

Ratings Raised In Spanish SME CLO Transaction BBVA-3 FTPYME Following Increased Credit Enhancement And Criteria Updates

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OVERVIEW

- Since our previous review of BBVA-3 FTPYME in April 2012, credit enhancement has increased for all of the rated notes.
- We have reviewed BBVA-3 FTPYME under our SME CLO and current counterparty criteria.
- We have also applied our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating.
- Following our review, we have raised our ratings on the class B and C notes.
- BBVA-3 FTPYME is a single-jurisdiction cash flow CLO transaction backed by SME loans. It closed in December 2004 and is currently amortizing.

LONDON (Standard & Poor's) Dec. 18, 2014--Standard & Poor's Ratings Services today raised its credit ratings on BBVA-3 FTPYME, Fondo de Titulizacion de Activos' class B and C notes (see list below).

Upon publishing our updated criteria for rating single-jurisdiction securitizations above the sovereign foreign currency rating (RAS criteria), we placed those ratings that could potentially be affected "under criteria observation" (see "[EMEA Structured Finance, Covered Bond, And Multicedulas Ratings Placed Under Criteria Observation](#)" and "[Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance](#)," published on Sept. 18, 2014 and Sept. 19, 2014, respectively).

Following our review of this transaction, our ratings that could potentially be affected by the criteria are no longer under criteria observation.

We have used data from the September 2014 investor report to perform our analysis and have applied our European small and midsize enterprise (SME) collateralized loan obligation (CLO) criteria and our current counterparty criteria (see "[European SME CLO Methodology And Assumptions](#)," published on Jan. 10, 2013, and "[Counterparty Risk Framework Methodology And Assumptions](#)," published on June 25, 2013). We have also applied our RAS criteria.

BBVA-3 FTPYME is a single-jurisdiction cash flow CLO transaction securitizing a portfolio of SME loans that Banco Bilbao Vizcaya Argentaria, S.A. originated in Spain. The transaction closed in December 2004.

CREDIT ANALYSIS

We have applied our European SME CLO criteria to determine the scenario default rates (SDRs)--the minimum level of portfolio defaults that we expect each tranche to be able to withstand at a specific rating level using CDO Evaluator.

To determine the SDR, we adjusted the archetypical European SME average 'b+' credit quality to reflect the following factors: Country, originator, and portfolio selection.

We ranked the originator into the moderate category (see tables 1, 2, and 3 in our European SME CLO criteria). Taking into account Spain's Banking Industry Country Risk Assessment (BICRA) score of 6, we have applied a downward adjustment of one notch to the 'b+' archetypical average credit quality (see "[Banking Industry Country Risk Assessment Update: December 2014](#)," published on Dec. 8, 2014). Due to the absence of information on the creditworthiness of the securitized portfolio compared with the originator's entire loan book, we further adjusted the average credit quality by three notches (see table 4 in our European SME CLO criteria).

As a result of these adjustments, our average credit quality assessment of the portfolio was 'ccc', which we used to generate our 'AAA' SDR of 79.02%.

We have calculated the 'B' SDR, based primarily on our analysis of historical SME performance data and our projections of the transaction's future performance. We have reviewed the portfolio's historical default data, and assessed market developments, macroeconomic factors, changes in country risk, and the way these factors are likely to affect the loan portfolio's creditworthiness. As a result of this analysis, our 'B' SDR is 10.50%.

We interpolated the SDRs for rating levels between 'B' and 'AAA' in accordance with our European SME CLO criteria.

RECOVERY RATE ANALYSIS

At each liability rating level, we applied a weighted-average recovery rate (WARR) by considering observed historical recoveries. As a result of this analysis, our WARR assumptions in 'AA' and 'A+' scenarios were 33% and 36%, respectively.

CASH FLOW ANALYSIS

We used the portfolio balance that the servicer considered to be performing, the current weighted-average spread, and the above weighted-average recovery rates. We subjected the capital structure to various cash flow stress scenarios, incorporating different default patterns and interest rate curves, to determine the rating level, based on the available credit enhancement for each class of notes under our European SME CLO criteria.

