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New Issue: BBVA Empresas 4 Fondo de Titulización de Activos

€1.7 Billion Floating-Rate Notes

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Ratings Detail

Class	Rating*	Amount (bil. €)	Available credit support (%)	Interest	Legal final maturity
A	AAA (sf)	1.70	36%	Three-month EURIBOR plus 30 bps	Feb. 23, 2040

*Standard & Poor's ratings address timely payment of interest and ultimate payment of principal.

Transaction Participants	
Originator	Banco Bilbao Vizcaya Argentaria, S.A.
Arrangers	Banco Bilbao Vizcaya Argentaria, S.A. and Europea de Titulización S.G.F.T., S.A.
Trustee	Europea de Titulización S.G.F.T., S.A.
Servicer	Banco Bilbao Vizcaya Argentaria, S.A.
Interest swap counterparty	Banco Bilbao Vizcaya Argentaria, S.A.
GIC and bank account provider	Banco Bilbao Vizcaya Argentaria, S.A.
Paying agent	Banco Bilbao Vizcaya Argentaria, S.A.
Underwriters	Banco Bilbao Vizcaya Argentaria, S.A.
Subordinated loan provider	Banco Bilbao Vizcaya Argentaria, S.A.
Startup loan provider	Banco Bilbao Vizcaya Argentaria, S.A.

GIC—Guaranteed investment contract.

Supporting Ratings

Institution/role	Ratings
Banco Bilbao Vizcaya Argentaria, S.A. as GIC provider, bank account provider, and interest swap counterparty	AA/Negative/A-1+

GIC—Guaranteed investment contract.

Transaction Key Features*	
Closing date	July 20, 2010
Collateral	Loans granted to Spanish SMEs
Principal outstanding (bil. €)	1.7
Country of origination	Spain
Concentration	Largest 20 obligors (14.81% of pool). Regional concentration: Catalonia (18.79%), Madrid (16.51%), Andalucía (13.20%), and Valencia (11.96%). Industrial concentration: building construction (16.45%), real estate (14.04%) hotel (9.36%), and wholesale commerce (8.06%). The four major industries represent 47.91% of the pool
Average current loan size balance (€)	333,184.98
Loan size range (€)	625.49 to 333,184.98
Weighted-average interest rate (%)	3.19
Arrears	At closing, no loans were in arrears for more than one month
Redemption profile	Amortizing (91.67%) and bullet (8.33%)

Transaction Key Features* (cont.)	
Excess spread at closing¶ (bps)	50
Cash reserve (%)	36.00
Portfolio type	Static pool

*Pool data as of June 21, 2010. ¶Available through the interest swap contract. SMEs—Small and midsize enterprises.

Transaction Summary

Standard & Poor's Ratings Services has assigned its 'AAA (sf)' credit rating to BBVA Empresas 4 Fondo de Titulización de Activos' €17 billion floating-rate notes.

The originator is Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), the second-largest Spanish banking group. At closing, BBVA sold to the issuer a €1.7 billion closed portfolio of secured and unsecured loans granted to Spanish small and midsize enterprises (SMEs) based in Spain. The issuer purchased the portfolio using the issuance note proceeds.

Notable Features

This transaction is the 14th securitization BBVA has completed of its loans granted to SME and corporate clients. This securitization comprises a mixed pool of underlying mortgage-backed and other guarantee assets.

The ratings on the notes reflect the subordination of the respective class of notes below them, the reserve fund, the presence of the interest rate swap (which provides excess spread of 50 bps), comfort provided by various other contracts, the rating on BBVA (AA/Negative/A-1+), and the downgrade language in some of that entity's roles, including that of servicer.

Strengths, Concerns, And Mitigating Factors

Strengths

- Credit enhancement adequately covers the various stresses we applied to the transaction. Credit enhancement comprises the available excess spread, and the subordinated loan that fully funded the reserve fund on the closing date.
- Of the pool, 42.69% represents secured mortgage loans, which benefit from a higher level of recoveries than unsecured loans.
- The swap structure provides support to the rated notes. We have given credit for this in our cash flow analysis (see "Interest swap agreement").

Concerns and mitigating factors

- There is borrower concentration risk, as the top 20 borrowers represent 14.81% of the final pool and the biggest borrower represents 1.01 % of the pool. We took borrower concentrations into account in our credit analysis when stressing the default rates at each rating level.
- There is a limited geographical concentration risk, as 60.46% of the pool is concentrated in four regions: Catalonia (18.79%), Madrid (16.51%), Andalucía (13.20%), and Valencia (11.96%). We took geographical concentrations into account in our credit analysis.

- In our view, industry concentration is also a concern for the transaction, as 30.49% of the pool comprises SMEs in the real estate and construction sectors. In particular, we believe the 12.32 % of the pool granted to developers are likely to be the most vulnerable to real estate market performance fluctuations. The real estate sector is significant in the SME economy and none of these loans implies construction risk for the issuer. We have taken into account industry concentration in our credit analysis.
- A percentage of the loans have a higher level of risk due to their amortization profile: of the loans in the securitized pool, 8.33% follow a bullet amortization profile. Borrowers on this type of loan repay principal due in one lump sum at maturity. We took into account loan amortization profiles in our credit and cash flow analysis.
- As in the previous BBVA SME transaction (BBVA Empresas 3), in this transaction principal amortization of the notes accelerates if there are loans more than 18 months past due—instead of loans more than 12 months past due, as observed in other BBVA transactions. This process uses trapped excess spread and the amount equivalent to the outstanding balance of those overdue loans. Extending the default definition from 12 to 18 months is less beneficial to the noteholders, as excess spread will pass on from the collateral to the structure six months before being used to repay the noteholders.
- The reserve fund can start amortizing after three years if it reaches 72% of the outstanding balance of the class A notes. Subject to a floor of half of its initial value, the transaction must meet certain conditions to amortize the reserve fund (see "Cash reserve").
- The originator sweeps collections weekly from the collection account to the issuer's account, generating commingling risk. As long as BBVA is rated 'A-1+', the weekly sweep of collections will have no effect on commingling risk. Under the transaction documentation, if we were to downgrade BBVA below 'A-2', it would accelerate to daily sweeps to the issuer's account to partially mitigate commingling risk.

