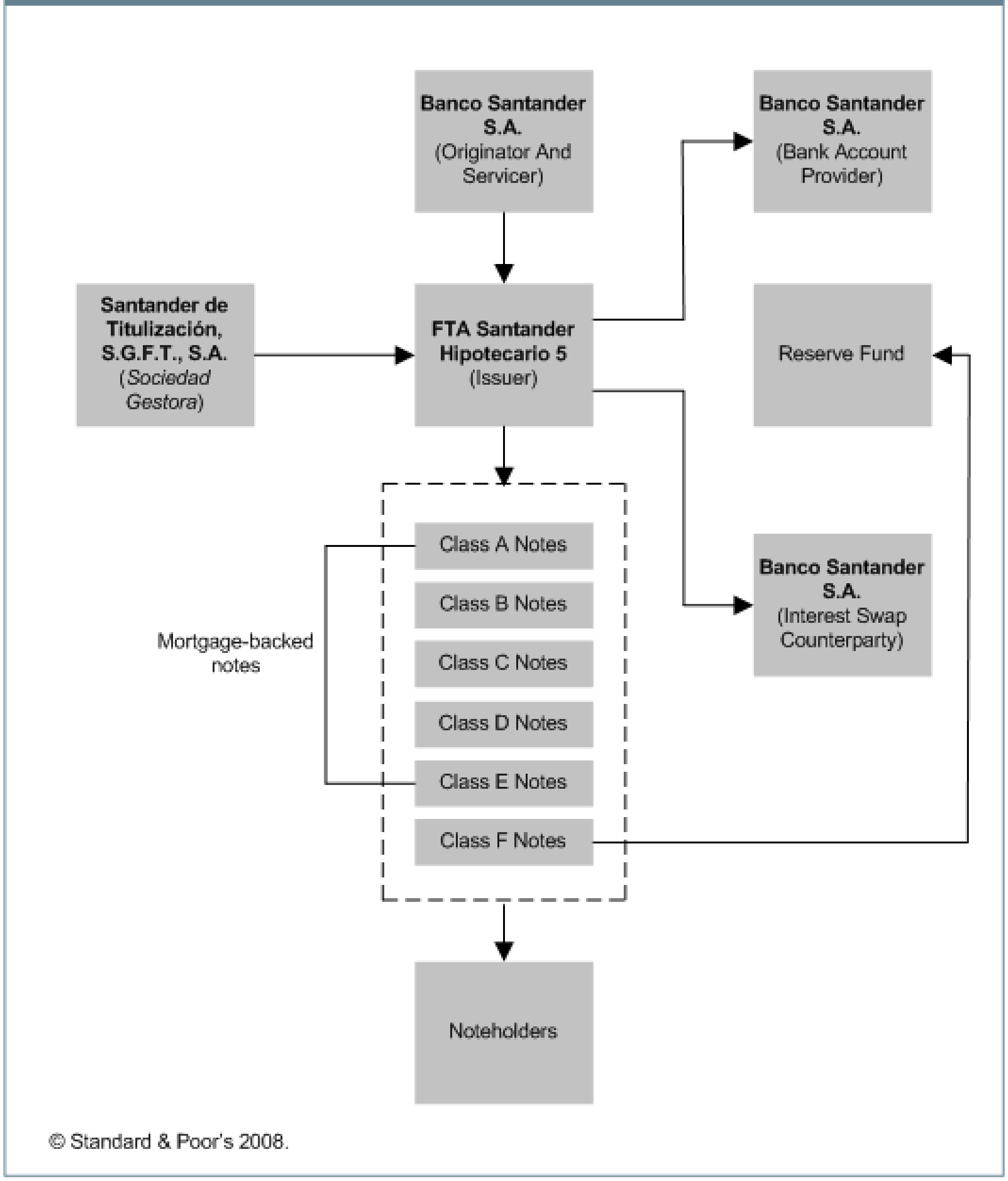
- The current weighted-average LTV ratio of the collateral is 89.58%, which is among the highest seen in Spanish RMBS transactions. Of the securitized loans, 3.15% have a current LTV ratio above 100% so the borrowers for these loans have negative equity. We have considered this in our credit analysis as the LTV ratio is a key factor in calculating the foreclosure frequency; loans with LTV ratios higher than 100% get the maximum penalty multiplier.
- Of the pool, 15.04% of the loans have been granted to non-Spanish residents. We consider this group of borrowers to have a higher probability of default and have taken this into consideration in our credit analysis.
- Of the pool, 8.17% of the mortgage loans have been granted to self-employed borrowers. We consider this group of borrowers to have a higher probability of default and have taken this into consideration in our credit analysis.
- Of the loans in the pool, 1.62% were granted to purchase a second home. Although this is a small percentage, we considered this portion in our credit analysis.
- Although the pool is fairly diversified among the different Spanish regions, there is concentration in some of them. Andalucia (20.78%) and the Canary Islands (9.49%) show the highest concentrations over the limits specified in our weighted-average foreclosure frequency (WAFF) and weighted-average loss severity (WALS) model. The presence of any regional concentrations has been taken into account in our analysis of the portfolio.
- In the pool, 1.11% of the loans represent loans granted to Santander employees. We have taken this into consideration in our credit analysis by increasing the WAFF and the WALS for these loans.
- Of the pool, 7.30% of the loans have a balance over €400,000 ("jumbo loans"). Our credit analysis penalizes this type of loan with higher levels of WAFF as we consider that large-loan borrowers are more sensitive to changes in their financial situation.
- The 'BB' rating on the class E notes is weak-linked to the rating on Santander as servicer and originator. If the rating on Santander falls below 'BB', the rating on the class E notes is reviewed. We carry out continual

surveillance on this transaction.

Transaction Structure

At closing, the originator issued mortgage certificates ("certificados de transmission hipotecaria"; CTHs) that are purchased by Santander de Titulización, the trustee, on the issuer's behalf (see chart 1).

Chart 1: Fondo de Titulización de Activos Santander Hipotecario 5 Transaction Structure



Each transmission certificate represents, in equal amount and rate, the securitized mortgage loan. The mortgage participations entitle Santander Hipotecario 5 to any right and proceeds due under the mortgage loans.

The total outstanding amount of the mortgage loans purchased was €1.375 billion.

The collateral is serviced by Santander, which collects the amounts due under the mortgage loans. The monthly payments into the servicer's account occur principally in the first days of each month. The servicer transfers daily those payments to the issuer's transaction account. The amounts held receive a guaranteed interest rate equal to three-month European interbank offered rate (EURIBOR).

