Fondo de Titulización de Activos Santander Público 1

SCH
Loans to Public Administrations
Spain

__PLEASE NOTE:__ This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 10 December 2004. 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.

CLOSING DATE:
22 December 2004

Lead Analyst:

Henry Charpentier, CFA
VP- Senior Analyst
Madrid
(34) 91 702 6606
Henry.Charpentier@moodys.com

Backup Analyst:

Alberto Postigo
Analyst
Madrid
(34) 91 702 6604
Alberto.Postigo@moodys.com

London:

Edward Bowden
EMEA Investor Liaison
(44) 20 7772 5454
Edward.Bowden@moodys.com

Client Service Desk:
London: (44) 207 772 5454
csdlondon@moodys.com

Monitoring:
London: (44) 20 7772 5399
monitor.london@moodys.com

Madrid: (34) 91 702 6684
monitor.madrid@moodys.com

WEBSITE:
www.moodys.com

RATINGS

Series	Rating	Amount	% of Total	Legal Final Maturity	Expected Maturity
A	(P)**Aaa**	€1,813,000,000	98.00%	Jan 2037	Jan 2032
B	(P)**A2**	€37,000,000	2.00%	Jan 2037	Jan 2032
Total		€1,850,000,000	100%		

The ratings address the expected loss posed to investors by the legal final maturity. 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. The ratings do not address full redemption of the Notes on the expected maturity date. 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.

OPINION

Strengths of the Transaction

- Credit enhancement provided by the excess spread, a reserve fund and the subordination of the notes.
- Interest rate swap provided by SCH (**Aa3**/**P-1**) guaranteeing an excess spread of 18 bppa.
- Enhanced excess spread-trapping mechanism through a 18 months' "artificial write-off".
- Historical data provided by SCH, showing very limited loss rates in the bank's public administrations loan book over the past years.
- Under Spanish laws public administrations cannot go bankrupt nor can be liquidated. Thus, in most instances, the recovery process consists in the restructuring or refinancing of the distressed administration's debt.

Weaknesses and Mitigants

- Pro-rata amortisation of series B notes leading to reduced credit enhancement of the series A notes in absolute terms. This is mitigated by strict triggers which terminate the pro-rata amortisation of the notes should the performance of the transaction deteriorate.
- Recovery process of defaulted loans may be longer than in the case of loans to private sector debtors. Moody's has accounted for this specificity in its quantitative analysis, and additionally the legal final maturity of the transaction has been set five years after the expected maturity.

STRUCTURE SUMMARY

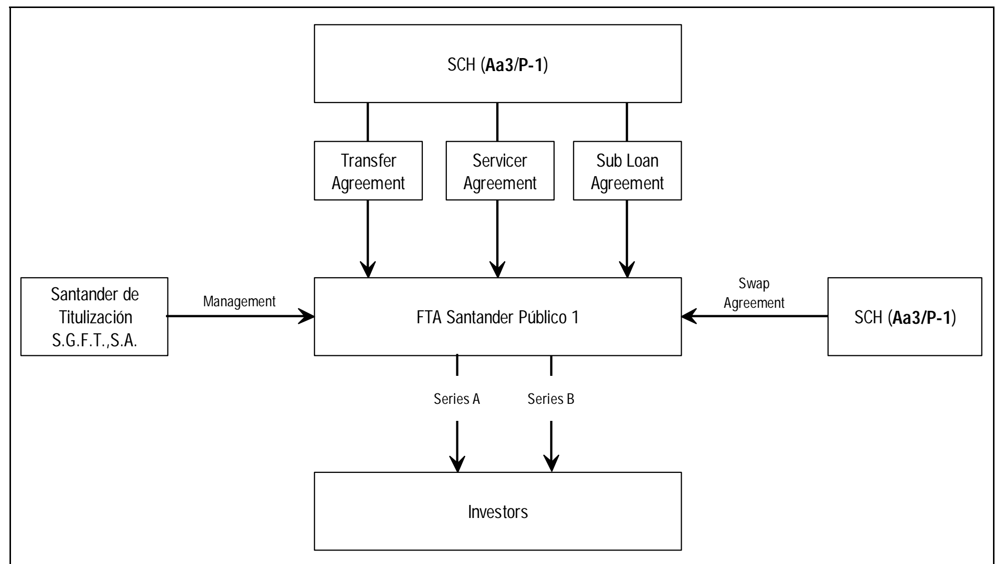
Issuer:	Fondo de Titulización de Activos Santander Público 1
Structure Type:	Senior/ Subordinated floating-rate notes
Seller/Servicer:	Banco Santander Central Hispano (SCH) (**Aa3**/**P-1**)
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	The notes will amortise on a pass-through basis
	Final maturity will take place in January 2037
Payment Dates:	15 January, April, July and October of each year, starting 15 April 2005
Issue Price:	100%
Credit Enhancement/Reserves:	0.18% excess spread
	1.50% reserve fund
	Subordination of the notes
Hedging:	Interest rate swap provided by SCH
Paying Agent:	SCH
Management Company:	Santander de Titulización S.G.F.T., S.A.
Arrangers:	Santander de Titulización

