



Moody's Investors Service

Rating Action: Moody's confirms seniors and downgrades junior notes of Spanish SME ABS BBVA Empresas 1, FTA

Global Credit Research - 17 Nov 2009

Madrid, November 17, 2009 -- Moody's Investors Service has taken today the following actions on the long-term credit ratings of the following notes issued by BBVA Empresas 1, FTA:

EUR1,000.0 million series A1 notes due 2047, confirmed at Aaa, previously placed under review for downgrade on 23 March 2009.

EUR200.0 million series A2 notes due 2047, confirmed at Aaa, previously placed under review for downgrade on 23 March 2009.

EUR121.6 million series A3 notes due 2047, confirmed at Aaa, previously placed under review for downgrade on 23 March 2009.

EUR50.1 million series B notes due 2047, confirmed at A2, previously placed under review for downgrade on 23 March 2009.

EUR78.3 million series C notes due 2039, downgraded to B3, previously Baa3 and placed under review for downgrade on 23 March 2009.

Moody's initially assigned definitive ratings in November 2007.

Today's rating action concludes the rating review resulting from Moody's revision of its methodology for granular SME portfolios in Europe, the Middle East and Africa (EMEA). This revised methodology was introduced on 17 March 2009 and the affected transactions had been subsequently placed on review for possible downgrade on 23 March 2009.

As a result of its revised methodology, Moody's has reviewed its assumptions for BBVA Empresas 1 collateral portfolio, taking into account anticipation of performance deterioration in the current down cycle, and the exposure of the transaction to the real estate sector (either through security in the form of a mortgage or debtors operating in the real estate sector). The deterioration of the Spanish economy has been reflected in the Moody's negative sector outlook on the Spanish SME securitisation transactions ("EMEA ABS, CMBS & RMBS Asset Performance Outlooks," published by the rating agency in July 2009). To date, this transaction has been performing in line with the Spanish SME index. The 90 days cumulative delinquency rate as of September 2009 is 2.83% of original portfolio balance.

As a result of the above, Moody's has revised its assumption of the default probability of the SME debtors to an equivalent rating in the single B-range for the debtors operating in the real estate sector, and in the low Ba-range for the non-real-estate debtors. At the same time, Moody's estimated the remaining weighted average life of the portfolio to equal 2.27 years. As a consequence, these revised assumptions have translated into an increase of the cumulative mean default assumption for the current portfolio equal to 7.71%. This implies a revised cumulative mean default calculation for the entire transaction since closing equal to 5.27% of original portfolio balance. Moody's original mean default assumption was 4.0% of original balance, with a coefficient of variation of 57%. Given the lack of granularity of the portfolio with an effective number of borrowers around 142 and the top 3 debtors representing 7.5% of the current pool balance, the rating agency used an Montecarlo distribution to model gross defaults, with a mean of 7.71% and a coefficient of variation of 47.5%. Stochastic recoveries were modelled, assuming a mean equal to 40%, while fixed values in the 55% to 45% range were tested at closing. The constant prepayment rate (CPR) assumption has been maintained at 5% (similar assumption as of closing).

In summary, Moody's concluded that the negative effects of the revised default assumptions were not fully offset by the increased credit support available for the outstanding series C notes (4.37% of reserve fund + xs spread guaranteed by the swap), and the limited reduction in the remaining life of the portfolio and notes.

BBVA Empresas 1 is a securitisation fund, which purchased a pool of loans granted to Spanish SMEs and corporates by BBVA. At closing, in November 2004, the portfolio consisted of 3,229 loans. The loans were originated between 1993 and 2007, with a weighted average seasoning of 1.69 years and a weighted average remaining term of 6.26 years. Geographically, the pool was concentrated in Madrid (17%), Basque Country (11%) and Valencia (15%). At closing, the concentration in the real estate sector was around 26% of the original pool balance, according to Moody's industry classification.

As of September 2009, the number of loans in the portfolio amounted to 2,228, the weighted average seasoning is 3.6 years and the remaining term is 6 years. The concentration levels per industry and region are similar to the levels at closing with a lower exposure in the building and real estate sector equal to 22% of current portfolio, which is in slightly

below the sector-average concentration in the SME ABS portfolios. The pool factor was 51%.

Moody's ratings address the expected loss posed to investors by the legal final maturity of the notes. 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.

The principal methodology used in rating this transaction was Moody's "Refining the ABS SME Approach: Moody's Probability of Default Assumptions in the rating analysis of granular Small and Mid-sized Enterprise portfolios in EMEA," March 2009 and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website. Further information on Moody's analysis of this transaction is available on www.moody.com. In addition, Moody's published a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moody.com/SFQuickCheck.

Moody's is closely monitoring the transaction. To obtain a copy of Moody's New Issue Report or periodic Performance Overviews, please visit Moody's website at www.moody.com or contact our Client Service Desk in London (+44-20-7772 5454).

Madrid
Alberto Barbachano
Vice President - Senior Analyst
Structured Finance Group
Moody's Investors Service Espana, S.A.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

Paris
Carole Gintz
VP - Senior Credit Officer
Structured Finance Group
Moody's France S.A.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454



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