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Research:

New Issue: Fondo de Titulizacion de Activos BBVA-2 FTPYME ICO

Eur900 million floating-rate notes

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Ratings Detail

Profile

New Ratings	
Classes ACA, ASA	AAA
Classes BCA, CCA, DCA	AA+
Class BSA	AA
Class CSA	A
Class DSA	BBB
Class ESA	BB

Closing date:Dec. 5, 2000

Transaction Summary

Collateral: Portfolio of small- and medium-sized corporate loans originated by Banco Bilbao Vizcaya Argentaria S.A. (BBVA; AA-/Stable/A-1+).
Guarantor: Treasury of the Kingdom of Spain (AA+/Stable/A-1+).
Underwriters: BBVA and Credit Agricole Indosuez S.A.
Seller: BBVA.
Master servicer: BBVA.
Sociedad gestora: Europea de Titulización S.A. Sociedad Gestora de Fondos de Titulización.
Swap counterparty: BBVA.

Rationale

The ratings assigned to the floating-rate notes issued by Fondo de Titulización de Activos BBVA-2 FTPYME ICO reflect the overall credit quality and diversification of the portfolio of medium-term loans to Spanish small- and medium-sized enterprises (SMEs), and the adequate legal structure of the transaction.

Fondo de Titulización BBVA-2 FTPYME ICO (the fondo) is the second collateralized loan obligation (CLO) completed by Banco Bilbao Vizcaya Argentaria S.A. (BBVA) that involves credit exposures to the bank's domestic corporate clients. This transaction is in line with the rating criteria for balance-sheet CLOs using an actuarial approach.

The ratings on the class A, B, C, D, and E notes rely on the following key points:

- The adequate level of subordination at all rating levels provided through a combination of subordination and a subordinated loan, sized at 3.5% of the total amount of the portfolio;
- BBVA's servicing capacity and standard credit and collection policies;
- The hedge agreement that insulates Fondo de Titulización BBVA-2 FTPYME ICO from variations in interest rates and transform the cash flows from the securitized assets into the interest payments on the rated bonds;
- The guarantee provided by the Treasury of the Kingdom of Spain to the ACA, BCA, CCA and DCA series only; and
- The sound legal structure of the transaction.

This transaction qualifies for the FT Pyme treasury guarantee, by Ministerial Order of May 28, 1999, which applies to the ACA, BCA, CCA, and DCA series notes only. Under the terms of this guarantee, the Treasury irrevocably and unconditionally guarantees interest and principal payments under these notes. The noteholders of the ASA, BSA, CSA, DSA, and ESA series do not benefit from any guarantee from the Treasury and are, therefore, fully affected by losses accruing on the portfolio in excess of the credit enhancement available to them.

Strengths, Concerns, and Mitigating Factors

Strengths

The strengths of the transaction that influenced the ratings are as follows:

- A highly diversified pool of corporate loans to SMEs in Spain;
- BBVA's strong credit monitoring process for SMEs based on continuous active and proactive management of credit risks and demonstrated by low historical losses; and
- The robust structure of the transaction adequately covering interest rate risk, liquidity risk, and legal risks.

Concerns

The main concerns in this transaction are:

- The issuer has the ability to replenish loans that have either prepaid or repaid for a period of 2.5 years;
- During the amortization period, the first loss piece could be reduced before the full repayment of the notes; and
- The terms of the guarantee do not provide for on-demand payments to the guaranteed tranches (ACA, BCA, CCA, and DCA).