The issuer entered into an interest swap agreement with Santander to counteract any basis risk due to the various indices of the pool and the reference interest rate on the notes. The swap agreement pays the coupon on the notes plus an additional spread of 65 bps, as well as the servicer fee (on servicer substitution) (see "Interest Swap Agreement").

On each quarterly interest payment date (IPD), the issuer pays in arrears the interest due to the noteholders. For these payments, the issuer has as available funds the proceeds of the interest swap, interest earned on the guaranteed investment contract, the reserve fund, and, if necessary, principal received under the mortgage loans and any other proceeds received in connection with the mortgage loans.

In this structure, all interest and principal received can be mixed to pay principal and interest due under the notes. As a result, a trigger is implemented so that in a stressful economic environment the senior notes are amortized before the payment of the interest on the class B, C, D, and E notes (see "Priority Of Payments").

Banco Santander S.A., Originator And Servicer

The ratings on Santander are supported by the Spanish bank's clear strategic focus and strong management capabilities. Santander has achieved a well-diversified geographic and business profile, with leading positions in most segments of Spanish banking and strong market shares in the main Latin American financial systems. The bank is successfully pursuing profitable growth in commercial banking in Portugal and in consumer finance in various European countries. Through Abbey National PLC (AA/Stable/A-1+), Santander also has an important position in the U.K. savings and residential mortgage markets, and a large customer base for further product expansion.

Santander's credit risk management capabilities are strong, and asset quality indicators are healthy overall. Nonperforming loan ratios are quite low and loan loss reserves high as a result of compulsory regulatory provisions. Asset quality indicators will likely deteriorate slightly in 2008, given the expected economic slowdown, mostly in Spain and particularly in the real estate sector. We expect Santander to be less affected than other domestic players, however, given its level of diversification. Risk premiums will continue to increase gradually in Latin America, and eventually in the U.K. when Abbey starts growing in nonmortgage products, but will be compensated by higher spreads.

Accounting for about 11% of total credit exposure, Latin American subsidiaries raise the group's credit risk profile. Nevertheless, improving macroeconomic fundamentals across major Latin American economies, as well as Santander's good risk diversification and demonstrated ability to turn around and integrate acquired institutions, translate into healthy asset quality indicators.

Santander's operating profitability is strong in all business units. Even if some of the major economies in which the bank operates will be less supportive in 2008 than in the past, robust profitability will come from dynamic commercial strategies based on previous years' development of infrastructure and IT capabilities and tight cost management.

Santander tightly manages its capital. Although its long-term objective is to keep its core capital ratio (Tier 1 minus preferred stock) at least at 6%, in the past it has frequently accepted a temporary weakening of its capital position to take advantage of acquisition opportunities. Capital management is strengthened by the bank's demonstrated significant financial flexibility and substantial accumulation of general loan loss reserves.

Collateral Description

As of Nov. 3, 2008, the pool comprised 7,221 amortizing mortgage loans secured by first-ranking mortgages over residential owner-occupied and second-home properties, in Spain.

Other characteristics of the mortgage credits

Other features of the mortgage pool include:

- Of the pool, 70.85% is concentrated in Andalucia, Madrid, Catalonia, Valencia, and the Canary Islands (see chart 2).
- The pool was originated between 2001 and 2008. The weighted-average seasoning is 17.4 months, with 66.4% of the pool being originated more than 12 months ago (see chart 3).
- The weighted-average LTV ratio is 89.58%, with a minimum of 52.78%, and a maximum of 119.96% (see chart 4).
- The pool comprises 0.08% fixed-rate and 99.92% floating-rate mortgage loans that are indexed to one-year EURIBOR, six-month EURIBOR, Madrid interbank offered rate (MIBOR), and Total Entidades Referencia Hipotecaria (TRH). Mortgages in the pool have a weighted-average margin over the floating rate of 72 basis points (bps). The weighted-average interest rate is 5.46%.