PROVISIONAL POOL (AS OF 16 NOVEMBER 2004)

Collateral:	Loans to Spanish public administrations and public corporations
Number of Contracts:	15,515
Number of Debtors:	773
Geographic Diversity:	Andalusia (22.5%), Catalonia (16.4%), Madrid (15.6%)
WA Seasoning:	2.9 years
WA Remaining Term:	9.3 years
Average Loan Size:	€1,255,841
Highest Debtor:	€59,000,000
Delinquency Status:	Current at the time of securitisation
WA Interest Rate (current):	2.56%
Interest Basis:	93% floating, 7% fixed
Total Amount:	€1,902,599,258

STRUCTURAL AND LEGAL ASPECTS

The Fondo will purchase a static portfolio of loans granted to Spanish public administrations at par, through a standard structure in the Spanish market, including …



… The issuance of two series of notes

Through this deal, SCH is selling a portfolio of loans to Fondo de Titulización de Activos Santander Público 1 (the "Fondo"), which in turn will issue two series of notes to finance the purchase of the loans (at par). The capital structure consists of:

- A subordinated series B rated (P)**A2,** and
- A senior series A rated (P)**Aaa**.

Both series are supported by the reserve fund and the excess spread guaranteed under the swap agreement. Additionally, Series A notes are supported by the subordination provided by series B notes.

… A subordinated loan granted by SCH

In addition, the Fondo will benefit from a subordinated loan provided by SCH to fund the Fondo's up-front costs as well as the reserve fund.

… An interest rates swap guaranteeing a 18 bppa excess spread

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

- The Fondo 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 18 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 18 bppa, over a notional equal to the outstanding amount of the loans.

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 **A1**, within 30 days 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.

… A 1.50% reserve fund to help the Fondo meet its payment obligations

The second layer of protection against losses is a €27,750,000 reserve fund (1.50% of the issuance) that will be fully funded at closing through the subordinated loan granted by SCH. It will be used to cover potential shortfalls on interest or principal on an ongoing basis.

The reserve fund required amount will be reduced to €13,875,000 on the when the aggregate outstanding amount of the notes is less than €925.0 million and:

- the outstanding amount of loans more than 90 days in arrears is less than 1.00% of the outstanding amount of the portfolio, and
- the reserve fund is funded at its required level on the previous payment date.

… A remunerated treasury account

The treasury account will be held at SCH. Any collections from the loans as well as the amounts received under the swap agreement, and the reserve fund will be deposited in the treasury account.

SCH guarantees an annual yield on the amounts deposited in the treasury account equal to the index reference rate of the notes.

In order to protect the treasury account from a potential deterioration of SCH's credit quality, should its short-term rating be downgraded below **P-1**, the management company will have to transfer the treasury account to another entity being rated **P-1**.

… a common interest and principal waterfall

On each 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 order of priority:

1. Costs and fees (excluding servicing fees)
2. Any amount due under the swap agreement (except the termination payment if SCH is the defaulting party)
3. Interest payment to series A notes
4. Interest payment to series B notes (if not deferred)
5. Retention of an amount equal to the principal due under the notes
6. Interest payment to series B notes (if deferred)
7. Reserve fund replenishment
8. Termination payment under the swap agreement if not due under 2
9. Junior expenses (including servicing fees)

On any payment date, the payment of interest on series B notes will be deferred if (1) the aggregate outstanding amount of loans that have become more than 18 months past due since closing represents more than 8% of the initial outstanding amount of the portfolio and (2) the series A notes are not fully redeemed.