Mitigating Factors

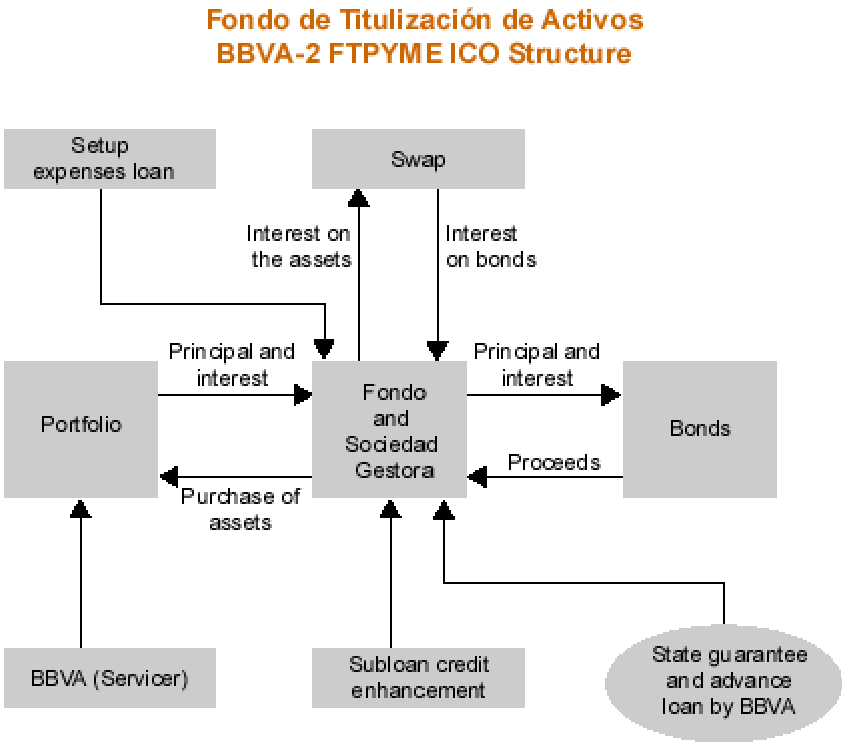
The above concerns are mitigated by the following factors:

- Replenishment criteria should ensure that the credit quality of the portfolio is maintained throughout the revolving period;
- A tight cumulative loss and default trigger stops replenishments earlier if losses and defaults exceed a certain threshold;
- Tight triggers allow the reduction in the first loss piece only if the performance of the portfolio allows it and if the portfolio has been significantly amortized; and
- BBVA is to provide an advance facility to guarantee the timeliness of interest payments on the guaranteed notes.

Structure Overview

This transaction is structured as a fully funded cash flow transaction. Before closing, a portfolio of term loans was transferred to the fondo. At closing, the purchase of the initial loans by the fondo was financed by the issuance of the rated bonds. The portfolio is a revolving portfolio of corporate loans originated by BBVA to SMEs. During the revolving period, the fondo is to purchase new loans from the principal proceeds of the initial loans. A swap agreement was entered into at closing between the fondo and BBVA as swap counterparty to transform the cash flows from the securitized assets into interest payments on the rated bonds.

For a graphic overview of the transaction see the chart below.



Structure Details

Fondo de Titulización de Activos BBVA-2 FTPYME ICO (Issuer)

The issuer was constituted according to Royal Decree 926/1998 of May 14 regulating the Fondos de Titulización de Activos and Sociedades Gestoras de Fondos de Titulización in Spain. The fondo's life span is equal to the life of the transaction and matures in 2019 unless liquidated earlier.

According to the Royal Decree, the fondo is administered and represented by a sociedad gestora (management company). The administration and representation of the fondo is performed by Europea de Titulización S.A. Sociedad Gestora de Fondos de Titulización.

The mandate given to Europea de Titulización is to protect and to act in the best interests of the bondholders and other creditors of the fondo. Europea de Titulización carries out the financial and cash management of the fondo in relation to the securitized loans, the issued bonds, and all the agreements executed entered into on behalf of the fondo. Europea de Titulización is also responsible for liquidating the fondo at maturity or on a termination event.

Asset Transfer

The assets of the fondo are securitized loan agreements. The acquisition of the initial loans were financed through the issuance of the rated bonds. Europea de Titulización is to purchase on behalf of the fondo, on each payment date during the revolving period, new loans to replace the amounts prepaid or repaid.

The transfer to the fondo of each initial and new loan takes place slightly differently, depending on whether or not loans are secured by a mortgage. Full legal title to the loan agreements was transferred to the fondo at closing. Such a transfer constitutes a true sale. For the loans secured by mortgage, the transfer of the full legal title to the mortgage securing the loan is effective only on registration of the transfer in the property registry. The transfer of these mortgage loans is formalized in a private document. Should BBVA's senior unsecured long-term rating be lowered to below 'BBB', Europea de Titulización and BBVA will immediately register the transfer of all the relevant loans in the property registry. All costs and taxes arising from the registration were sized at closing and deposited in an account in the name of the fondo.