Chart 2

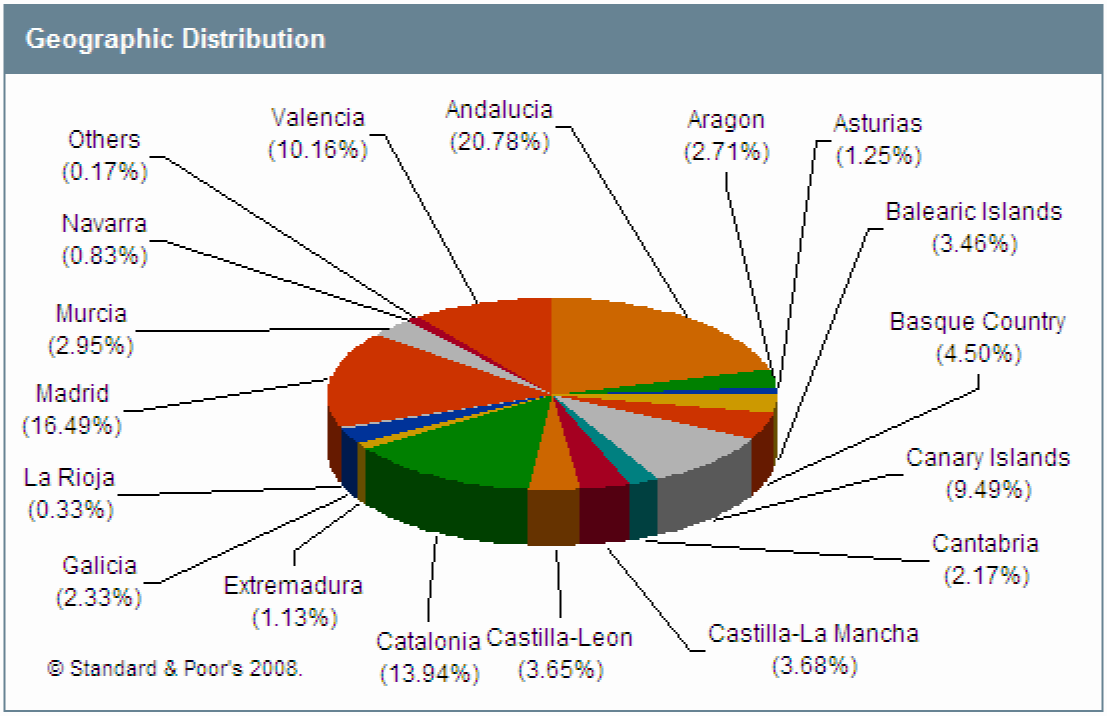


Chart 3

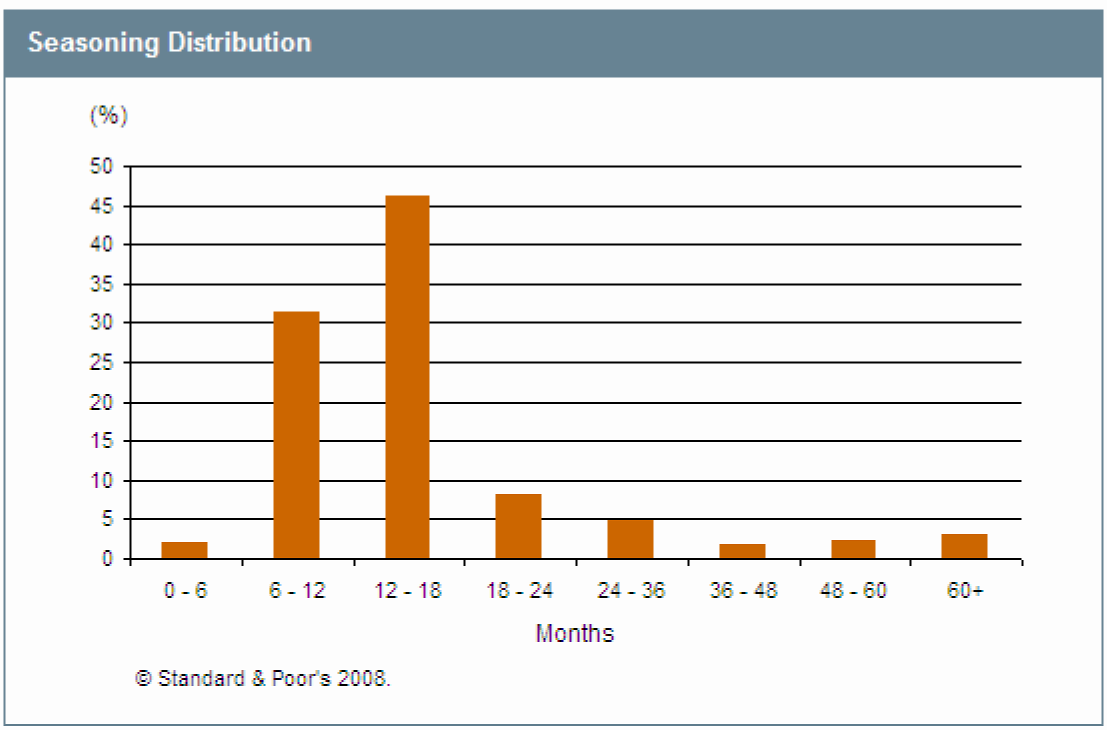


Chart 4

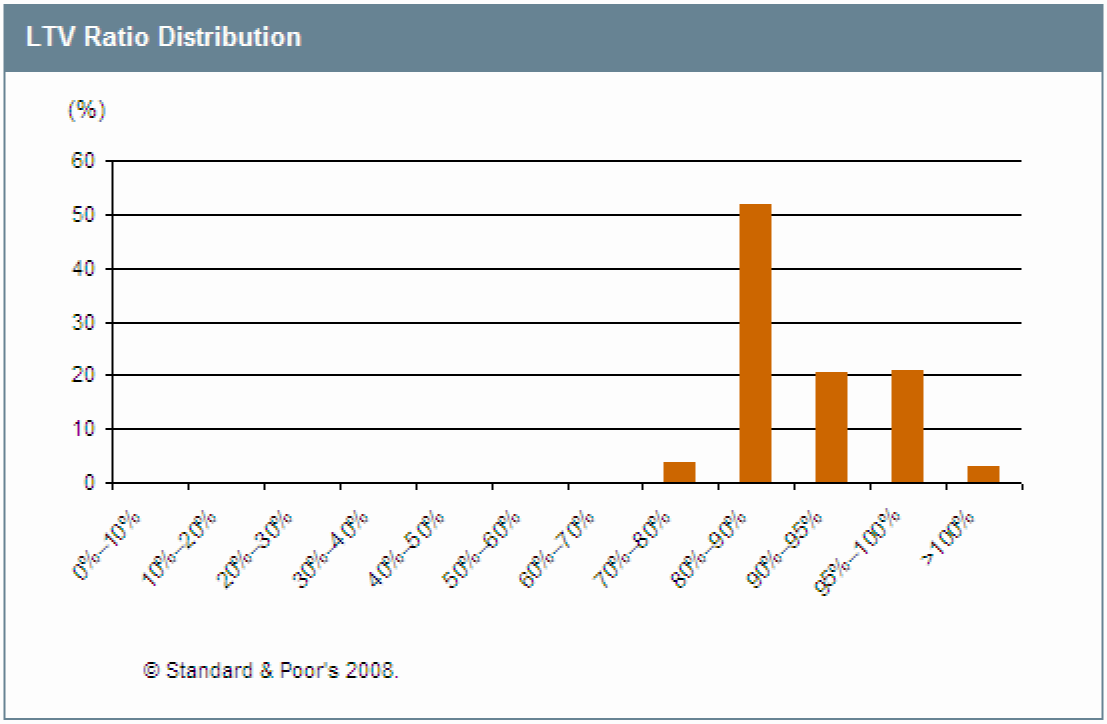
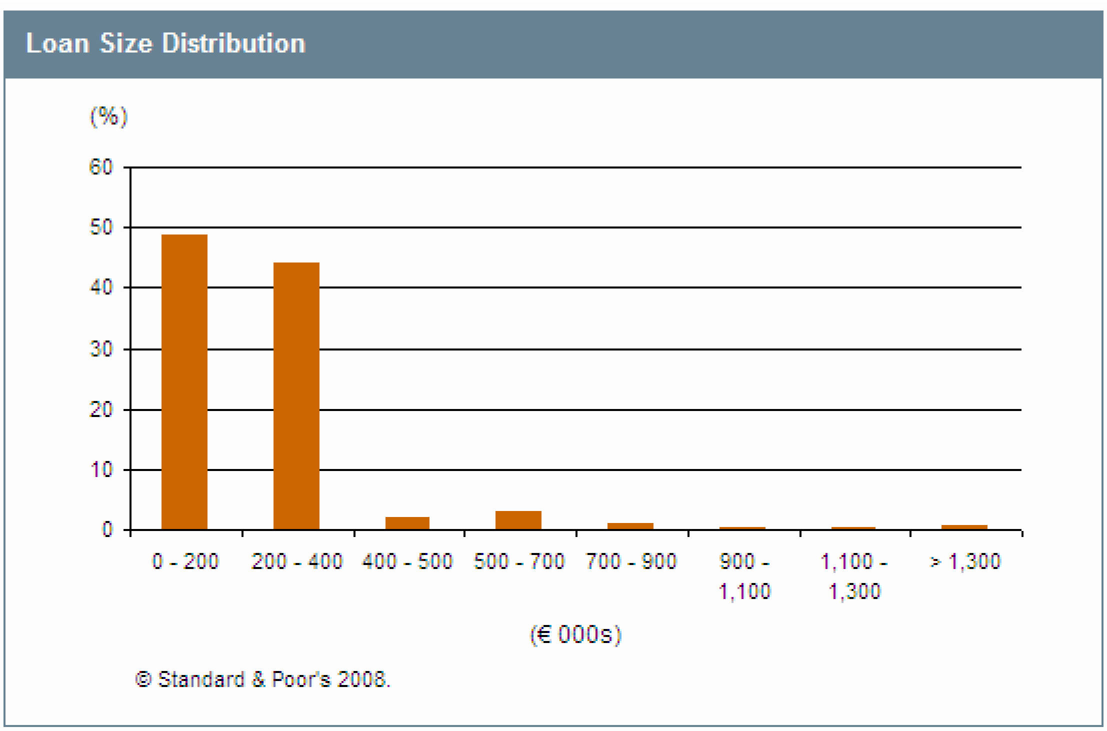


