

Rating Action: Moody's upgrades 32 tranches and downgrades 1 tranche in 19 Spanish ABS-SME deals

Global Credit Research - 10 Mar 2017

Madrid, March 10, 2017 -- Moody's Investors Service has today upgraded the ratings of 32 notes and downgraded the rating of 1 note in 19 Spanish ABS-SME deals.

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF448972 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

Maximum achievable rating is Aa2(sf) for structured transactions in Spain, driven by Local Currency Ceiling (Aa2) of the country.

RATINGS RATIONALE

Please click on this link http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF448972 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosure of the following items:

Key Rationale for Action

Upgrades are prompted by an increase in the credit enhancement available for the affected tranches due to portfolio amortization combined with portfolio performances in line with expectations. The increase in the available credit enhancement is explained by deleveraging such as sequential amortization and/or non-amortizing reserve funds in all transactions but one.

With portfolio amortization, the borrower concentration increases. To take these increased concentration levels into account, Moody's incorporated some sensitivity scenario in its analysis.

In particular, in the cases of BANKINTER 2 PYME, FTA, FTPYME BANCAJA 3, FTA, GC FTGENCAT CAIXA TARRAGONA 1, FTA, GC FTPYME PASTOR 4, FTA, PYME BANCAJA 5, FTA and SANTANDER EMPRESAS 2, FTA, the low number of borrowers remaining in the pool explains significant borrower concentration level (with top 10 borrowers representing between 12.5% and 40.4% of the pool balance). To account for this high level of borrower concentration, additional stress scenario were considered, which constrained the upgrade of some tranches.

In the case of BBVA Empresas 4, FTA, the downgrade of Class A is prompted by a reduction of credit enhancement due to the amortizing reserve fund mechanism combined with the increased borrower concentration levels.

Revision of Key Collateral Assumptions

As part of the rating action, Moody's reassessed its default probabilities (DP) as well as recovery rate (RR) assumptions based on updated loan by loan data on the underlying pools and delinquency, default and recovery ratio update. Moody's maintained its DP on current balance and Recovery rate assumptions due to pool performances in line with expectations.

Counterparty exposure

Today's rating action took into consideration the notes' exposure to relevant counterparties, such as servicer, account banks or swap providers.

Moody's considered how the liquidity available in the transactions and other mitigants support continuity of notes payments, in case of servicer default, using the CR Assessment as a reference point for servicers.

Moody's also matches banks' exposure in structured finance transactions to the CR Assessment for commingling risk, with a recovery rate assumption of 45%.

Moody's also assessed the default probability of the account bank providers by referencing the bank's deposit rating.

Moody's assessed the exposure to the swap counterparties. Moody's considered the risks of additional losses on the notes if they were to become unhedged following a swap counterparty default by using CR Assessment as reference point for swap counterparties.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was "Moody's Global Approach to Rating SME Balance Sheet Securitizations" published in October 2015. The methodology used in rating BBVA Leasing 1, FTA was "Moody's Approach to Rating ABS Backed by Equipment Leases and Loans, published in 15 December 2015". Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS:

Factors or circumstances that could lead to an upgrade of the ratings include: (1) performance of the underlying collateral that is better than Moody's expected, (2) deleveraging of the capital structure, (3) improvements in the credit quality of the transaction counterparties, and (4) reduction in sovereign risk.

Factors or circumstances that could lead to a downgrade of the ratings include: (1) performance of the underlying collateral that is worse than Moody's expected, (2) deterioration in the notes' available credit enhancement, (3) deterioration in the credit quality of the transaction counterparties, and (4) an increase in sovereign risk.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

The analysis relies on an assessment of collateral characteristics to determine the collateral loss distribution, that is, the function that correlates to an assumption about the likelihood of occurrence to each level of possible losses in the collateral. As a second step, Moody's evaluates each possible collateral loss scenario using a model that replicates the relevant structural features to derive payments and therefore the ultimate potential losses for each rated instrument. The loss a rated instrument incurs in each collateral loss scenario, weighted by assumptions about the likelihood of events in that scenario occurring, results in the expected loss of the rated instrument.

Moody's quantitative analysis entails an evaluation of scenarios that stress factors contributing to sensitivity of ratings and take into account the likelihood of severe collateral losses or impaired cash flows. Moody's weights the impact on the rated instruments based on its assumptions of the likelihood of the events in such scenarios occurring.

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