… An 18-month artificial write-off and a prorata amortisation of the notes

The transaction's structure benefits from an "artificial write-off" mechanism. This mechanism is implicit in the definition of principal due under the notes (the amount due to be captured in the fifth item of the above waterfall), which is calculated as the difference between (1) the outstanding amount of the notes and (2) the outstanding amount of loans not more than 18 months in arrears.

The amount actually captured under the fifth item of the above waterfall will constitute the available amount for amortisation and will be allocated as follows:

- First, to series A notes until series B notes would represent 4% of the aggregate outstanding amount of the notes under both series.
- Then, to series A and B notes so that the outstanding amount of the series B notes keep representing 4% of the aggregate outstanding amount of the notes under both series.

However the pro-rata amortisation of the notes will stop if:

- Series B notes outstanding is €9.25 million, or
- If the outstanding amount of loans more than 90 days in arrears exceeds 1.00% of the outstanding amount of the portfolio, or
- If the reserve fund is not funded at its required level.

COLLATERAL

The credit rights to be securitised derive from loans granted to Spanish regional and local governments (namely, *comunidades autonomas*, *diputaciones* and *ayuntamientos*) and public corporations related to those administrations (i.e. entities incorporated under public administration laws as opposed to private sector companies participated by public administrations) such as universities, *patronatos* or *institutos*. It is worth noting that under Spanish laws such debtors cannot go bankrupt nor can be liquidated. Thus, in most instances, the recovery process consists in the restructuring or refinancing of the distressed administration's debt.

EXCERPT FROM MOODY'S SPECIAL COMMENT "*SPANISH REGIONAL GOVERNMENTS: SYSTEM OUTLOOK*", OCTOBER 2003

Spanish Legal Framework and Administrative Structure for Regional and Local Governments

The Spanish administration system could be described as 'unitary decentralised', still strongly co-ordinated from the centre but with a tendency towards gradual decentralisation. The current system was enshrined in the 1978 Constitution and allowed for a greater degree of regional autonomy than previously, with four main administrative levels: (1) the Central Government; (2) 17 Autonomous Communities (i.e. the regions); (3) 50 Provinces and (4) over 8,000 Municipalities. Within the autonomous communities (Comunidades Autónomas - CCAA) two types emerged as a consequence of the 1978 Constitution: on one side the 15 regions under the 'common' regime and the Basque Country and Navarra, which fall under the "foral" regime.

Outlook Remains Positive

Moody's positive outlook for the Spanish regional governments (Comunidades Autónomas or CCAA) reflects the soundness of the new financing system put in place in 2002 -which we view as promoting strong system cohesiveness- and the expected budgetary discipline required under the national Budget Stability Law, which calls for overall balanced budgets as of 2003. The financing system also covers the regional governments' basic needs for specific services such as healthcare, thus providing additional safeguards and limited year-on-year guarantees for three years.

Initial Positive Outcomes of The New Financing System and the Balanced Budgets Law