Trustee Or "Sociedad Gestora"

Europea de Titulización S.G.F.T., as trustee, enters into certain contracts on the issuer's behalf (such as GICs, a swap agreement, and subordinated credit facilities and loans). These contracts are needed to protect it against certain credit losses and liquidity shortfalls that we assume to arise in connection with the holding of the mortgage participations and the unsecured loans.

In this transaction, the trustee's main responsibilities are to create the issuer, issue the notes on the issuer's behalf, calculate the interest rate on the notes, notify noteholders of any relevant information applicable to the notes and mortgage participations, and organize the annual audit.

Banco Bilbao Vizcaya Argentaria, S.A.

The ratings on Spain-based BBVA reflect our view of the bank's strong franchise in its core markets, above-average financial performance, and conservative management. In our opinion, its good performance and credit risk management somewhat offset its higher reliance on emerging markets, deteriorating asset quality, and lower degree of diversification than for some international peers.

In our view, BBVA enjoys strong operating profitability across all business units. We believe that the bank will maintain this profitability, which should help it weather the current economic downturn. Its strong profits are the result of the successful creation of solid franchises in various countries, with strong positions in all banking and ancillary businesses in Spain and Latin America, particularly in Mexico. BBVA is now increasing its diversification

by building a cohesive franchise in the southern U.S. after the acquisition of several banks, mainly Compass Bancshares Inc. (A+/Negative/A-1). BBVA benefits from strong efficiency across business units, in our view, driven by a strict cost-control culture and a sales-focused organization.

We expect that BBVA's asset quality will deteriorate in all countries where the bank is present. This will likely increase provisioning needs, putting some pressure on bottom-line profitability. Higher provisions in Spain should be partly compensated for by releasing generic loan loss reserves following Spanish regulation. We believe nonperforming loans (NPLs) will increase significantly in Spain and the U.S. as the economic crisis deepens, in line with the deterioration we saw in the last quarter of 2008. We also believe the cost of risk is going to increase materially in Latin American countries as they become more affected by the global slowdown, particularly in Mexico as the country enters into recession.

We have classified BBVA's capital ratios as satisfactory. In our opinion, the bank's liquidity position has enabled it to manage the liquidity squeeze in a manner commensurate with the current issuer credit rating.

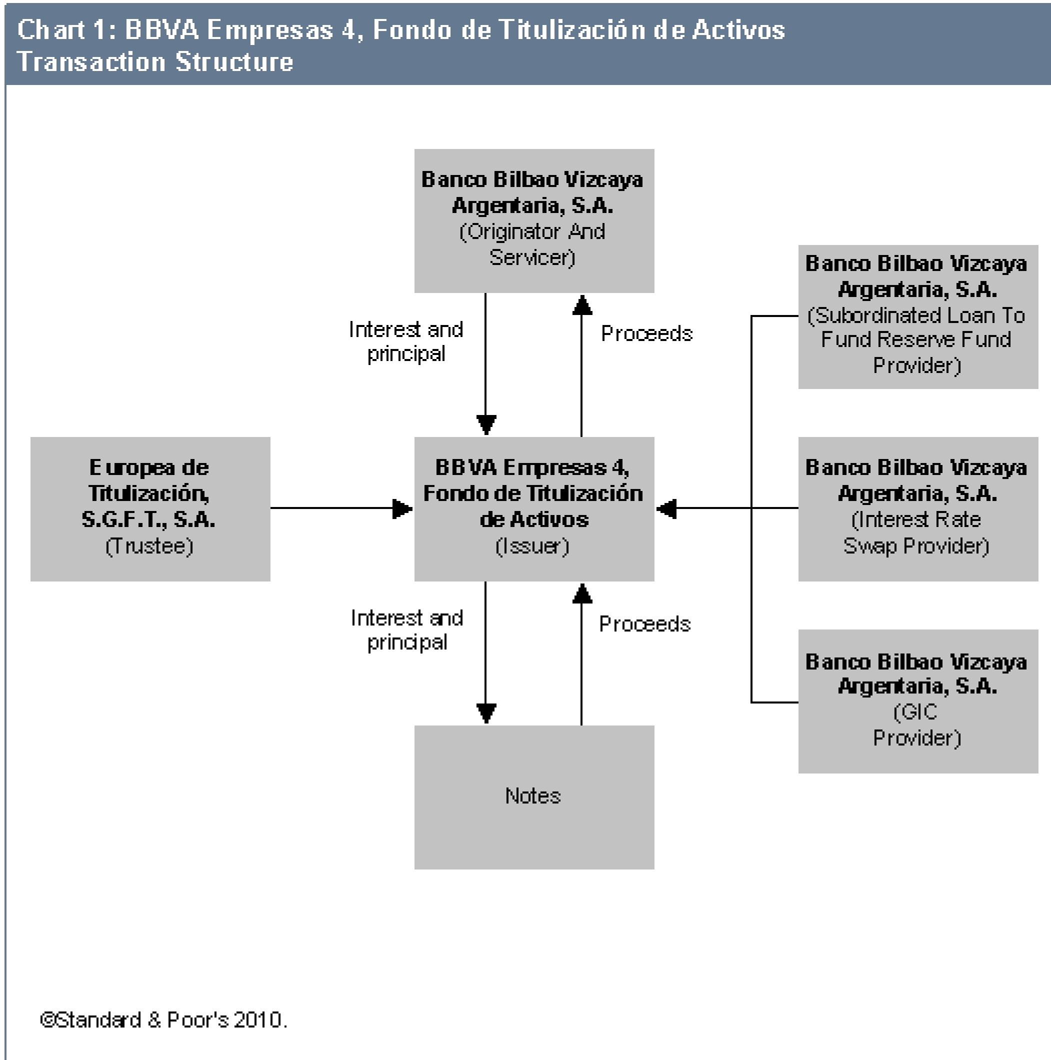
BBVA's asset quality indicators weakened significantly in 2008 and more importantly in 2009 in the context of recessionary conditions in its three largest markets—Spain, Mexico, and the U.S. Nevertheless, BBVA's credit quality continued to outperform peers, particularly in Spain and Mexico, thanks to its well-diversified risk profile and conservative underwriting standards. We expect asset quality deterioration for the group overall to abate and problem assets and cost of risk to peak at manageable levels sometime within the next 12 months. In our assessment of BBVA's asset quality, we also take into account its sound reserve coverage.

