Fondo de Titulización de Activos Santander Hipotecario 3

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 20 February 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

26 March 2007

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PROVISIONAL (P) RATINGS

Class	Rating	Amount (million)	% of Notes	Legal Final Maturity	Coupon
A1	(P)**Aaa**	€[613.30]	21.90	Jan. 50	3mE + [•]%
A2	(P)**Aaa**	€[1,540.00]	55.00	Jan. 50	3mE + [•]%
A3	(P)**Aaa**	€[420.00]	15.00	Jan. 50	3mE + [•]%
B	(P)**Aa2**	€[79.20]	2.83	Jan. 50	3mE + [•]%
C	(P)**A1**	€[47.50]	1.70	Jan. 50	3mE + [•]%
D	(P)**Baa1**	€[72.00]	2.57	Jan. 50	3mE + [•]%
E	(P)**Ba2**	€[28.00]	1.00	Jan. 50	3mE + [•]%
F	(P)**Ca***	€[22.40]	0.79	Jan. 50	3mE + [•]%
Total		€[2,882.40]	100.80		

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/D/E, and for ultimate payment of interest and principal at par on or before the rated final legal maturity date on Class F*

OPINION

Strengths of the Transaction

- Interest rate swap to hedge interest rate risk in the transaction, securing weighted interest rate of the notes plus 75 bps excess spread and covering the servicing fee in case Banco Santander (SCH) is substituted as servicer
- Excess spread trapping through an 18 month "artificial write-off" mechanism
- Fully sequential amortization of the notes
- Credit enhancement is provided through subordination of the classes, the Reserve Fund and Excess Spread
- The collateral is well diversified across Spain
- 38.43% of the debtors benefit from a mortgage insurance
- No flexible products being securitised, just plain vanilla first lien mortgage loans
- 100% of the portfolio is paid via direct debit
- No second-lien products being included
- 100% of the portfolio is paid on a monthly basis
- Good performance data on previous transactions

Weaknesses and Mitigants

– The collateral consists of over 80% LTV loans, which leads to a higher expected default frequency and more severe losses. The increased risk was reflected in the credit enhancement calculation.

– Lack on Occupancy type however, a penalty was applied accordingly when calculating the credit enhancement

– 24% of the collateral has a principal repayment grace period. These peculiarities of the loans could lead to a higher default frequency; however the reserve fund and the subordination have been sized accordingly to account for these risks.

  - 13.90% up to 5 years grace period
  - 6.63% up to 4 years grace period

– The deferral of interest payments on each of Series B, C, D and E benefits the repayment of the series senior to each of them, but increases the expected loss on Series B, C, D and E themselves. The reserve fund and the subordination have been sized accordingly to account for this deterioration on the expected loss

STRUCTURE SUMMARY

Issuer:	Fondo de Titulización de Activos Santander Hipotecario 3
Structure Type:	Senior/Mezzanine/Subordinated/Reserve Fund
Seller/Originator:	Banco Santander (**Aa3**/**P-1**)
Servicer:	Banco Santander (**Aa3**/**P-1**)
Back-up Servicer:	N/A
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Pass-Through on each payment date
Credit Enhancement/Reserves:	Excess spread per annum
	Reserve Fund
	Subordination
Liquidity Facility:	N/A
Hedging:	Interest rate swap to cover interest rate risk and guaranteeing 75 bppa of excess spread plus the servicing fee in case of replacement of SCH as servicer
Principal Paying Agent:	Banco Santander (**Aa3**/**P-1**)
Management Company:	Santander de Titulización S.G.F.T. S.A (SdT)
Arranger/Lead Manager:	Banco Santander, Societe Generale, HSBC