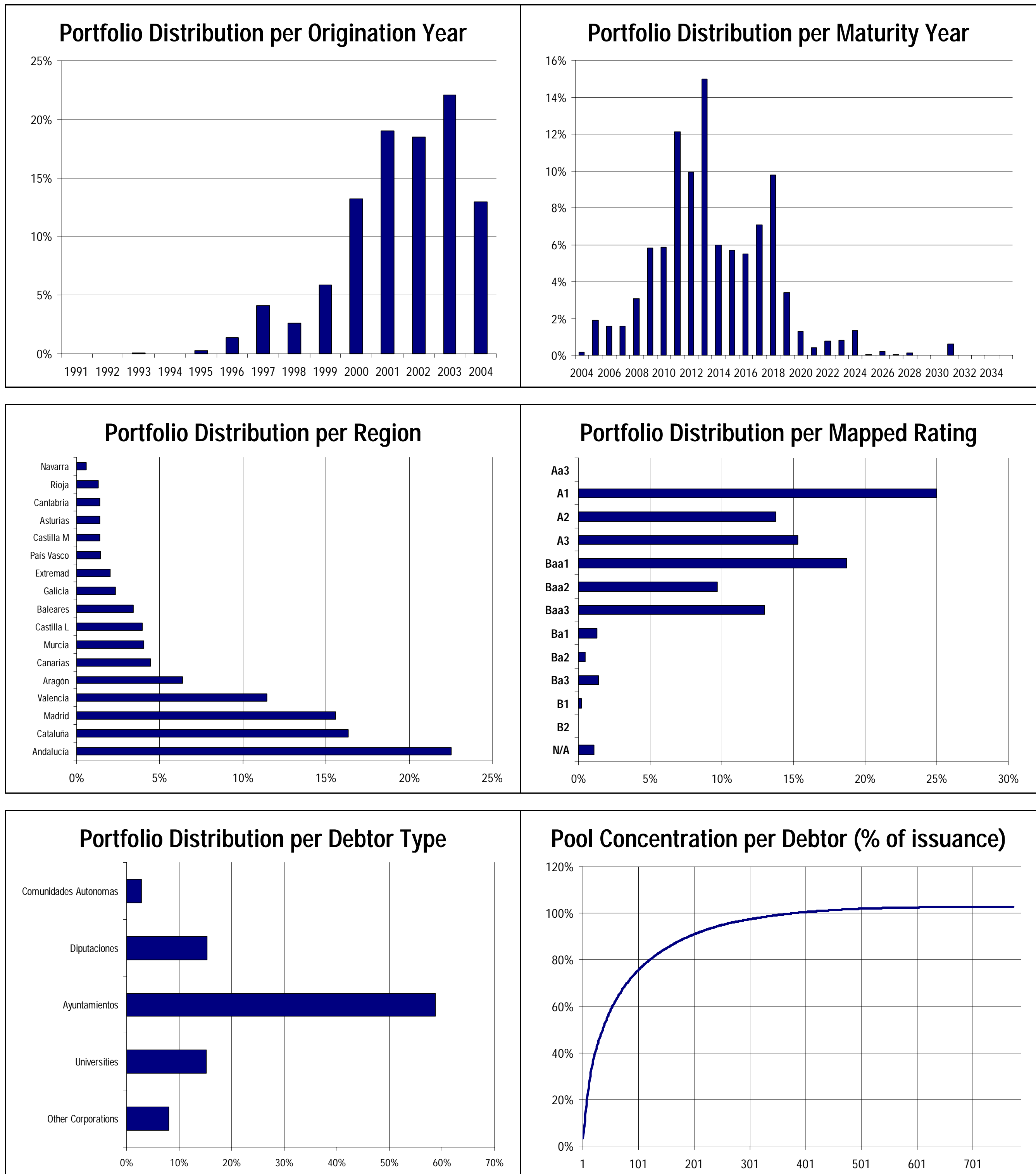
January 2002 was the starting point for the new financing system as jointly agreed by CCAA and the central government in 2001. The new system unified for the first time all of the CCAA's financing needs and included the healthcare responsibility to the basket of competences fully managed at the regional level. Under the system, all responsibilities, both old and new, are designed to be funded through the following three major revenue sources:

1) Direct taxes: Even though collected at the central government level, the CCAA are entitled to a 33% share in personal income tax for example. The CCAA also receive other direct taxes like inheritance/gift tax and patrimonial tax.
2) Indirect taxes: These amount to an average of 40% of the CCAA's total income. One of the important taxes there is VAT of which the CCAA receive a 35% share. Special taxes are the other major source. Indirect taxation has been designed to cover the extra needs arising from the transfer of several competences to the regional governments. Its weight in regional governments' revenues is expected to increase further going forward.
3) The "Fondo de Suficiencia": This Fund comprises transfers from the central government to "bridge the gap" between the regions' revenues under the new system as opposed to the old one, taking 1999 as a base year. The "Fondo de Suficiencia" will grow annually in line with taxes in the whole system, thus including a certain relative minimum development in line with the rest of the country.

A well seasoned pool, geographically diversified, although including large exposures to some debtors.

SCH has provided Moody's with historical information showing that from 1998, 16 loans have been written-off from the bank's public administrations loan book, for a total amount of €1.2 million (roughly 50% of which having been recovered since then, 50% are still in the process of being recovered and only €8,390 being definitively lost). As of September 2004 SCH public administrations loan book amounted to €5.5 billion.

As of 16 November 2004, the provisional portfolio was made up of 1,515 loans for a total amount of €1,902,599,258. The loans have been originated between 1991 and July 2004 with a weighted average seasoning of 2.9 years and a weighted average remaining maturity of 9.3 years. Based on a mapping of SCH internal ratings assigned to the debtors, Moody's assumed a weighted average default probability of the pool consistent with a **Baa1**.



