STANDARD & POOR'S

Research:
New Issue: **Fondo de Titulizacion Hipotecaria U.C.I. 4**
30 billion Spanish peseta mortgage participation-backed cash flow bonds
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Profile

New Ratings

Class A	**AAA**
Class B	**A**

Closing date: June 30, 1998
Transaction Summary

Securities offered: 29,350 million Spanish peseta (Ptas) series A bonds, and Ptas650 million series B bonds backed by participaciones hipotecarias, or mortgage participations, due February 2027.
Structure type: Mortgage participation-backed cash flow bonds.
Collateral: A pool of mortgage participations in Spanish residential mortgages.

Participants
Mortgage originator/administrator/services: **Unión de Créditos Inmobiliarios S.A., Establecimiento Financiero de Créditos (U.C.I.).**
Mortgage participation issuer: Establecimiento Financiero de Créditos **(U.C.I.).**
Sociedad gestora: Santander de Titulización and Sociedad Gestora de Fondos de Titulización S.A.
Series A bonds swap provider: Banco Santander S.A.
Series A bonds swap provider guarantor: General Re Financial Products Corp., whose obligations are guaranteed by its parent, General Re Corp.
Series B bonds swap provider: Banco Santander S.A.
Treasury account/guaranteed investment contract provider: Banco Santander S.A.
Co-lead managers: Banco Santander S.A., and Bank Paribas, Spanish branch.
Supporting ratings: Series A: General Re Corp. ('AAA') and Banco Santander S.A. ('A-1+'); Series B: Banco Santander S.A. ('AA-'/'Negative'/'A-1+').

Rationale Ratings are assigned to the series A and B bonds issued by Fondo de Titulización Hipotecaria, U.C.I. 4. The bonds are backed by a portfolio of participaciones hipotecarias, or mortgage participations, and reflect the quality of the collateral, enhanced by strong coverage of potential liquidity shortfalls and credit losses. The ratings also reflect the issue's legal structure and the ability of the Unión de Créditos Inmobiliarios S.A., Establecimiento Fianciero de Crédito (U.C.I.) to administer the loans.

Structure

The mortgage securitization law in Spain requires the bonds to be issued by a fondo, or fund, whose activities are managed by a sociedad gestora, in this case Santander de Titulización, an independent management company authorized by the Ministry of Economy and Treasury. The fund's sole purpose is to purchase the mortgage participations, issue the bonds, and conduct related activities. The sociedad gestora represents and defends the interests of the bondholders and enters into the various contracts for the issuer.

The mortgage participations are issued and serviced by U.C.I.. As servicer, U.C.I. is responsible for the day-to-day administration and ongoing servicing of the underlying portfolio of mortgages. Santander de Titulización is responsible for producing all reports and accounts for the fund and Standard & Poor's in connection with the performance of the mortgages.

Each participation is backed by a single residential mortgage loan. Mortgagors make their payments directly to Banco Santander S.A., which then pays these amounts to the issuer's bank account at Banco Santander. If Banco Santander's short-term rating falls below 'A-1', the issuer's account will be transferred to an appropriately rated institution.

Standard & Poor's review of U.C.I.'s origination process, and collection and default management procedures, indicates that U.C.I. is capable of performing the functions necessary to ensure the collection of borrower payments and the management of arrears and repossessions.

The series A bondholders are protected from potential credit losses on the underlying mortgages by the 2.17% subordination of the series B bonds, excess spread between the fund's revenue and expenses, and excess funds in a primary reserve fund. Revenue shortfalls, resulting from mortgage defaults, should not impair the issuer's ability to meet timely and full interest payments on the series A bonds. This is because the issuer may use mortgage principal receipts (not yet needed to redeem bond principal) to fund interest payments on the bonds. Liquidity is also provided by the subordination of the series B bonds, excess spread, and the primary reserve fund.

The primary reserve fund, which is equal to 1.25% of the outstanding mortgages at the start date and then increases to 1.5% until the end of the transaction, also protects the issuer against the risk that mortgage payments could be temporarily trapped with Banco Santander if it were to become insolvent or bankrupt; this is commingling risk. Because the required size of the primary reserve is based on the amount of outstanding mortgages, the fund, once it has reached the required percentage amount, may be reduced as the mortgage pool amount reduces, releasing funds that may be used to cover any losses incurred. The primary reserve fund is held with Banco Santander, as long as it is rated 'A-1+'.