COUNTRY RISK

Our long-term rating on the Kingdom of Spain is 'BBB'.

In our opinion, both the class B and C notes have sufficient credit enhancement to withstand the sovereign default stress test. This hypothetical scenario is derived from our observation of macroeconomic conditions that occurred after several sovereign defaults where we characterize the degree of stress as "severe" in our rating definitions criteria (see "[Understanding Standard & Poor's Rating Definitions](#)," June 3, 2009). Therefore, under our RAS criteria, both the class B and C notes can be rated above the sovereign.

Since, according to our RAS criteria, SMEs have a moderate sensitivity to country risk, the notes can be rated up to four notches above the rating on the Kingdom of Spain. Taking into account the increased credit enhancement and the application of our RAS criteria, we have raised our rating on the class C notes to 'A+ (sf)' from 'B+ (sf)'.

In addition, the class B notes meet all six of the conditions in paragraph 48 of the RAS criteria. We can therefore assign a rating up to a maximum of six notches (two additional notches of uplift) above the sovereign rating. Taking into account the increased credit enhancement and the application of our RAS criteria, we have raised our rating on the class B notes to 'AA (sf)' from 'A

(sf) '.

STANDARD & POOR'S 17G-7 DISCLOSURE REPORT

SEC Rule 17g-7 requires an NRSRO, for any report accompanying a credit rating relating to an asset-backed security as defined in the Rule, to include a description of the representations, warranties, and enforcement mechanisms available to investors and a description of how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities. The Rule applies to in-scope securities initially rated (including preliminary ratings) on or after Sept. 26, 2011.

If applicable, the Standard and Poor's 17g-7 Disclosure Report included in this credit rating report is available at <http://standardandpoorsdisclosure-17g7.com>.

RELATED CRITERIA AND RESEARCH

Related Criteria

- [Global Framework For Assessing Operational Risk In Structured Finance Transactions](#), Oct. 9, 2014
- [Methodology And Assumptions For Ratings Above The Sovereign--Single-Jurisdiction Structured Finance](#), Sept. 19, 2014
- [Methodology Applied To Bank Branch-Supported Transactions](#), Oct. 14, 2013
- [Assessing Bank Branch Creditworthiness](#), Oct. 14, 2013
- [Counterparty Risk Framework Methodology And Assumptions](#), June 25, 2013
- [European SME CLO Methodology And Assumptions](#), Jan. 10, 2013
- [Understanding Standard & Poor's Rating Definitions](#), June 3, 2009

Related Research

- [Banking Industry Country Risk Assessment Update: December 2014](#), Dec. 8, 2014
- [Standard & Poor's Ratings Definitions](#), Nov. 20, 2014
- [Ratings On Spain Affirmed At 'BBB/A-2'; Outlook Stable](#), Nov. 14, 2014
- [CDO Evaluator Version 6.3 Released](#), Oct. 20, 2014
- [EMEA Structured Finance, Covered Bond, And Multicedulas Ratings Placed Under Criteria Observation](#), Sept. 18, 2014
- [European Structured Finance Scenario And Sensitivity Analysis 2014: The Effects Of The Top Five Macroeconomic Factors](#), July 8, 2014
- [Global Structured Finance Scenario And Sensitivity Analysis: Understanding The Effects Of Macroeconomic Factors On Credit Quality](#), July 2, 2014
- [European SME Mapping Model](#), Jan. 25, 2013
- [Rating Lowered On Spanish SME CLO Transaction BBVA-3 FTPYME's Class C Notes; Class A2\(G\) And B Notes Affirmed](#), April 12, 2012
- [New Issue: BBVA-3 FTPYME, Fondo de Titulizacion de Activos](#), Jan. 24, 2005

RATINGS LIST

Class	Rating
To	From

BBVA-3 FTPYME, Fondo de Titulizacion de Activos
€1 Billion Floating-Rate Notes

Ratings Raised

B	AA (sf)	A (sf)
C	A+ (sf)	B+ (sf)

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