We believe capital levels are adequate relative to the bank's risk profile. In our view, BBVA has dealt with episodes of scarce liquidity in the global financial system in a manner commensurate with the current ratings owing to its sound funding structure and conservative liquidity management.

We view BBVA as having high systemic importance within the Spanish banking sector. Our ratings on BBVA include the soft benefits derived from being a bank in a regulated and supervised environment. The ratings on BBVA reflect our opinion of its stand-alone credit profile and do not include any explicit uplift for extraordinary government support.

Transaction Structure

At closing, BBVA Empresas 4 funded the purchase of the closed portfolio by issuing one class of notes through the trustee, Europea de Titulización (see chart 1).



The issuer is a newly created fund, holding a distinct and closed pool of assets, with no replenishment features and noteholders, and having limited recourse to the portfolio backing this issuance.

The issuer is a "fondo de titulización de activos" created for the sole purpose of purchasing the unsecured loans and the mortgage certificates from BBVA, issuing the notes, and carrying out related activities. The assets are insulated from the insolvency of the originator and the trustee.

The issuer pays principal and interest on the notes quarterly following a determined priority of payments. The transaction features some structural enhancements, among them the swap agreement, amortization of the notes, the reserve fund, and BBVA's servicing.

As in other Spanish transactions, interest and principal from the underlying assets are combined into a single priority of payments. A cumulative default ratio test protects senior noteholders by subordinating the payment of junior interest further down the priority of payments.

Cash collection arrangements

BBVA, as servicer, collects the amounts due under the loans and transfers them weekly to the issuer account held at BBVA. The regularity of the cash sweep may accelerate if BBVA's creditworthiness deteriorates and would sweep daily if we lowered its rating below 'A-2'. This partially mitigates the potential risk of funds being commingled within the originator's accounts.

The minimum rating required to be the bank account and GIC provider is 'A-1', so if we downgraded BBVA below 'A-1', it should take remedy actions in accordance with our criteria (see "Related Criteria And Research").

Commingling reserve

To protect against commingling risk, if we downgraded BBVA below a short-term rating of 'A-2', then:

- Within 30 calendar days, the servicer should find an eligible guarantor with at least a short-term rating of 'A-1'. The guarantor should provide the issuer with a first-demand, unconditional, and irrevocable guarantee equal to the commingling reserve amount to be applied to pay any amounts the servicer fails to pay to the issuer for the loans. This amount, if required to be paid, would be deposited in an issuer bank account in accordance with the bank account and cash management agreements. We would expect to review the guarantee at the time the downgrade occurs; or
- Within 10 calendar days, the servicer should deposit in the issuer's bank account an amount equal to the commingling reserve amount to be applied to pay any amounts the servicer fails to pay the issuer for the loans.

On the date this commingling reserve is required, the initial amount should be a sufficient proportion of the principal amount outstanding to avoid affecting the ratings on the notes.

Cash reserve

The structure benefits from a cash reserve fund. On the closing date, a subordinated loan fully funded the reserve fund, which is fixed for the first three years and used by the issuer on each payment date to pay the different items of the priority of payments described below.

The reserve fund required on each payment date is the minimum of:

- 36% of the initial balance of class A; or
- The higher of: (i) 72% of the outstanding principal balance of class A, or (ii) 18% of the initial balance of class A.

After three years have elapsed, the cash reserve account amortizes if the transaction meets the following conditions:

- The outstanding balance of the delinquent loans (loans in arrears for more than 90 days) is lower than 1% of the outstanding balance of the non-delinquent loans in the pool; or
- The reserve fund was at the required level on the previous payment date.

The minimum reserve fund level can never be lower than 9.5% of the initial balance of the class A notes, €306 million.

Interest swap agreement

On the issuer's behalf, the trustee entered into a swap agreement with BBVA. This swap provides protection against adverse interest rate resetting and movements.

The swap covers the interest rate risk, basis risk, and delinquency risk. It gives credit support to the transaction,

given that it covers the substitute servicing fee, the weighted-average coupon on the notes, and guarantees a spread of 50 bps in the transaction.

The issuer pays to the swap counterparty the interest effectively received from the loans during the calculation period. The issuer receives from the swap counterparty an amount equivalent to the weighted-average coupon on the notes plus 50 bps per year over a notional, which is the outstanding balance of the performing loans (up to three months in arrears), and the servicing fee amount.

In accordance with our criteria, in order to be considered as eligible, the counterparty short-term rating has to be at least 'A-1'. If we lower the counterparty rating below 'A-1', it becomes ineligible and, if it is not replaced within the remedy period, we may lower the rating on the notes to a level that the counterparty's then-current rating could support. We would take into consideration the amount of collateral in analyzing the transaction after a counterparty downgrade. Our analysis assumes that a replacement of the ineligible counterparty will occur. However, given the bespoke nature of this swap, it may be difficult to find a replacement. Therefore, the market should understand and consider the risk of downgrade of the transaction if a replacement is not found.

