



Moody's Investors Service

Rating Action: Moody's confirms seniors and downgrades junior notes of Spanish SME ABS BBVA Hipotecario 3, FTA

Global Credit Research - 30 Nov 2009

Madrid, November 30, 2009 -- Moody's Investors Service has taken today the following actions on the long-term credit ratings of the following notes issued by BBVA Hipotecario 3, FTA:

- EUR925.7 million series A2 notes due 2038, confirmed at Aaa, previously placed under review for downgrade on 23 March 2009.
- EUR55.9 million series B notes due 2038, downgraded to A3, previously A2 and placed under review for downgrade on 23 March 2009.
- EUR18.9 million series C notes due 2038, downgraded to Ba3, previously Baa2 and placed under review for downgrade on 23 March 2009.

Moody's initially assigned definitive ratings in June 2005.

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 Hipotecario 3's 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 better than the Spanish SME index. As of September 2009, the 90 days cumulative delinquency rate reached 1.77% 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. Additionally, loans in arrears are notched down depending on the length of time the loans have been in arrears, and performing loans not in building and real estate sector with relatively long seasoning are notched up depending on their actual seasoning.

At the same time, Moody's estimated the remaining weighted average life of the portfolio to equal 2.30 years. As a consequence, these revised assumptions have translated into an increase of the cumulative mean default assumption for the current portfolio equal to 5.80%. This implies a revised cumulative mean default calculation for the entire transaction since closing equal to 3.50% of original portfolio balance. Moody's original mean default assumption was 3.10% of original balance, with a coefficient of variation of 54%. Given the lack of granularity of the portfolio with an effective number of borrowers around 633, the rating agency used a Monte-Carlo simulation to derive the probability function of the default with a resulting coefficient of variation of 54%. Fixed recoveries were modelled, assuming a mean equal to 60%, while fixed values in the 65% to 45% range were tested at closing. The revised constant prepayment rate (CPR) assumption is now 5%, while the CPR assumption was 12% at 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 B and C notes and the limited reduction in the remaining life of the portfolio and notes.

BBVA Hipotecario 3 is a securitisation fund, which purchased a pool of loans granted to Spanish SMEs and individuals by BBVA. At closing, in June 2005, the portfolio consisted of 6,795 loans. The loans were originated between 1996 and 2004, with a weighted average seasoning of 2.3 years and a weighted average remaining term of 9.64 years. Geographically, the pool was concentrated in Andalusia (22%),

Catalonia (19%) and Madrid (13%). At closing, the concentration in the real estate sector according to Moody's classification was around 36% of the original pool balance.

As of September 2009, the number of loans in the portfolio amounted to 3,920, the weighted average seasoning is 6.41 years and the remaining term was 7 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 32% of current portfolio, which is in slightly below the sector-average concentration in the SME ABS portfolios. The pool factor was 34%.

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 methodologies used in rating this transaction were 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).

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