A basis interest rate swap agreement between the sociedad gestora (on behalf of the issuer) and Banco Santander converts the interest payments received on the mortgage participations into the variable amount payable on the series A bonds. The rate payable by the issuer to Banco Santander is the weighted average rate on the mortgage participations minus 0.6%. In return, the issuer receives a floating rate equal to three-month Spanish peseta LIBOR plus 0.16% from Banco Santander. Banco Santander's obligations under the swap will be guaranteed by General Re Financial Products Corp., whose obligations are backed by its parent, General Re Corp.

The series B bondholders are protected from potential credit losses on the underlying mortgages by a secondary reserve fund, excess spread, and the funds released from the primary reserve fund, as described above. Revenue shortfalls also may be covered by the secondary reserve fund and excess spread. The secondary reserve fund may not be used to make payments on the series A bonds and is held with Banco Santander, as long as it is rated at least 'A-1'. The initial size of the secondary reserve fund is 202.5 million Spanish peseta (Ptas) (initially equal to 31% of the initial amount of the series B bonds), and is made up of two amounts: Ptas97.5 million, which does not decline, and Ptas105 million, which is required to equal 0.35% of the outstanding mortgage participations and, therefore, can be reduced as the mortgages pay down. Commingling risk is not a concern for these 'A' rated bonds, since Banco Santander ('AA-') is sufficiently rated.

The issuer has a second interest rate swap agreement with Banco Santander that also converts the interest received on the mortgage participations into the variable amount payable on the series B bonds. The rate payable by the issuer to Banco Santander is the weighted average rate on the mortgage participations minus 0.6%. In return, the issuer receives a floating rate equal to three-month Spanish peseta LIBOR plus 0.575% from Banco Santander. Failure by the issuer to fully meet its payments under this swap will not result in a default under the agreement. Instead, any missed payments by the issuer will be due and payable in the future along with interest on the payments.

Bond Terms

Interest on the bonds will be payable quarterly at a rate of three-month Spanish peseta LIBOR plus 0.16% for the series A bonds, and 0.575% for the series B bonds. Interest is paid on the 14th day of February, May, August, and November beginning in August 1998. Unless redeemed earlier, the bonds will be redeemed at their maturity in February 2027.

Principal is passed through to the series A and B bondholders on interest payment dates if it is not needed to fund current interest on the series A bonds. All available principal will be used to redeem the series A bonds until the ratio of the series B bonds to the series A bonds equals 10%. Once the ratio is 10%, principal will be allocated on a pro rata basis to both series until the series B bonds equal 1% of the initial mortgage balance. However, no series B bonds will be redeemed before August 2003, or if at least 7% of the mortgages are at least 90 days delinquent, or if there are uncovered losses on the mortgage participations. Once the series B bonds' balance equals 1% of the initial mortgage balance, all principal will be used to redeem the series A bonds until they are fully redeemed. After the series A bonds are fully redeemed, all principal will be used to redeem the series B bonds.

The bonds may be fully redeemed if:

The remaining balance of the collateral falls below 10% of its original balance;

The sociedad gestora becomes bankrupt or its authorization is revoked and no replacement can be found; or withholding tax is imposed on the mortgage participations or the swaps.

The issuer will not gross up for any withholding taxes on interest payments on the bonds. The current withholding tax is 25%. Consequently, investors will receive interest payments net of this tax, unless they provide evidence of their fiscal residence in a country (except Spain) within the European Union.

Collateral

The collateral securing the obligations consists of a Ptas30 billion pool of mortgage participations issued by Banco Santander. Each participation is backed by an individual first mortgage loan that is fully amortizing and secured by a residential, owner-occupied property in Spain. The issuer is entitled to receive all principal and interest from the underlying mortgages.

Banco Santander will not advance or guarantee amounts due on the mortgage participations. The participations will be subject to the same risks of delayed payments and losses as the underlying mortgage loans. According to Spanish legislation, interest payments on the mortgage participations will not be subject to any withholding tax.

Approximately 4,172 mortgages back the collateral pool; they have an average loan size of Ptas7.33 million. The mortgage pool consists of 100% floating-rate loans. The weighted average rate for the portfolio is 6.52%. The mortgage payments are level pay and made monthly. None of the loans has a loan-to-value (LTV) ratio that is greater than 80%, and the average current LTV ratio is 58.66%. The mortgages were originated between September 1994 and February 1997 and have original maximum terms of 30 years.

