

Rating Action: Moody's confirms ratings in 4 BBVA Spanish ABS transactions

Global Credit Research - 29 Jan 2014

Madrid, January 29, 2014 -- Moody's Investors Service has today confirmed the ratings of two junior notes and one senior note in three Spanish asset-backed securities (ABS) transactions backed by loans to small and medium-sized enterprises (SME ABS) transactions: BBVA Empresas 3, FTA; BBVA Empresas 4, FTA and BBVA Empresas 5, FTA. Moody's Investors Service has also confirmed the ratings of the junior notes in one Spanish ABS transaction backed by consumer loans: BBVA Consumo 4, FTA. A detailed analysis of swap counterparty exposure has prompted today's confirmations.

The other ratings in these deals, which were not on review for downgrade, have been affirmed.

The affected notes rating already incorporated a strong level of credit linkage to BBVA as sole provider of the credit enhancement. Despite this, the additional exposure to BBVA acting as swap counterparty had no impact on the ratings given the massive credit enhancement that the reserve funds provide to the junior notes in the four deals (ranging from 46% to 140% of the notes' balances).

Today's rating action concludes the review of the ratings in these four Spanish ABS transactions, which Moody's placed on review on 14 November 2013. The review reflected the swap counterparty exposure following Moody's introduction of its updated approach to assessing swap counterparties in structured finance cash flow transactions ("Approach to Assessing Swap Counterparties in Structured Finance Cash Flow Transactions" published on the 12 November 2013: https://www.moody.com/research/Approach-to-Assessing-Swap-Counterparties-in-Structured-Finance-Cash-Flow-PBS_SF344857).

Refer to the end of the ratings rationale section of this press release for a detailed list of affected ratings.

RATINGS RATIONALE

Today's rating action reflects the availability of sufficient credit enhancement to address the notes' exposure to the issuer account bank and swap counterparty Banco Bilbao Vizcaya Argentaria, S.A. (BBVA, deposits Baa3/P-3, negative outlook, standalone bank financial strength rating D+/baseline credit assessment baa3). Moody's assessment follows the introduction of its updated approach to assessing swap counterparties in structured finance cash flow transactions.

As part of its review, Moody's has incorporated the risk of additional losses on the notes in the event of them becoming unhedged following a swap counterparty default. Assets backing the notes in the three SME ABS deals are mainly referenced to Euro Interbank Offered Rate (EURIBOR), with small buckets of fixed-interest rate loans in each portfolio representing less than 10% of the respective pool. Of the assets backing the notes in BBVA Consumo 4, 100% are fixed-rate loans (8.55% of weighted-average interest). Notes are referenced to three-month EURIBOR in the four deals. The four transactions include a swap agreement with BBVA to hedge this risk. The swaps in the three SME ABS deals are mainly basis-risk swaps, while the swap in BBVA Consumo 4 deal is a fixed-floating rate swap. All the swaps provide excess spread to the transactions, 50 basis points (bps) for the SME ABS deals and 175 bps in BBVA Consumo 4. Net swap payments in recent periods were in favour of the swap counterparty in the four transactions, given the current interest-rate environment. No collateral needs to be posted according to the most recent collateral posting computations made by the valuation agent.

The principal methodology used in rating BBVA Consumo 4, FTA was Moody's Approach to Rating Consumer Loan ABS Transactions published in May 2013. The principal methodology used in rating BBVA Empresas 3, FTA, BBVA Empresas 4, FTA, and BBVA Empresas 5, FTA was Moody's Approach to Rating EMEA SME Balance Sheet Securitizations published in May 2013. Please see the Credit Policy page on www.moody.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 a downgrade of the ratings affected by today's action would be (1) the worse-than-expected performance of the underlying collateral; (2) deterioration in the credit quality of the counterparties; and (3) an increase in Spain's sovereign risk.

Factors or circumstances that could lead to an upgrade of the ratings affected by today's action would be (1) the better-than-expected performance of the underlying assets; and (2) a decline in both counterparty and Spain's sovereign risk.

THE LIST OF AFFECTED RATINGS

Issuer: BBVA Empresas 3, FTA

....EUR2210M Class A Notes, Affirmed A3 (sf); previously on Jun 20, 2013 Confirmed at A3 (sf)

....EUR260M Class B Notes, Affirmed A3 (sf); previously on Jun 20, 2013 Confirmed at A3 (sf)

....EUR130M Class C Notes, Confirmed at Baa1 (sf); previously on Nov 14, 2013 Baa1 (sf) Placed Under Review for Possible Downgrade

Issuer: BBVA Empresas 4, FTA

....EUR1700M Class A Notes, Confirmed at A3 (sf); previously on Nov 14, 2013 A3 (sf) Placed Under Review for Possible Downgrade

Issuer: BBVA Empresas 5, FTA

....EUR975M Class A Notes, Affirmed A3 (sf); previously on Jun 20, 2013 Confirmed at A3 (sf)

....EUR275M Class B Notes, Confirmed at Baa1 (sf); previously on Nov 14, 2013 Baa1 (sf) Placed Under Review for Possible Downgrade

Issuer: BBVA Consumo 4, FTA

....EUR937.7M Class A Notes, Affirmed A3 (sf); previously on Mar 27, 2013 Confirmed at A3 (sf)

....EUR162.3M Class B Notes, Confirmed at Baa2 (sf); previously on Nov 14, 2013 Baa2 (sf) Placed Under Review for Possible Downgrade

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.

Moody's did not receive or take into account a third-party assessment on the due diligence performed regarding the underlying assets or financial instruments related to the monitoring of these transactions in the past six months.

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.

As the section on loss and cash flow analysis describes, 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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