COLLATERAL SUMMARY

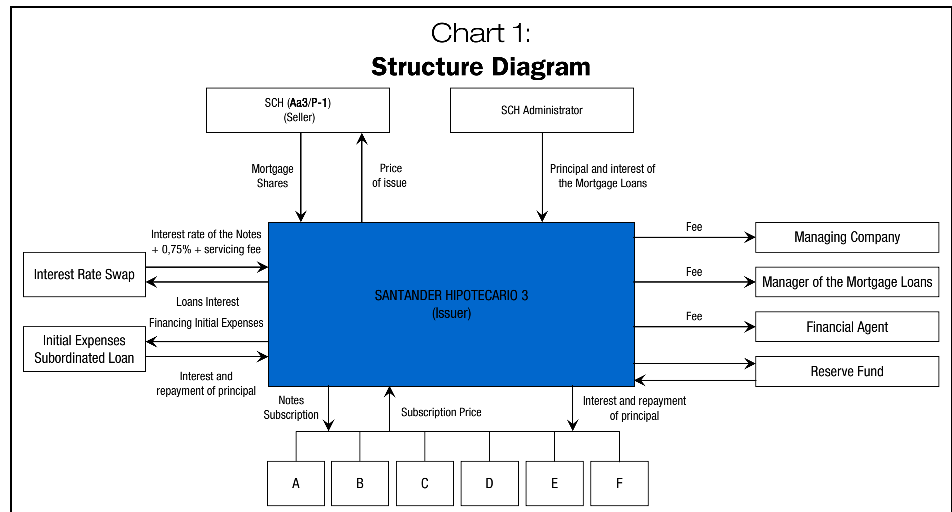
Loan Amount:	€ 2,956,395,725
Loans Count:	17,782
Pool Cut-off Date:	20 - February - 2007
WA Original LTV:	92.42%
WA Current LTV:	90.21%
WA Seasoning:	1.5 Years
WA Remaining Term:	32 Years
Interest Rate Type:	100% Floating
Geographic Diversity:	Catalonia 17.24%, Madrid 14.78%, Andalusia 16.89%
Loan Purpose:	The loans have been granted to finance the purchase, building and renovation of residential homes located in Spain. All the properties are already constructed
Average Loan Size:	€ 166,258

TRANSACTION SUMMARY

Recurrent plain vanilla structure

This transaction consists of the securitisation of a pool of first-lien mortgages originated and serviced by Banco Santander (SCH), one of the biggest Spanish banks and with a proven track record in the securitisation market. The collateral is made up of loans exceeding 80% LTV.

Chart 1:
Structure Diagram



Through this deal, SCH is selling a portfolio of loans to Santander Hipotecario 3, FTA which in turn will issue six series of notes to finance the purchase of the loans. The capital structure consists of four tranches:

- An equity Series F
- A subordinated Series E
- A mezzanine Series D
- A mezzanine Series C
- A mezzanine Series B
- A senior Class A composed of three rated Series: a subordinated Series A3 a mezzanine Series A2 and a senior Series A1

STRUCTURAL AND LEGAL ASPECTS

Daily sweeping into treasury account

All of the payments under the loans in the mortgage portfolio are collected by the originator under a direct debit scheme and are paid directly into the treasury account on a daily basis. The treasury account is held by SCH.

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

Reserve fund fully funded at closing from the proceeds of the issue of the Series F Notes to cover potential shortfall in interest and principal

The reserve fund is designed to help the fund meet its payment obligations. Initially funded with the proceeds from the issuance of the Series F Notes, it will be held at SCH. The reserve fund will be used to protect Class A, Series B, C D and E notes against interest and principal shortfall 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
2) The higher of the following amounts:
    - 1.60% of the outstanding balance of loans
    - 0.40% of the initial balance of the notes

Amortisation of the reserve fund will cease if either 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%.
- The reserve fund is not funded at its required level on the previous payment date

Additionally the reserve fund will not amortise during the first 36 months of the life of the transaction.

Interest rate swap guaranteeing the interest rate of the notes plus 75 bppa of excess spread and covering the servicing fee in case of the replacement of SCH as servicer

According to the swap agreement entered into between the issuer and SCH, on each payment date:

- The issuer will pay the amount of interest actually received from the loans; and
- SCH will pay the same amount as it receives from the Fondo, however:
    - Floored at an amount equal to the sum of (1) the weighted average coupon on the notes plus 75 bppa, over a notional calculated as the daily average outstanding amount of the loans not more than 90 days in arrears, and
    - Capped at an amount equal to the sum of (1) the weighted average coupon on the notes plus 75 bppa, over a notional equal to the outstanding amount of the loans

Additionally the swap will cover the servicing fee in case Banco Santander is substituted as servicer.