Under the transaction documentation, any counterparty replacement or guarantee is subject to our rating confirmation. The downgraded counterparty bears all the costs of the remedies.

Priority Of Payments

On each quarterly interest payment date, the issuer pays in arrears the interest due to the class A noteholders. To make the payments, the issuer's available funds include the proceeds received under the interest swap, the reserve fund, interest and principal received under the loans, and any other proceeds received in connection with the loans.

The issuer can mix all interest and principal received to pay principal and interest due under the notes in the following order:

- Fees;
- Administration fees;
- Net payments under the swap agreement (other than swap termination payments due to a default or breach of contract by the swap counterparty);
- Interest on the class A notes;
- Amortization of the class A notes;
- Replenishment of the cash reserve;
- Swap termination payments, if any, when the issuer is not the defaulting party;
- Interest and principal payments under the subordinated loan, established to fund the cash reserve;
- Interest payments and principal repayments under the subordinated start-up loan; and
- Cash back to BBVA.

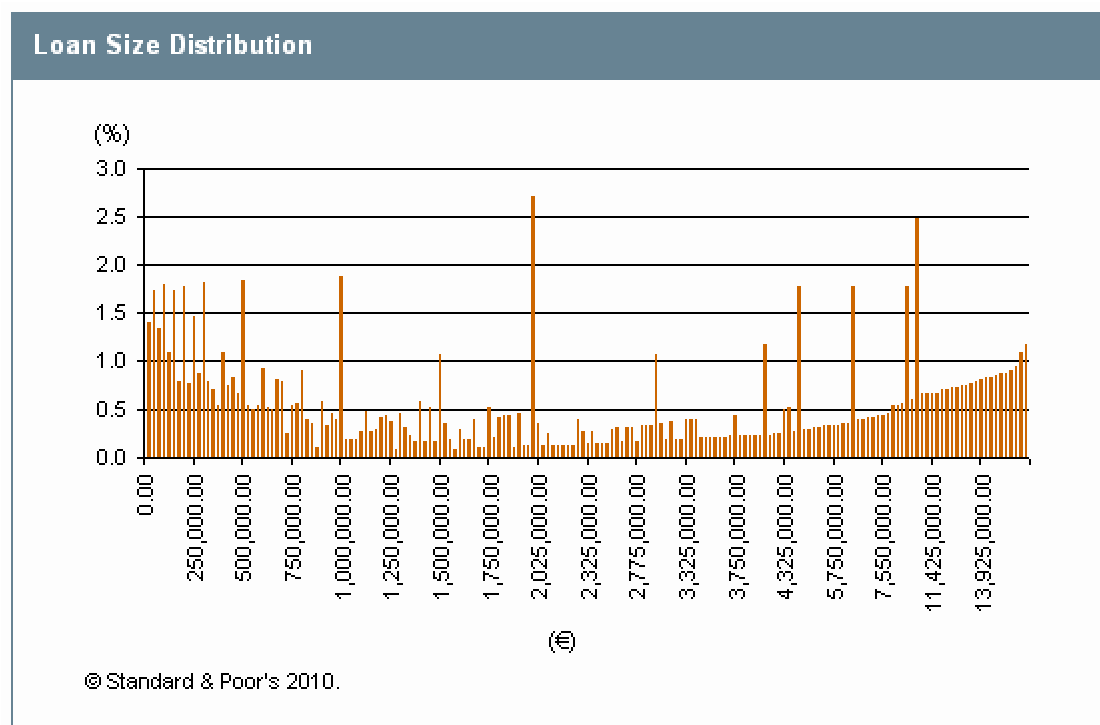
Collateral Description

As of June 21, 2010, the pool comprised 5,915 secured and unsecured loans, and the total number of borrowers was 5,546. BBVA originated the pool between January 2001 and March 2010, and the weighted-average seasoning is 15.9 months.

The pool has concentration at the obligor level. The largest obligor represents 1.01% of the pool and the largest 20 obligors represent 14.81%.

Chart 2 shows the distribution of the portfolio by loan size.

Chart 2



Loans in the pool can follow three different amortization profiles. 61.51% of the loans follow a regular (not constant) amortizing schedule, while a further 30.16% follow a predefined amortization schedule where the borrower amortizes the loan by a certain amount at each redemption date during the life of the loan. The remaining 8.33% of the pool are loans with a bullet amortization schedule, where the entire principal is paid at maturity (see table 1).