The originator represents and guarantees that, as of the transfer date:

- All the loans will be current
- There has been no breach under any loan agreements
- The loans have been originated during SCH ordinary course of business
- The loans have been formalised under public deed
- The loans and their security are valid and enforceable
- The loans are denominated in euro, and are not subject to any withholding.

ORIGINATOR, SERVICER AND MANAGEMENT COMPANY

SCH, the largest financial group in Spain, will act as servicer

With around €357 billion worth of total assets in June 2004, SCH is the largest banking group in Spain, enjoying impressive market shares and holding a strongly competitive position spanning all business segments. The bank also enjoys a particularly dominant position in the domestic mutual funds business, with a 28%share of the market and with a 18% share in domestic individual pension funds at year-end 2002. In other areas, the group holds the following shares: 21%in assets, 16%in loans and 19% in customer funds.

SCH's ambition is to be a large financial group in the Iberian Peninsula – in Portugal, the bank owns Banco Totta y Açores (rated **A1**/**C+**/**P-1**), the fourth-largest banking group –and to become one of the leading players in Europe. Along these lines and aware of its very high reliance outside Spain on its Latin American franchise, 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. (rated **Aa3**/**P-1**). More recently, SCH has announced an offer to purchase Abbey National (rated **Aa3**/**B**/**P-1**), Britain's sixth-largest bank and second-largest mortgage lender for €12.8 billion (financed via €12.3 billion of SCH shares and a €500 million cash offer). The acquisition proposal, which is still subject to the approval of both banks and shareholders, as well as regulatory approvals, would create one of Europe's largest financial groups. The bank expects the process to be completed in December 2004.

SCH will act as servicer, managing the securitised assets with the same dedication, expertise and diligence as for its own loans. SCH, as servicer, will be liable for any negligence causing a loss to the Fondo.

SCH will transfer the proceeds of the loans to the treasury account two days after collection. Any renegotiation of the terms and conditions of the loans is subject to the management company's approval. However, initially, the management company authorises SCH to (1) renegotiate the interest rate of any loan and (2) extend the maturity of the loans provided that no renegotiated maturity is later than January 2032.

Santander de Titulización will act as management company

The management company, Santander de Titulización, is an experienced company in the Spanish securitisation market, managing 29 fondos exclusively related to the securitisation of SCH group assets. Santander de Titulización is fully owned by SCH group.

MOODY'S ANALYSIS

Moody's used a Monte-Carlo simulation to derive the gross loss distribution of the portfolio, and a cash flow model to determine the notes losses under each gross loss scenario

Given the number of assets and size of the exposures in the portfolio, Moody's derived the gross loss distribution through a two-factor Monte-Carlo approach, rather than assuming that it follows a given general density law.

Two basic parameters to be assessed as main inputs for the model are as follows:

- The default probability of each single entity
- The correlation structure among the different regions represented in the portfolio

The default probability has been primarily derived from the mapping of SCH internal ratings assigned to the securitised debtors.

As regards the correlation structure, Moody's split the portfolio into 17 different regions and, with the purpose of reflecting the diversity shown by the exposures in the securitised portfolio, Moody's made different assumptions, both for the asset correlation within one region and between assets in different regions (the two factors in the Monte-Carlo model).

The Monte-Carlo simulation was then run, incorporating each exposure's size, default probability and implied asset correlation, thus determining the gross loss probability distribution for the portfolio.

On the basis of this distribution (as well as other assumptions for recoveries, delinquency and prepayments), Moody's built a cash flow model that reproduces all deal-specific characteristics. The sensitivity to a variation in the initial assumptions was also tested. Weighting each gross loss scenario's severity on the notes by its probability of occurrence, Moody's calculated the expected loss level for each series of notes which, combined with each series' expected average life, is consistent with the ratings assigned.

Structural and legal analysis

Moody's considers how the cash flows generated by the collateral are allocated to the parties within the transaction, and the extent to which various structural features of the transaction may provide additional protection to investors, or act as a source of risk themselves.

Moody's makes sure that the legal documents correctly reflect the structure of the deal, as well as the assumptions made in its analysis.

RATING SENSITIVITIES AND MONITORING

Moody's will monitor the 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 in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

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