Chart 5 shows the loan size distribution of the portfolio.

Chart 5



Credit Structure

Subordination, the reserve fund, and excess spread on the mortgages provide the credit support (see table 1).

Table 1

Credit Support For The Notes

Class	Rating	Size of class (%)	Mil. € (equivalent)	Credit support for notes (%)	Credit support for reserve (%)	Total credit support (%)
A	AAA	88.5	1,216.9	11.5	1.8	13.3
B	AA	2.5	34.4	9.0	1.8	10.8
C	A	2.5	34.4	6.5	1.8	8.3
D	BBB	2.5	34.3	4.0	1.8	5.8
E	BB	4.0	55.0	0.0	1.8	1.8

Mortgage insurance

Mortgage insurance protects the lender in a first-loss position if a mortgage borrower defaults on a loan and the property sale proceeds are insufficient to repay the outstanding debt.

Of the mortgage loans, 45.78% of the pool (at the time of origination) had an LTV ratio between 80.00% and 97.00% and meet the terms and conditions under the mortgage insurance policy signed with AIG or GEMI.

Of the mortgage loans, 45.60% are covered by AIG. The amount covered is the difference between the LTV ratio and 80% of the appraisal value of the property. Coverage is constant for the life of the mortgage.

Of the mortgage loans, 0.18% are covered by GEMI. The amount covered is the difference between the initial amount of the loan and 75% of the original appraisal value. Coverage is constant for the life of the mortgage.

The ratings on the notes are not dependent on the ratings on AIG and GEMI. Credit to the insurance provided by these companies was not given in this transaction.

Cash collection arrangements and transaction account

All payments made by the borrowers are paid into the collection account maintained with the seller. Principal, interest, any penalties, or prepayments are collected by the servicer in this account. Payment settlements under the mortgage loans are paid via direct debit into a Santander account. The servicer transfers daily the collection amounts to the issuer's account.

According to Standard & Poor's "Revised Framework For Applying Counterparty And Supporting Party Criteria" (see "Related Articles"), if the bank account provider is downgraded below 'A-1' it has 60 days until it becomes an ineligible counterparty and it must:

- 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'.

Any counterparty replacement or guarantee is subject to rating confirmation. All the costs of the remedies are borne by the downgraded counterparty.

Reserve funds

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

The reserve fund required on each IPD is the minimum of:

- 1.8% of the initial balance of the notes (excluding the class F notes); or
- The higher of: (i) 3.6% of the outstanding principal balance of the notes (excluding the class F notes) and (ii) 0.9% of the initial balance of notes.

After the third anniversary of the closing date and on each subsequent IPD, the cash reserve account amortizes 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 nondoubtful loans in the pool; or
- The reserve fund is below its required level.

Amortization of the notes

Unless redeemed earlier, the notes are redeemed at their legal final maturity in August 2051, which is after the maturity of the longest-term mortgage loan in the pool.

On any payment date, the amount of principal due under the notes (the amortization amount) is calculated as the difference between the outstanding balance of the notes and the outstanding balance of the assets (excluding the loans that are more than 18 months past due).

Amortization occurs for the:

- Class A notes, from the first payment date until fully redeemed;
- Class B notes, once the class A notes are fully redeemed;
- Class C notes, once the class A and B notes are fully redeemed;
- Class D notes, once the class A, B, and C notes are fully redeemed; and
- Class E notes, once the class A, B, C, and D notes are fully redeemed.

The class B, C, D, and E notes amortize pro rata with the class A notes if:

- The ratio of the aggregate balance of delinquent loans to the aggregate balance of nondoubtful loans is below 1.50% for the class B notes, below 1.25% for the class C notes, below 1% for the class D notes, and below 0.75% for the class E notes;
- The total outstanding principal balance of the class B, C, D, and E notes represents at least 5%, 5%, 5% and 8%, respectively, of the outstanding principal balance of all the notes (double their initial percentage);
- The cash reserve is at the required amount after the previous payment date; and
- The total outstanding balance of the loan portfolio is equal to or greater than 10% of the initial balance of the loan portfolio.

Priority of payments—pre-enforcement interest payments

On each quarterly IPD, the issuer pays in arrears the interest due to the noteholders. To make the payments, the issuer's available funds include the interest swap proceeds, 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 class A notes;
- Interest on the class B notes (if not deferred);
- Interest on the class C notes (if not deferred);
- Interest on the class D notes (if not deferred);
- Interest on the class E notes (if not deferred);
- Principal on the class A notes;
- Principal on the class B notes;
- Principal on the class C notes;
- Principal on the class D notes;
- Principal on the class E notes;
- Interest on the class B notes if deferred;
- Interest on the class C notes if deferred;
- Interest on the class D notes if deferred;
- Interest on the class E notes if deferred;
- Reserve fund replenishment;
- Interest on the class F notes (reserve fund);
- Principal on the class F notes (reserve fund);
- Swap termination payments due to a default or breach of contract by the swap counterparty;
- Interest on the start-up loan;
- Amortization of the start-up loan;
- Payment of the administration fee; and
- Payment of the extraordinary part of class F notes.