The excess spread thus provided through the swap agreement constitutes the first layer of protection for investors. In the event of SCH's long-term rating being downgraded below **A2** or **P-1**, SCH will have to (1) collateralise its obligations under the swap in an amount sufficient to maintain the then current rating of the notes or (2) find a suitably rated guarantor or substitute, within 30 days.

Pre-enforcement Waterfall

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. Fees and expenses, excluding servicing fee (except in the case that SCH is replaced as servicer of the loans)
2. Any amount due under the swap agreement (except termination payments if SCH defaults under the swap agreement)
3. Interest payment to Series A1, A2 and A3 Notes
4. Interest payment to Series B Notes (if not deferred)
5. Interest payment to Series C Notes (if not deferred)
6. Interest payment to Series D Notes (if not deferred)
7. Interest payment to Series E Notes (if not deferred)
8. To redeem the Notes sequentially
9. Interest payment to Series B notes (if deferred)
10. Interest payment to Series C notes (if deferred)
11. Interest payment to Series D notes (if deferred)
12. Interest payment to Series E Notes (if deferred)
13. Replenishment of the reserve fund
14. Interest payment to Series F
15. Principal payment to Series F
16. Termination payments under the swap agreement by default of SCH
17. Junior expenses

18-month "artificial write-off" mechanism.

The transaction structure for Class A, Series B, C D and E benefits from an "artificial write-off", which traps available excess spread to cover losses (if any). This type of "artificial write-off" is hidden in the definition of Principal Due, which is the difference between the A, B, C D and E notes outstanding balance and the outstanding balance of performing loans (loans less than 18 months in arrears).

Class A amortisation

The amount retained as principal due will be used for the repayment of the following items in the indicated order of priority:

1) Amortisation of Series A1
2) Amortisation of Series A2
3) Amortisation of Series A3

Nevertheless, the amount retained as principal due will be allocated pro-rata between Series A1, Series A2 and Series A3, if the arrears level (defined as the percentage of non written-off loans which are more than 90 days in arrears) exceeds 1.50%.

Series F amortisation

The Series F notes will amortise, on each payment date, for an amount equal to the difference between the outstanding amount of the Series F notes and the reserve fund's required amount on the current payment date.

Interest deferral trigger based on defaults.

The payment of interest on the Series B, C D and E notes will be brought to a more junior position if, on any payment date, the following criteria are met:

Table 1:

Series B:	– The accumulated amount of written-off loans is higher than 14.0% of the initial amount of the assets pool – Class A are not fully redeemed
Series C:	– The accumulated amount of written-off loans is higher than 11.0% of the initial amount of the assets pool – Class A and Series B are not fully redeemed
Series D:	– The accumulated amount of written-off loans is higher than 7.0% of the initial amount of the assets pool – Class A, Series B and C are not fully redeemed
Series E:	– The accumulated amount of written-off loans is higher than 6.0% of the initial amount of the assets pool – Class A, Series B, C and D are not fully redeemed

COLLATERAL

The portfolio comprises 17,782 loans representing a provisional portfolio of € 2,956,395,725. The collateral backing the notes issuance is entirely made up of first lien residential mortgages. The loans were originated between 1993 and 2006 with a weighted average seasoning of approximately 1.5 years. The original WALTV is 92.42%. The current weighted average LTV is 90.21%. The pool is well diversified across Spain.

- The purpose of the mortgage loans are the acquisition of residential properties.
- All loans are floating rate and linked to several indexes. The weighted average interest rate is 4.01%.
- All the loans are payable via direct debit and pay through monthly installments.
- All the properties on which the mortgage security has been granted are covered by property damage insurance and fire insurance according to SCH's lending criteria.
- At the closing date there will be no loans with more than 30 days in arrears.