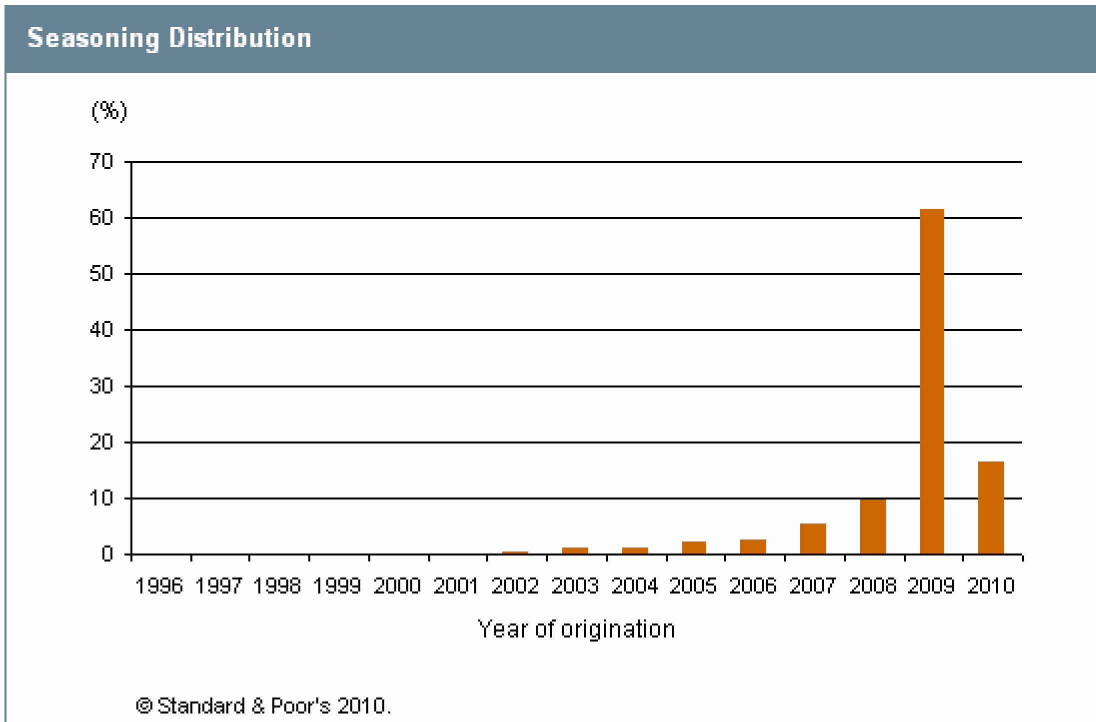
Table 1

Amortization

Amortization profile	Outstanding balance (€)	% of preliminary pool
Bullet amortization	164,196,554.02	8.33
Pre-established amortization	594,397,186.40	30.16
Regular (not constant) amortizing	1,212,195,439.89	61.51
Total		100.00

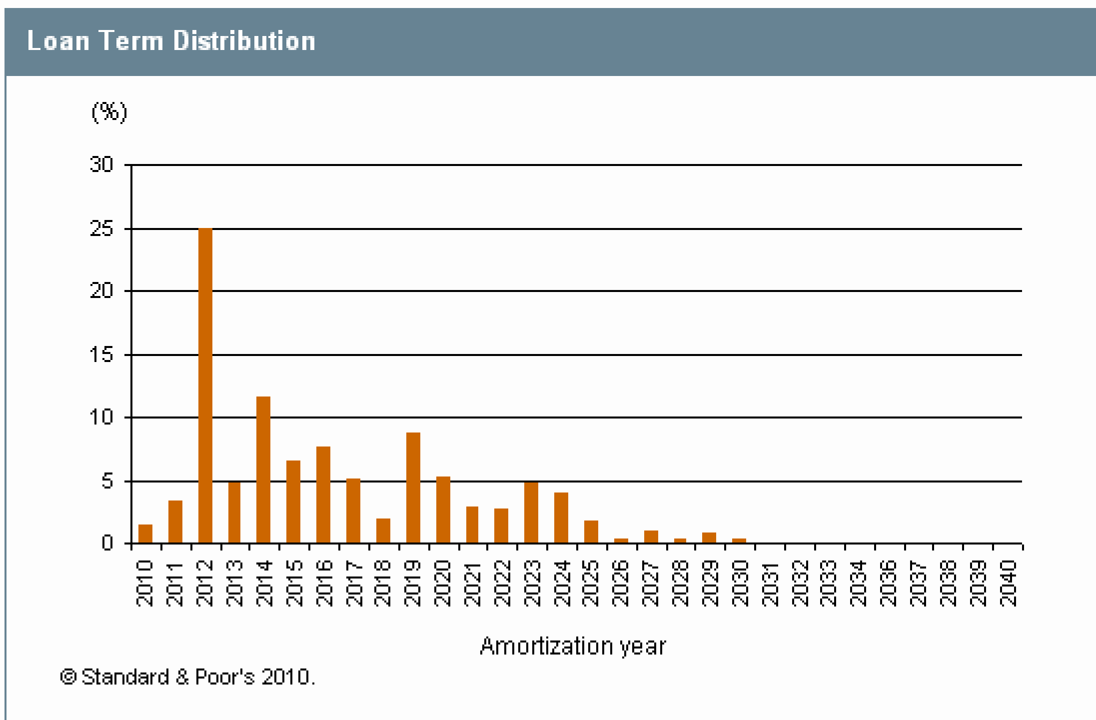
With a weighted-average seasoning of 15.90 months, 75.56% of the loans were originated in 2009 and 2010 (see chart 3).

Chart 3



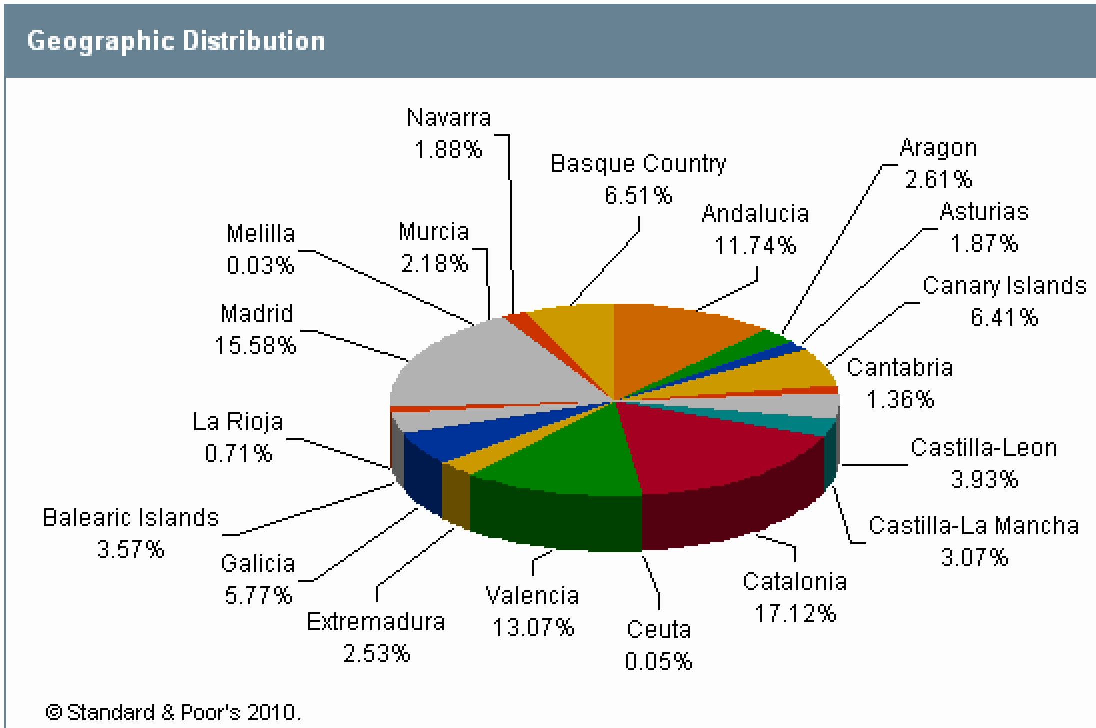
The weighted-average remaining life of the pool is 77.36 months, with 53.67% of the pool maturing within five years (see chart 4).