Interest deferral triggers

A trigger ensures that in a stressful economic environment, the more senior notes amortize before interest on the subordinated classes of notes is paid:

- Interest on the class B notes is deferred if the cumulative gross default rate as a percentage over the initial balance of the pool exceeds 21.5%;
- Interest on the class C notes is deferred if the cumulative gross default rate as a percentage over the initial balance of the pool exceeds 16.5%;
- Interest on the class D notes is deferred if the cumulative gross default rate as a percentage over the initial balance of the pool exceeds 11.5%; and
- Interest on the class E notes is deferred if the cumulative gross default rate as a percentage over the initial balance of the pool exceeds 9.0%.

Hedging Risk

Interest swap agreement

On Santander Hipotecario 5's behalf, the trustee entered into a swap agreement with Santander This swap provides protection against adverse interest rate resetting and movements.

The issuer pays the swap counterparty the total of interest accrued on the performing loans, those under three months past due.

The issuer receives three-month EURIBOR, the weighted-average margin of the notes (excluding the class F notes), a spread of 65 bps over an adjustable notional, and the servicer fees in case of replacement.

The adjustable notional is equal to the maximum of:

- The performing balance of the assets; and
- The minimum of (i) the sum of collected interest during the period divided by the interest rate of the swap counterparty multiplied by 360 days, and (ii) the outstanding balance of the assets at the last payment period.

The adjustable notional adapts to the performance of the pool. If the pool is performing well, the notional is the performing balance of assets. As soon as delinquencies materialize, the notional described in section (i) above prevails. In this case, the counterparty would pay the issuer the exact amount of interest that the issuer has received during the current period.

Finally, if the notional described in section (ii) above is the adjusted notional of the payment period, this means that interest risk has materialized. The net payment of the swap in this case would be positive for the issuer.

This type of swap not only provides a hedge for the interest rate risk, 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 65 bps in the transaction. The transaction documentation provides that if the swap provider is downgraded below 'A-1', it would become an ineligible counterparty and within 10 working days must collateralize 125% of the contract's mark to market complying with our requirements. The downgraded swap provider would then within 60 days have to find:

- A replacement with a short-term rating of at least 'A-1'; or
- 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. The amount of collateral is taken into consideration in analyzing the transaction after the counterparty is downgraded. 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 a replacement. Therefore, the market should understand and consider the risk of downgrade of the transaction, if a replacement is not found.

Any counterparty replacement or guarantee is subject to rating confirmation. All the costs of the remedies are borne by the downgraded counterparty.

Credit And Cash Flow Analysis

We stressed the transaction cash flows to test both the credit and liquidity support provided by the assets, subordinated tranches, cash reserve, and any external sources (such as a liquidity facility). We implemented these stresses to the cash flows at all relevant rating levels.

For example, we subject a transaction that incorporates 'AAA', 'A', and 'BBB' rated tranches of notes to three separate sets of cash flow stresses. In the 'AAA' stresses, all 'AAA' rated notes must pay full and timely principal and interest, but this is not necessarily the case for the 'A' or 'BBB' rated tranches as they are subordinated in the priority of payments. In the 'A' case, all 'AAA' and 'A' rated notes must receive full and timely principal and interest, but not necessarily so for the 'BBB' rated tranche, as it is subordinated to both 'AAA' and 'A'.

Amount of defaults and recoveries

For each loan in the pool, we estimated the likelihood that the borrower will default on its mortgage payments (the foreclosure frequency), and the amount of loss on the subsequent sale of the property (the loss severity, expressed as a percentage of the outstanding loan). We assume the total mortgage balance to default. We determine the total amount of this defaulted balance that is not recovered for the entire pool by calculating the WAFF and the WALS.

The WAFF and WALS estimates increase as the required rating level increases, because the higher the rating required on the notes, the higher the level of mortgage default and loss severity they should be capable of withstanding. This credit analysis is based on the characteristics of the loans and the associated borrowers. We have applied market-specific criteria in our assessment of the WAFF and the WALS for this portfolio, which are shown in table 2.

Table 2

Portfolio WAFF And WALS

Rating level	WAFF (%)	WALS (%)	Market value declines (%)
AAA	30.30	36.48	37
AA	20.57	30.84	32
A	15.71	26.35	28
BBB	10.84	21.90	24
BB	8.41	19.71	22

Timing of defaults

The WAFF at each rating level specifies the total balance of the mortgage loans assumed to default over the life of the transaction. We assume that these defaults occur over a three-year recession. We assess the effect of the timing of this recession on the ability to repay the liabilities, and choose the recession start period based on this assessment.

Although the recession normally starts in the first month of the transaction, the 'AAA' recession is usually delayed by 12 months. The WAFF is applied to the principal balance outstanding at the start of the recession (e.g., in a 'AAA' scenario, the WAFF is applied to the balance at the beginning of month 13). We assume defaults occur periodically in amounts calculated as a percentage of the WAFF. The timing of defaults in Spanish RMBS transactions follows one path, referred to here as "equal" defaults. This timing is shown in table 3.

Table 3

Default Timing Equal Default Curve

Percentage of WAFF	'AAA' (recession month)	Rest of rating scenarios
1/3	13	1
1/3	25	13
1/3	37	25

Timing of recoveries

We assume that the issuer would regain any recoveries 30 months after a payment default in Spanish transactions. The value of recoveries at the 'AAA' rating level is 100% minus the WALS given above.

Note that the WALS used in a cash flow model is always based on principal loss, including costs. We assumed no recovery of any interest accrued on the mortgage loans during the foreclosure period. After the WAFF is applied to the balance of the mortgages, the asset balance is likely to be lower than that on the liabilities (a notable exception is when a transaction relies on overcollateralization). The interest reduction created by the defaulted mortgages during the foreclosure period needs to be covered by other structural mechanisms in the transaction.

Delinquencies

We model the liquidity stress that results from short-term delinquencies, i.e., those mortgages that cease to pay for a period of time but then recover and become current for both interest and principal. To simulate the effect of delinquencies, we assume a proportion of interest receipts equal to one-third of the WAFF to be delayed. We apply this in each month of the recession and assume full recovery of delinquent interest will occur 18 months after it is removed from the transaction. Thus, if in month five of the recession the total collateral interest expected to be received is €1 million and the WAFF is 30%, €100,000 of interest (one-third of the WAFF) will be delayed until month 23.