Chart 2:
Portfolio Breakdown by LTV

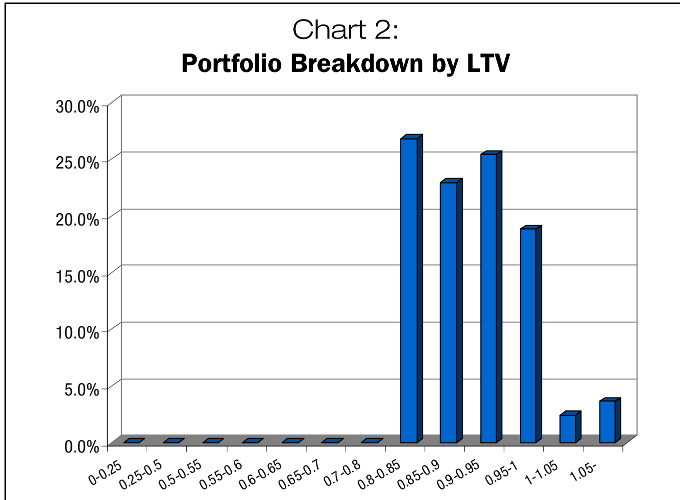


Chart 3:
Portfolio Breakdown by Region

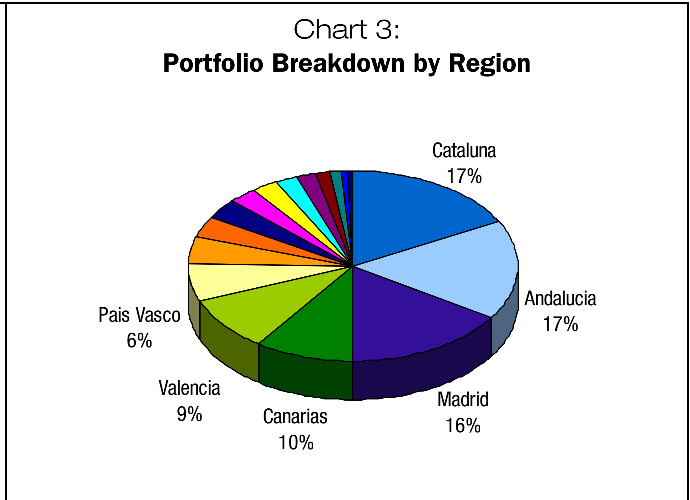
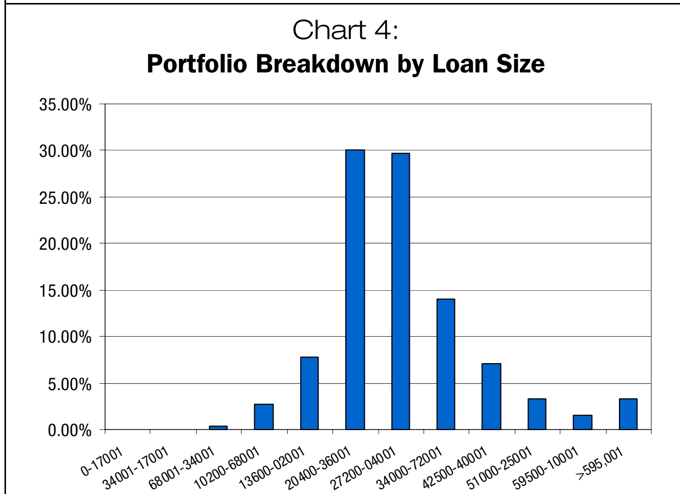