Chart 4



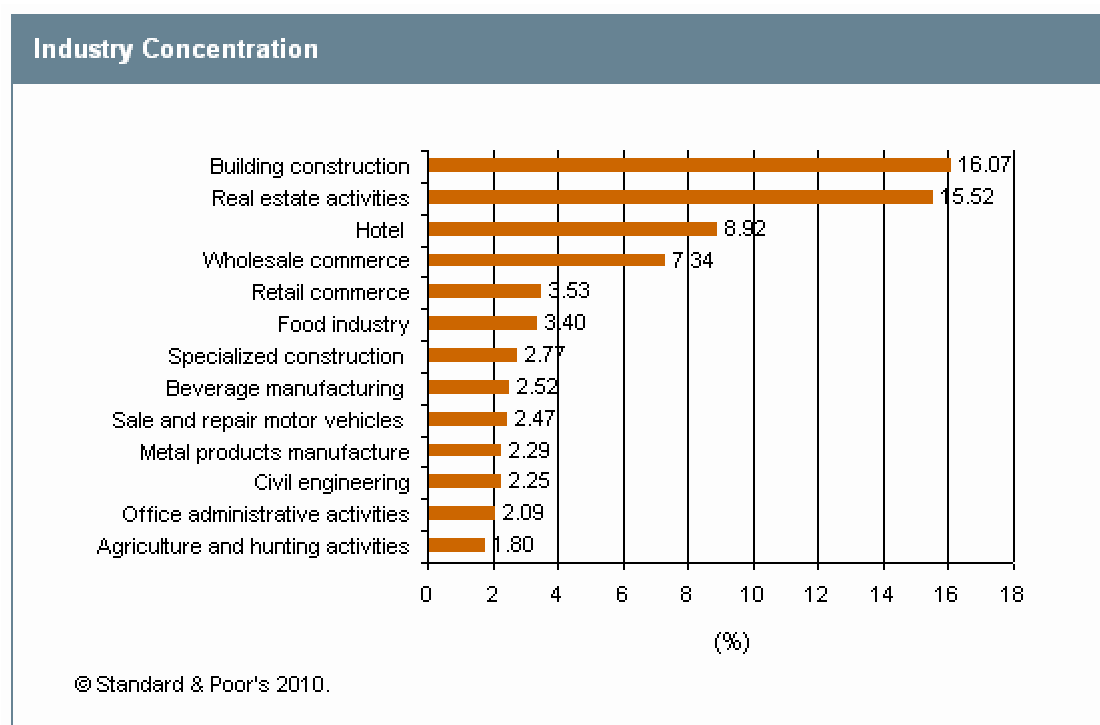
The pool is exposed to different Spanish regions (see chart 5), and at closing the pool had no loans with arrears of more than one month.

Chart 5



The largest industry concentration is building construction, which represents 16.45% of the pool (see chart 6). The second-highest concentration is real estate (14.04%), followed by hotel (9.36%), and wholesale commerce (8.06%). The four major industries represent 47.91% of the pool.

Chart 6



Of the outstanding amount of the pool, 42.69% is secured by mortgages over properties and commercial premises in Spain. Table 2 shows the pool breakdown.

Table 2

Pool Breakdown By Guarantee Type

Type of guarantee	% of preliminary pool
Total secured (mortgage guarantee)	42.69
Total unsecured (no mortgage guarantee)	57.31
Total	100.00
Total secured loans (mortgage guarantee)	23.19
Industrial warehouse	44.52
Retail spaces and offices	18.21
Urban land	9.85
Residential properties	3.66
Rustic land	0.57
Garages	23.19

Of the pool, 76.06% is indexed to floating rates, with 64.95% of the total outstanding amount of the pool referenced to three-month EURIBOR , six-month EURIBOR, and one year EURIBOR (see table 3).

Table 3

Reference Index

Reference index	% of preliminary pool
Total fixed-rate	23.94

Table 3

Reference Index (cont.)	
Total floating-rate	76.06
Floating-rate breakdown	
One-year EURIBOR/MIBOR	15.36
One-month EURIBOR/MIBOR	0.03
11-month EURIBOR/MIBOR	0.05
Two-month EURIBOR/MIBOR	1.38
Three-month EURIBOR/MIBOR	37.39
Four-month EURIBOR/MIBOR	0.01
Five-month EURIBOR/MIBOR	0.07
Six-month EURIBOR/MIBOR	12.20
Mercado Hipot. Bancos	2.82
Mercado Hipot. Conjunto Entid.	0.16
TIPO VAR ICO	6.53
Total	100

EURIBOR—European interbank offered rate. MIBOR—Madrid interbank offered rate.