Interest and prepayment rates

We modeled one interest rate scenario—rising—using both high and low prepayment assumptions. Interest rates were 4.0% at the time of modeling and were modeled to rise by 2.0% a month to a high of 12.0% for EURIBOR amounts. In the 'AAA' scenario, the interest rate increase was not modeled to begin until month 13. We revise our interest rate scenarios if there is sufficient evidence to warrant it.

Transactions are stressed according to two prepayment assumptions, high (24.0%) and low (0.5%). In a 'AAA' scenario, a prepayment rate of 10% is modeled before the recession for the first year of the transaction for both the high and low prepayment scenarios, to ensure that the WAFF is applied to a consistent asset balance in month 13, when the recession is assumed to start in the 'AAA' scenario.

We assume prepayment rates to be static throughout the life of the transaction and apply them monthly to the decreasing mortgage balance. We reserve the right to increase the high prepayment assumption if historical prepayment rates are at high levels, or the transaction is particularly sensitive to high prepayments (e.g., the transaction relies heavily on excess spread).

It should be noted that in a 'AAA' scenario we model an expected prepayment rate of approximately 12% before the recession for the first year of the transaction. This is applied for both the low and high prepayment scenarios, to ensure that the WAFF is applied to a consistent asset balance in month 13 (the 'AAA' scenario recession start month).

In combination, the default timings, interest rates, and prepayment rates described above give rise to two different scenarios (see table 4). The ratings we have assigned mean that the notes have all paid timely interest and ultimate principal under each of the scenarios at the proposed rating level.

Table 4

RMBS Stress Scenarios

Scenario	Prepayment rate	Interest rate	Default timing
1	Low	Up	Equal
2	High	Up	Equal

Commingling

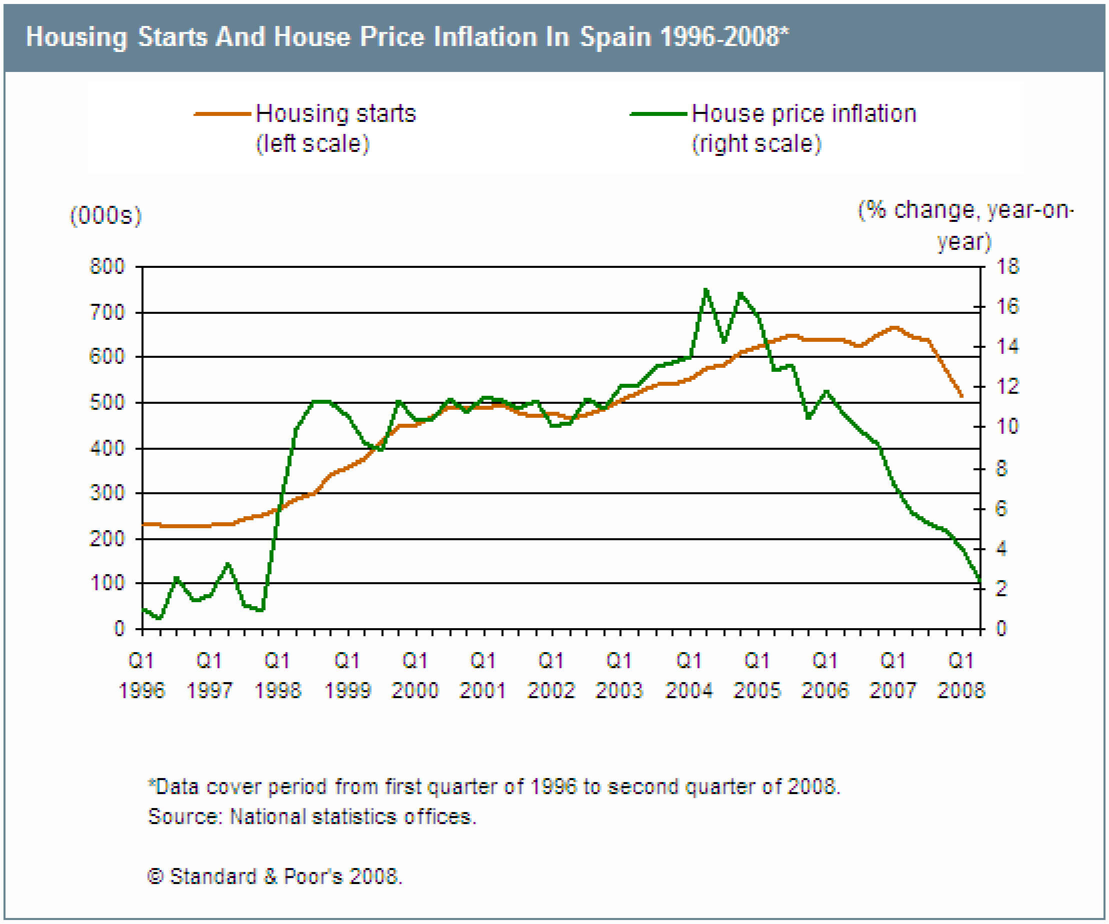
We modeled commingling stress for this transaction, except for the class E notes. Commingling is considered as a loss from the first day of the transaction and amounted to 0.85% of the mortgage pool at closing. The commingling amount was calculated with the amortization profile of the pool with a constant payment rate (CPR) of 10%, which was provided by the originator.

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 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 6). 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 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.

Surveillance

In table 5, we can see the main characteristics of the two last Santander RMBS transactions.

Table 5

Transaction Key Features*

	Santander Hipotecario 4	Santander Hipotecario 5
Pool features		
Principal outstanding (€)	1,363,120,908.14	1,473,941,571.33
Weighted-average seasoning (months)	14	16.4
Weighted-average LTV ratio (%)	91.16	89.59
Percentage with LTV ratios below 50%	0.17	0.04
Percentage with LTV ratios above 80%	96.45	95.87
Number of loans	7,743	7,632
Largest (€)	1,488,000	1,782,000
Average (€)	176,046	195,994
Weighted-average margin on the floating portfolio¶ (%)	0.76	0.74
Percentage of commercial loans	0.00	0.00
Percentage of residential loans	100.00	100.00
Percentage of jumbo loans	5.05	9.31
Percentage of floating-rate loan	100.00	99.95
Percentage of fixed-rate loans	0.00	0.05
Weighted-average foreclosure period (months)	30	30
Geographic distribution (%)		
Andalucia	20.10	20.76
Aragon	2.66	2.71
Asturias	1.23	1.25
Balearic Islands	2.98	3.49
Basque Country	3.92	4.51
Canary Islands	9.48	9.37
Cantabria	1.71	2.19
Castilla-La Mancha	3.45	3.56
Castilla-Leon	4.14	3.51
Catalonia	18.68	14.07
Extremadura	0.99	1.05
Galicia	2.32	2.21
La Rioja	0.34	0.31
Madrid	14.38	16.87
Murcia	2.73	2.96
Navarra	0.41	0.77
Valencia	7.45	10.25
Others	0.34	0.16

Table 5

Transaction Key Features*(cont.)