Also, the portfolio carries unique features that were not present in previous issues, specifically:

Forty percent of the loans have fixed payments for the first three years;
Forty-four percent of the loans have the right for the first three years to take a one-month payment holiday; and all of the borrowers have the right to limit the increase in their installment to two times the inflation rate.
Payments due are capitalized onto the loan balance. The additional credit and liquidity risks have been factored into Standard & Poor’s credit support levels.

As of the sale date of the bonds, none of the mortgages was greater than 30 days delinquent. Since 1996, the historical arrears for U.C.I.’s residential mortgage portfolio for loans that are greater than three months delinquent have been fairly stable and relatively low (see table 1).

Table 1 Fondo Titulización Hipotecaria U.C.I. 4 Historical Arrears

Date	Arrears (%)
March 31, 1996	1.52
Sept. 30, 1996	1.00
March 31, 1997	0.89
Sept. 30, 1997	0.74
March 31, 1998	0.51

Stress Test

Standard & Poor's has stressed this transaction under 'AAA' and 'A' worst-case scenarios for the series A and B bonds, respectively. The scenarios, simulated in cash flow runs, reflect the stresses set out below.

Default Rate The rate of mortgage defaults is 14.4% for 'AAA', and 7.7% for 'A'. The defaults occur over a three-year period, with one-third of the defaults occurring in the beginning of each year. The default rate is based on the original principal amount of the mortgage participations, minus any amount of mortgage payments made owing to scheduled amortization. Amounts prepaid owing to defaults and voluntary prepayments are not deducted from the original mortgage balance when calculating the default amount.

Default Period Defaults last for 36 months, after which time liquidation proceeds are received from the mortgaged properties.

Market Value Decline The declines in property values are 37% for 'AAA', and 28% for 'A'.

Mortgage Rate Rising and falling interest rate scenarios were tested for floating-rate loans.

Foreclosure Costs The cost to foreclose on a defaulted mortgage is 7%.

Weighted Average Loss Severity The weighted average loss of the loan portfolio is 60% for 'AAA', and 47% for 'A'. The minimum loss severity for any mortgage is 2%.

Short-Term Arrears The rate for short-term mortgage arrears is equal to one-half of the default rate for the given rating level, that is, 7.2% for 'AAA', and 3.85% for 'A'.

Short-Term Arrears Period Delinquencies begin on the first day of the transaction. Mortgagors cure their delinquencies 12 months after their first missed payments. The mortgagors in arrears are followed by another group of mortgagors who also become delinquent for 12 months. This happens throughout the life of the transaction so that delinquencies are constant.

Prepayment Rate Two sets of cash flows were run for each rating scenario using different prepayment assumptions. The first scenario assumes no prepayments. This stresses the liquidity of the issuer because only principal receipts from scheduled amortization of the loans are available to meet any interest shortfalls on the bonds. The second scenario assumes an annual prepayment rate of 24%. This stresses the credit coverage of the transaction because less spread is available over the issue's life.

Expenses Both ordinary and extraordinary fees of the issuer are modeled in the cash flows. Unless fixed for life, ordinary fees are increased at an annual inflation rate of 10%. Extraordinary fees are assumed to be 25 basis points of the bonds.

Reinvestment Rate The reinvestment rate is the weighted average mortgage rate minus 4%.

Commingling The 'AAA' cash flows require coverage for the commingling risk should Banco Santander become bankrupt or insolvent. The required coverage (which is the primary reserve fund) is equal to one month's worth of interest on the mortgage participations.

Servicer Review Standard & Poor's has met with the originator/servicer to gather information in certain key areas and to review the ability of the originator/servicer to administer the mortgages. Although Standard & Poor's considers the ability of U.C.I. to service these loans to be satisfactory, the credit analysis assumes that another servicer would be appointed by the issuer in a stress scenario, and sufficient funds have been sized for in the transaction to cope with that possibility.

Surveillance

Continuous surveillance will be maintained on the transaction until the notes mature or are otherwise retired. To do this, regular reports detailing the performance of the underlying mortgages will be produced, supporting ratings will be monitored, and regular contact with the servicer will be made to ensure that minimum servicing standards are sustained. The servicer is also expected to highlight any new developments in its situation in a timely manner.