Concentrations

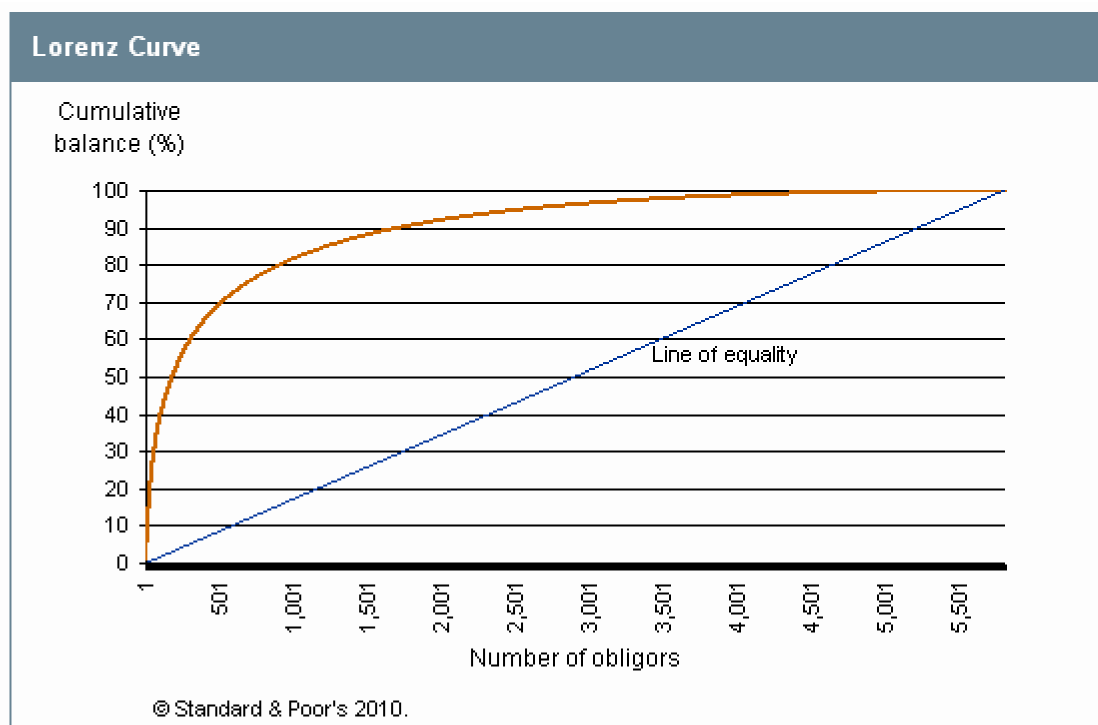
As a part of our analysis, we tested the concentration at each rating level. The results obtained show a moderated concentration in the pool: a Gini Coefficient of 60.55% and a normalized HHI of 0.21%.

The Gini coefficient is a measure of the inequality of a distribution, a value of 0 expressing total equality and a value of 1 maximal inequality. The Gini coefficient is usually defined mathematically based on the Lorenz curve (see chart 7).

The Herfindahl-Hirschman Index (HHI) is a commonly accepted measure of market concentration that considers:

- A result of less than 1,000 to be a competitive marketplace;
- A result of 1,000–1,800 to be a moderately concentrated marketplace and
- A result of 1,800 or greater to be a highly concentrated marketplace.

Chart 7



Credit Analysis

Default rate

We took a stochastic approach to assess the pool's credit risk. We then sized the required credit support for each class of rated notes using CDO Evaluator 5.1. In sizing the portfolio default rates at the respective rating levels , CDO Evaluator took into account our assessment of the internal ratings associated with each asset and the corresponding expected one-year probability of default (1y PD) provided by the originator, the correlation within and between industries, the maturity of each exposure, and the actual asset balance.

We stressed the expected 1y PDs to account for model insufficiencies and used them to categorize all assets into one of our 19 rating categories. For this alignment, we used the corporate default table in CDO Evaluator and the 1y PDs stated therein. We conducted this alignment conservatively, assuring that the associated 1y PD in CDO Evaluator is always greater than the 1y PD from the originator. Thus, we input the entire portfolio into CDO Evaluator to determine the portfolio's expected default frequency. CDO Evaluator computed the cumulative default rates for each rating level along the capital structure using Monte Carlo simulations.

Recoveries

We examine loss given defaults (LGDs) on a loan-level basis. We then apply haircuts to the implied recoveries, i.e., 1-LGD. Once we obtain the resulting recovery rate for each individual loan, we calculate a weighted-average pool recovery. We carry out the exercise separately for each rating scenario, as more conservative haircuts apply, the higher the rating stress. Thus, we achieve a tiered recovery rate simulation in accordance with the rating on the notes.

Cash Flow Analysis

Prepayments

Prepayments correspond to the early exercise of the purchase option by loans and credit receivables. We stressed the annual prepayment rate up to 24.0% and down to 0.5%.

Yield

We modeled the spread guaranteed by the asset swap.

Commingling

We did not model any commingling stress in the structure, as there is downgrade language to set up a contingent commingling reserve if the servicer is downgraded below 'A-2' (see "Commingling reserve" above).

Timing of defaults

We assume defaults occur periodically in amounts calculated as a percentage of the default rate. Table 4 shows the timing of defaults.

Table 4

Timing Of Defaults

Default pattern	Months when applied
Equal	
1/3	1
1/3	13
1/3	25
Slow (%)	
5	7
5	13
10	19
20	25
30	31
30	37
Fast (%)	
30	1
30	7
20	13
10	19
5	25
5	31
Standard back (%)	
15	1
30	7
30	13
15	19
10	25

Table 4

Timing Of Defaults (cont.)	
Standard front (%)	
40	7
20	13
20	19
10	25
10	31
Standard five years even (%)	
20	7
20	13
20	19
20	25
20	31
Standard four years even (%)	
25	7
25	13
25	19
25	25

Timing of recoveries

For this transaction, we assumed a lag of recoveries on the defaulted assets of 50% recoveries coming on 21 months after a payment default, and the other 50% of recoveries on the defaulted assets coming on 42 months after a payment default. The value of recoveries is 100% minus the loss severity we assume at each rating level.