Structural features (%)		
AAA	91.40	88.50
AA	1.70	2.50
A	2.50	2.50
BBB	2.20	2.50
BB	2.20	4.00
Cash reserve (%)	1.20	1.80

*Information as of preliminary pool. ¶Includes the optional loans that currently pay floating interest rates.

Delinquencies and severe delinquencies for Santander RMBS transactions are below the Spanish RMBS index (see charts 7 to 9). CPR levels for Santander transactions are around 10%.

Chart 7

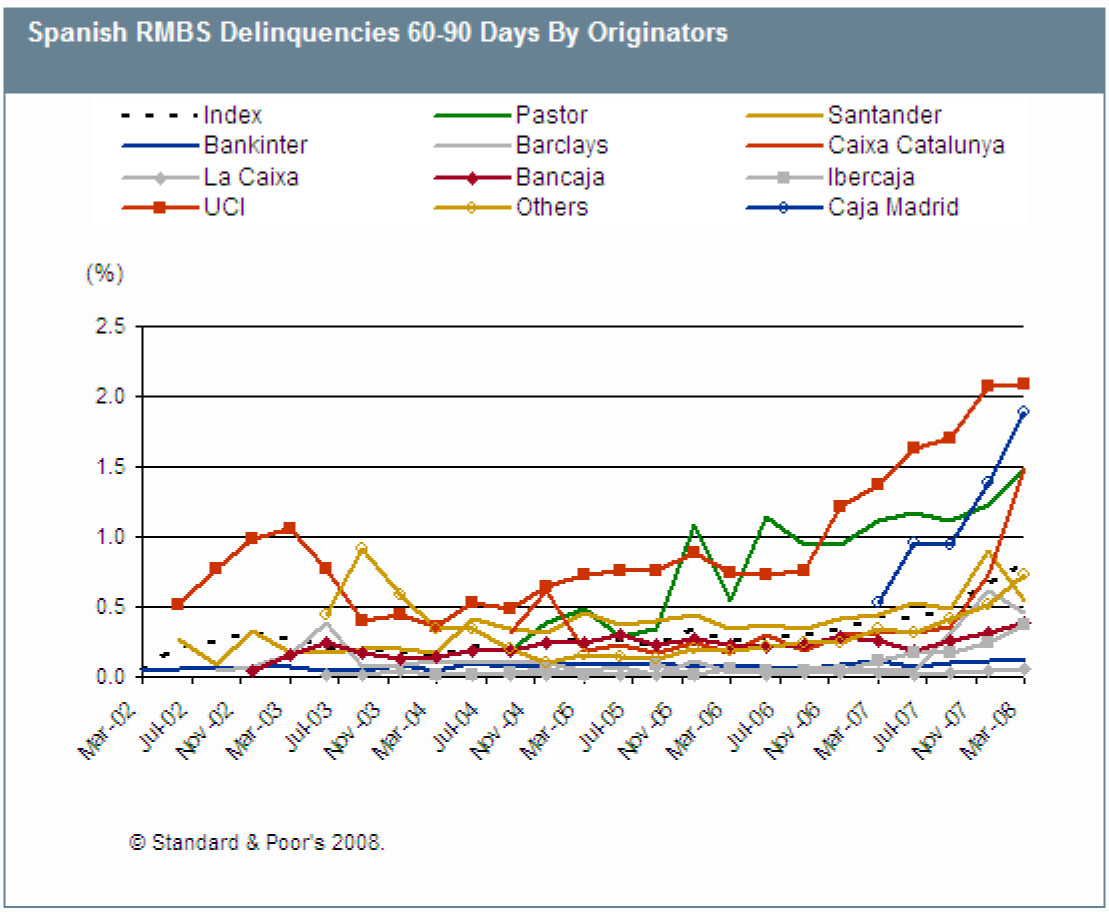


Chart 8

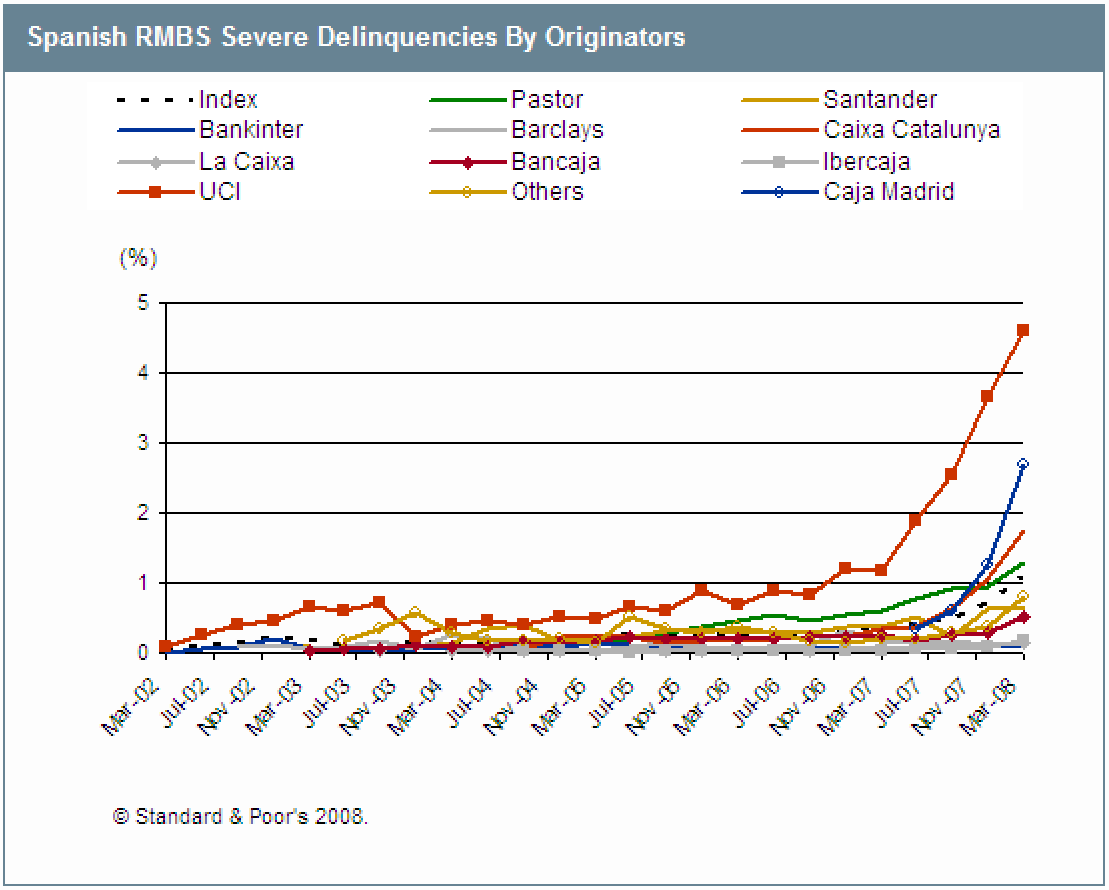

Spanish RMBS Severe Delinquencies By Originators
Index
Pastor
Santander
Bankinter
Barclays
Caixa Catalunya
La Caixa
Bancaja
Ibercaja
UCI
Others
Caja Madrid
(%)
5
4
3
2
1
0
Mar-02
Jul-02
Nov-02
Mar-03
Jul-03
Nov-03
Mar-04
Jul-04
Nov-04
Mar-05
Jul-05
Nov-05
Mar-06
Jul-06
Nov-06
Mar-07
Jul-07
Nov-07
Mar-08
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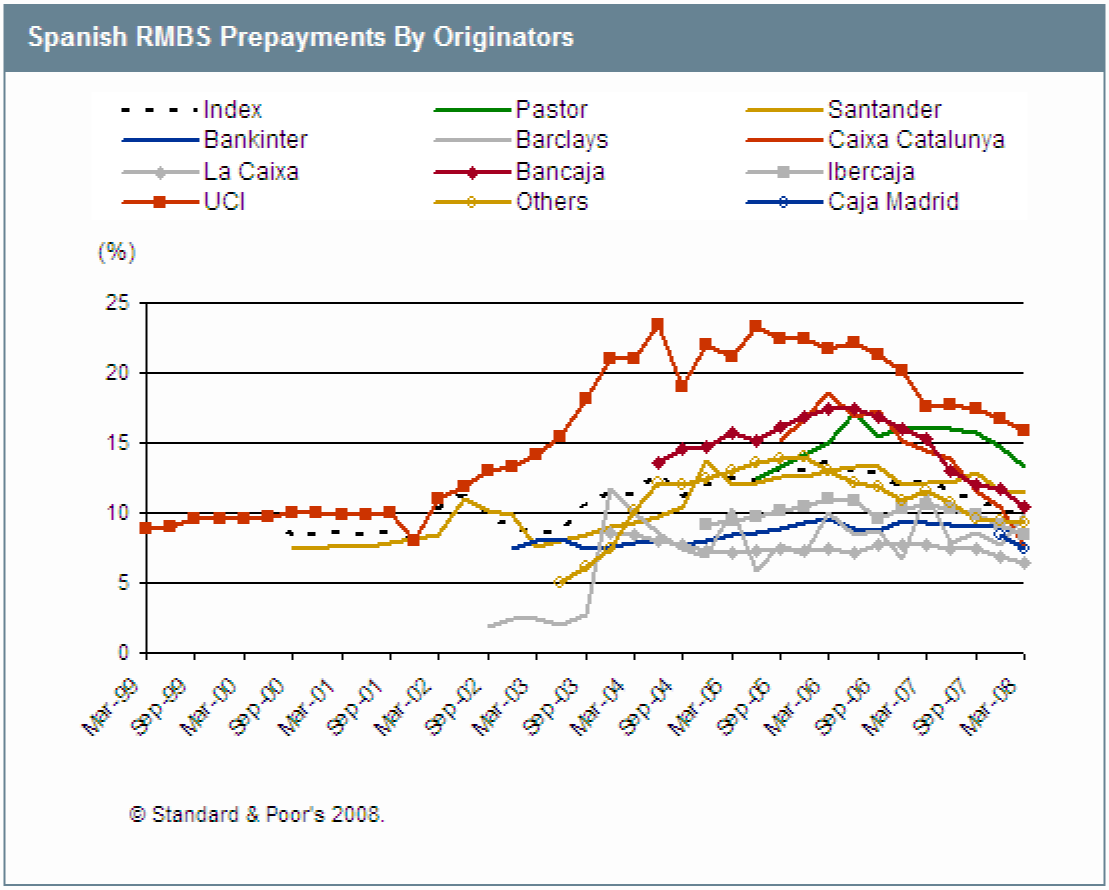
Chart 9



Criteria Referenced

- "Revised Framework For Applying Counterparty And Supporting Party Criteria" (published on May 8, 2007).
- "Cash Flow Criteria for European RMBS Transactions" (published on Nov. 20, 2003).
- "Methodology Behind European RMBS Indices" (published on Nov. 8, 2004).
- "European Legal Criteria for Structured Finance Transactions" (published on March 23, 2005).
- "Rating Affirmations And Their Impact On Investors" (published on April 20, 2005).

Related Articles

- "European Economic Forecast: Credit Squeeze Threatens The Sustainability Of Spain's Current Account Deficit" (published on May 29, 2008).
- "European RMBS Outlook 2008—Market Disruptions May Overshadow Collateral Performance" (published on Jan. 31, 2008).
- "Assessment Of The Basel II Framework: Residential Mortgages" (published on Sept. 28, 2006).
- "European Banks Manage Capital Through Recent Mortgage Risk Transfers" (published on Dec. 9, 2005).
- "U.K. Home Repossessions Rise, But Remain Well Below 1990s Peak And Do Not Yet Threaten RMBS"

(published on Nov. 10, 2005).
- "Sophistication Of Mortgage Credit Pricing To Benefit European RMBS" (published on Oct. 10, 2005).
- "Spanish RMBS Index Report" (published quarterly).

All criteria and related articles are available on RatingsDirect, the real-time Web-based source for our credit ratings, research, and risk analysis, at www.ratingsdirect.com. The criteria can also be found on our Web site at www.standardandpoors.com.

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