Chart 4:
Portfolio Breakdown by Loan Size

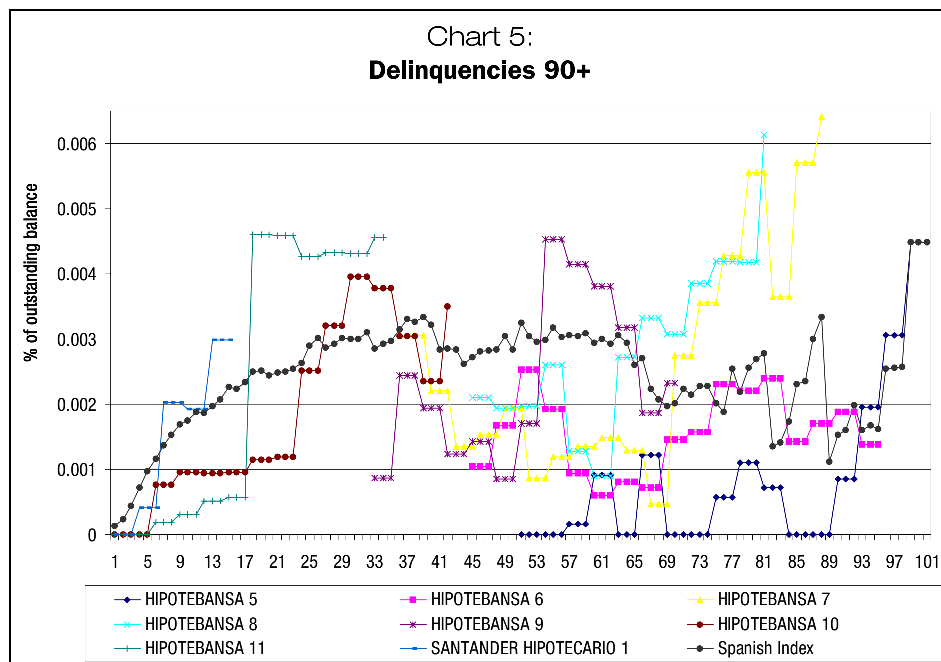


Limitations on renegotiation of the maturity of the loans

Any renegotiation of the terms and conditions of the loans is subject to the management company's approval. Exceptionally, the management company authorises originator to renegotiate the interest rate or maturity of the loans without requiring its approval. However, originator will not be able to extend the maturity of any loan beyond 31 November 2046. Moreover, the renegotiation of the maturity of the loans is subject to various conditions, of which the following are the most significant:

1. The initial amount of loans globally, whereby maturity has been extended, cannot be greater than 10.0% of the initial amount of the pool.
2. The frequency of payments cannot be decreased.
3. The amortisation profile cannot be modified.

Performance data on previous Santander transactions



ORIGINATOR, SERVICER AND OPERATIONS REVIEW

Banco Santander Central Hispano (Banco Santander, rated **Aa3**/**B**/**P-1**) is the largest banking group in Spain, with around €818 billion (€509 billion ex-Abbey) of total assets in June 2006. The bank enjoys impressive market shares and a strong competitive position across all banking segments, and has a particularly dominant position in the domestic mutual funds business, with 25% of the market (including Banesto) and an 18% share in domestic individual pension funds at year-end 2005. In other areas, the group holds the following shares: 22% in assets, 15% in loans, and 19% in customer funds.

Santander embarked a few years ago on a successful European diversification strategy with a specific focus on consumer finance through its subsidiary Santander Consumer Finance S.A. (SCF, rated **Aa3**/**P-1**). The aim was to become one of the leading financial groups in Europe. Santander realised its ambition of becoming the largest financial group in the Iberian peninsula with the acquisition in 2000 of Banco Totta y Açores (rated **A1**/**C+**/**P-1**), Portugal's fourth-largest banking group. More recently, Santander became one of Europe's largest financial groups by market value with the acquisition in 2004 of Abbey National (rated **Aa3**/**B**/**P-1**), the UK's sixth-largest bank and second-largest mortgage lender, for €12.5 billion. Going forward, more acquisitions may still take place to further strengthen the group's European consumer finance franchise. On the bank side, however, in light of Santander's current focus on the re-launching of Abbey, major crossborder deals seem unlikely for the time being.

MOODY'S ANALYSIS

Determination of lognormal loss distribution

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 and 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.

"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

SdT S.G.F.T, S.A., in its capacity as management company, 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@moodys.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

- Moody's Approach to Rating Spanish RMBS: The "MILAN" Model, March 2005 (SF49068)
- Mortgage Insurance in EMEA RMBS Transactions: Potential Advantages and Analytical Considerations of Partially Insured Transactions, June 2006 (SF74005)

Index Report

- Spanish RMBS Q3 2006 Indices, February 2007 (SF91595)

Special Report

- 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

- HIPOTEBANSA X, Fondo de Titulización de Activos, February 2002 (SF12328)
- Fondo de Titulizacion de Activos Hipotebansa 11, November 2002 (SF17582)
- SANTANDER HIPOTECARIO 1, FTA, May 2004 (SF37166)
- Fondo de Titulización de Activos Santander Hipotecario 2, June 2006 (SF76274)

New Issue Report

- HIPOTEBANSA 6
- HIPOTEBANSA 7
- HIPOTEBANSA 8
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Performance Overview

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