Interest and prepayments rate

We modeled three interest rate scenarios—up, down, and flat—using both high and low prepayment assumptions. Interest rates were 1% at the time of modeling and we modeled them to rise by 2% a month, to a cap of 12% ("up" scenario) and a floor of 0% ("down" scenario).

Scenario Analysis

As part of a broad series of measures that we announced in 2008 to enhance our analytics and dissemination of information, we have committed to provide a "what-if" scenario analysis in rating reports to explain key rating assumptions and the potential effect of positive or negative events on the ratings.

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses;
- Results of the effects of the stresses on ratings; and
- Results of the effects of the stresses on our cash flow analysis.

Methodology

When rating European asset-backed securities (ABS) transactions, we have developed a scenario analysis and sensitivity-testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a

transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities, there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis, we focused on the three fundamental drivers of collateral performance, namely:

- Gross default rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the stress scenarios proposed reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis, we have included two stress scenarios to demonstrate the rating transition of a note, as follows.

Scenario 1:

- Default rate : 30% negative portfolio migration;
- Recovery rate: Increase the relative haircut by 15%.

Scenario 2:

- Default rate: 60% negative portfolio migration;
- Recovery rate: Increase the relative haircut by 30%.

It is worth noting that our base-case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated bonds in each transaction will differ depending on these factors, in addition to structural features of the transaction, including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage, we stress our expected base-case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume the stresses that we apply occur at closing, with gross losses applied based on our expectation of a cumulative default curve for the portfolio.

The second stage applies our usual rating methodology, including revising our base-case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment. In the final stage of the analysis, we re-rate the transaction at the one-year horizon, after revising our base-case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes given the applied stresses and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

Scenario stress and sensitivity analysis

When applying scenario stresses in the manner described above, the results of this modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modeling (see table 5).

Table 5

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	AAA	AA
Scenario 2	A	AAA	AA-

Surveillance

We have seen the performance of Spanish securitizations backed by loans to SMEs that we rate continue to decline in line with the ongoing deterioration in the Spanish economy. According to Bank of Spain statistics, the number of nonperforming loans granted by Spanish financial entities had increased to 4.4% by April 2009, almost quadruple what it was at the start of 2008 and the highest level for 13 years. At the same time, Spanish SME transactions that we rate reported their highest delinquency rates across all arrears buckets. As of April 2009, the weighted-average of 90-365 day delinquent loans represented 2.29% of the outstanding collateral balance of the transactions we rate, up from 0.30% in January 2008.

Gross cumulative default levels in the pools underlying the Spanish SME transactions we rate are increasing significantly, albeit from a very low base. Since Spanish SME transactions typically feature a structural mechanism that traps excess spread to provide for defaults, in the current environment a greater number of transactions have drawn on their cash reserves over the past few months. Prepayment rates have also slightly increased since the start of the year. In our view, this is partially due to certain securitized loans being renegotiated and, as a result, fully repaid ahead of their scheduled maturity.

We remain concerned about the continued property market contraction and its knock-on effect on Spanish SME transactions because, on average, they have more than 30% exposure to the real estate and construction sectors. In general, transactions with a higher exposure to these sectors are reporting higher levels of delinquent loans as a percentage of their outstanding balance. However, we believe that shrinking levels of consumption may lead to a decline in demand, not just for real estate and construction, but for a wider range of industries, potentially reducing borrowers' business and their ability to repay debts.

Delinquencies and severe delinquencies for BBVA-originated SME transactions are in line with the Spanish SME index constant prepayment rate (CPR), and construction and real estate concentration levels are also in line with the Spanish SME Index. For further information, see "Spanish SME Performance Report: Delinquencies For Spanish SME Asset-Backed Securities Transactions Reach A New High," published July 23, 2009, and "Spanish SME ABS Collateral Deterioration Focused On Construction Sector And Coastal Regions," published Dec. 17, 2009.

We maintain continual surveillance on the transaction until the notes mature or are otherwise retired. To do this, we analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, assess pool cuts, and make regular contact with the servicer to ensure that minimum servicing standards are sustained and that any material changes in the servicer's operations are communicated and assessed.

Key performance indicators for this transaction include:

- Rating migration of the collateral and default levels;
- Different concentrations of the collateral;
- Collateral prepayment levels;
- The evolution of the ratings on the supporting parties; and
- Increases in credit enhancement for the notes.

Related Criteria And Research

- Revised Framework For Applying Counterparty And Supporting Party Criteria, May 8, 2007
- European Legal Criteria for Structured Finance Transactions, Aug. 28, 2008
- Global Interest Rate and Currency Swaps: Calculating the Collateral Required Amount, Feb. 26, 2004
- Standard & Poor's Global Interest Rate and Swap Counterparty Rating Criteria Expanded, Dec. 17, 2003
- Global Cash Flow and Synthetic Criteria, March 21, 2002
- Global CBO/CLO Criteria, June 1, 1999
- Standard & Poor's Rating Methodology for CLOs Backed By European Small- And Midsize-Enterprise Loans, Jan. 30, 2003
- Securitizing Spanish-Originated Loans To Small And Midsize Enterprises, April 7, 2003
- Spanish SME Performance Report: Delinquencies For Spanish SME Asset-Backed Securities Transactions Reach A New High, July 23, 2009
- Spanish SME ABS Collateral Deterioration Focused On Construction Sector And Coastal Regions, Dec. 17, 2009

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

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