

**Rating Action: Moody's downgrades junior notes of BBVA 4 PYME Spanish SME ABS**

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**Ratings on senior and mezzanine notes confirmed at A3(sf)**

Frankfurt am Main, November 07, 2012 -- Moody's Investors Service has today downgraded to Caa1(sf) from Ba1(sf) the ratings of the junior notes in BBVA 4 Pyme, FTA, due to insufficient credit enhancement. At the same time, Moody's confirmed the A3(sf) ratings of the senior and mezzanine notes in the transaction. Today's rating actions conclude the review for downgrade initiated by Moody's on 2 July 2012. A full list of affected ratings appears towards the end of this press release. BBVA 4 is an asset-backed security (ABS) transaction backed by loans to Spanish SMEs.

**RATINGS RATIONALE**

"Today's downgrade was prompted by the lack of credit enhancement to protect the junior notes from their exposure to a significant build up in borrower concentration, resulting from the amortisation of the transaction," says Ariel Weil, a Moody's Vice President -- Senior Analyst.

"Conversely, the rating confirmation for the senior and mezzanine notes reflects the steep build up in credit enhancement and limited exposure to counterparty risks, which allows these classes of notes to reach the highest achievable rating for Spanish structured finance transactions of A3" adds Mr. Weil. The confirmation also reflects the fact that the Spanish country ceiling of A3 remained unchanged following the confirmation of Spain's government ratings on 16 October 2012.

**--Rating downgrade for junior notes**

Given the low credit enhancement that the reserve fund provides to the Class C notes, Moody's central scenario is that these notes will experience a default. Moody's assumes a default probability of 6.1% and a recovery rate of 40% for the outstanding pool, translating into an expected loss of 3.7%, which is higher than the size of the credit enhancement for Class C (1.9% of the outstanding notes' balance as of 30 September 2012).

Credit enhancement beneath the Class C notes is also insufficient to protect the notes from experiencing a default if any of the five largest obligors in the pool were to default under their payment obligations. As Moody's relies on statistical data rather than on an individual rating or credit estimate for each underlying loan obligation supporting the notes, it expects the notes' ratings to resist a stressed assessment for any given obligor in the pool. In particular, Moody's expects that a rating in the Ba category will be insulated from the default of any particular obligor in the pool.

More generally, for each obligor contributing more than 3% of the outstanding balance of the pool, Moody's has assumed a default risk commensurate with a Caa3 rating. As the size of the largest obligor exposure in the pool (3.7% of the pool balance as of 30 September 2012) exceeds that of the credit enhancement for the Class C notes, Moody's also assumes the default probability for the Class C notes to be consistent with a Caa3 rating. However, the credit enhancement and large size of the Class C notes (41.0% of the outstanding notes' balance as of 30 September 2012) would mitigate the severity of a default, supporting a higher expected loss rating. Moody's has reflected the benefit of this size effect in a rating at the higher end of the Caa-rating category for the Class C notes.

**--Rating confirmation for senior and mezzanine notes**

The senior and mezzanine, Class A2 and B notes benefit from a large amount of credit enhancement (respectively 71.1% and 43.0% of the outstanding notes' balance as of 30 September 2012), which protects them against both (1) Moody's expected losses on the pool and (2) a default by as many as the largest 20 obligors in the transaction (37.3% of the outstanding pool balance as of 30 September 2012).

The main transaction counterparty, Banco Bilbao Vizcaya Argentaria, S.A. (Baa3, P-3) plays a number of roles in

the transaction, including those of issuer account bank and swap counterparty. Since 7 August 2012, however, the issuer has benefited from a guarantee on the issuer account from the Spanish branch of Société Générale (A2, P-1). In addition, since 20 September 2012, an account has been established with the same bank to receive periodic collateral postings under the swap agreement.

As a result, the credit risk of the Class A2 and B notes is commensurate with the highest rating achievable for Spanish structured finance transactions, which corresponds to the Spanish country ceiling. Following Moody's confirmation of the Spanish government's Baa3 rating on 16 October 2012, the country ceiling has remained unchanged at A3.

--List of Affected Ratings for Issuer: **BBVA4 PYME Fondo de Titulización de Activos**

-**Class C Notes, Downgraded to Caa1(sf)**; previously on 2 July 2012, Ba1(sf) Placed on Review for Downgrade

-**Class A2 Notes, Confirmed at A3(sf)**; previously on 2 July 2012, Downgraded to A3(sf) and Placed on Review for Downgrade

-**Class B Notes, Confirmed at A3(sf)**; previously on 2 July 2012, Downgraded to A3(sf) and Placed on Review for Downgrade

--Rating Methodologies

The considerations described in this press release complement the principal rating methodology for this transaction. The principal methodology used in these ratings was "Moody's Approach to Rating CDOs of SMEs in Europe", published in February 2007. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

--Key Assumptions and Ratings Sensitivity

Moody's update of its key modelling assumptions is described in this press release. While Moody's has not updated its cash flow analysis, it has taken into account the transaction payment structure in assessing the impact of its rating scenarios, including a stress on the default probability of the largest obligors in the transaction. As the senior and mezzanine notes are rated at the Spanish country ceiling, any change to this ceiling would have a strong incidence on the ratings of these securities.

On 21 August 2012, Moody's released a Request for Comment seeking market feedback on proposed adjustments to its modelling assumptions. These adjustments are designed to account for the impact of rapid and significant country credit deterioration on structured finance transactions. If the adjusted approach is implemented as proposed, the rating of the notes affected by today rating action should not be negatively affected. See "Approach to Assessing the Impact of a Rapid Country Credit Deterioration on Structured Finance Transactions", ([http://www.moody.com/research/Approach-to-Assessing-the-Impact-of-a-Rapid-Country-Credit-PBS\\_SF294880](http://www.moody.com/research/Approach-to-Assessing-the-Impact-of-a-Rapid-Country-Credit-PBS_SF294880)) for further details regarding the implications of the proposed methodology changes on Moody's ratings.

## REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on [www.moody.com](http://www.moody.com).

The ratings have been disclosed to the rated entities or their designated agent(s) and issued with no amendment resulting from that disclosure.

Information sources used to prepare each of the ratings are the following: parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.