State Guarantee

According to the Ministerial Order of May 28, 1999, this transaction qualifies for the FT Pyme Treasury Guarantee. A specific order was issued by the Minister of Economics and Finance before closing. The Kingdom of Spain irrevocably and unconditionally guarantees full payment of the obligations of the fondo in respect of the series ACA, BCA, CCA, and DCA bonds. In order to qualify for the FT Pyme treasury guarantee, the securitized portfolio must contain at least 40% of Instituto de Crédito Oficial (ICO) loans. The state guarantee covers, on each payment date, the payment of interest and principal of the guaranteed bonds should the interest and principal proceeds be insufficient.

Payment of any amounts due under the state guarantee is within three months following the relevant date of execution of the guarantee.

The ratings on the BCA, CCA, and DCA notes are linked to the rating of the Kingdom of Spain (AA+/Stable/A-1+). The ratings on the notes would be affected if the ratings on the sovereign were changed.

Advance Payment Facility

The fondo entered into an advance payment facility agreement with BBVA, under which BBVA grants a revolving facility to the fondo. This facility is to be used by the fondo to advance the amounts of interest payable by the Kingdom of Spain under the state guarantee on the BCA, CCA, and DCA series bonds.

The maximum amount available under the advance payment facility is equal to 4% of the aggregate principal outstanding on the BCA, CCA, and DCA series bonds. Any interest accrued by this facility is paid by the swap counterparty.

Subordinated Loan

Credit support in the transaction is provided through a combination of subordination and a subordinated loan. At closing, and for the length of the revolving period, the amount available under the subordinated loan was equal to 3.5% of the initial portfolio. At the start of the amortization period, the subordinated loan must be at least equal to 2.5% of the initial portfolio plus 60% of the delinquent amounts.

BBVA is entitled to reduce the amount available under the subordinated loan on the later of the following dates:

- Two and a half years after the beginning of the amortization period, or
- The date when the first loss piece has doubled in terms of the percentage of outstanding principal of the loans,

and for the subsequent calculation periods, 60% of the delinquent amounts plus the greater of the following amounts: (i) 2.5% of the principal amount outstanding on the securitized loans, or (ii) the aggregate principal amount outstanding corresponding to the three largest obligors.

Set-up Expenses Loan

All the set-up expenses of the fondo are covered by a set-up expenses loan provided by BBVA. The amortization of this loan and the operating expenses of the fondo are covered by the swap agreement.

Terms and Conditions of the Rated Bonds

To finance the purchase of the loan agreements, the fondo issued the rated bonds. The rated bonds pay interest on a quarterly basis in arrears at a rate of EURIBOR plus a margin. The bonds amortize in line with prepayments, scheduled amortization, and allocation of losses. The bonds amortize sequentially and in order of seniority. Losses are also allocated sequentially, starting with the subordinated loan followed by the lowest-rated tranches. If not otherwise redeemed, the bonds are to be repaid in full in 2019. It should be noted that BBVA has the option to repurchase the securitized assets once the balance of the portfolio has reached 20% of its original amount.

Hedging Details

The fondo entered into a cash flow swap with BBVA. The swap transforms the interest payments received from the loans into the interest payments due on the rated bonds and pay these amounts on a timely basis.

As swap counterparty, the short-term unsecured rating of BBVA is a supporting rating for the transaction. Should this rating be lowered to below 'A-1+', BBVA must either find an adequately rated substitute or pledge collateral in a sufficient amount.

Collection Details

As servicer, BBVA, on behalf of the fondo, receives any amounts paid by the obligors in relation to the securitized loans for both principal and interest. These amounts are swept daily into the fondo's collection account. Should the short-term rating of the servicer account fall below 'A-1', all obligors will be notified to make payments directly into a segregated account in the name of the fondo. This mechanism eliminates all commingling risk from the transaction.

All accounts of the fondo must at all times be maintained with 'A-1+' rated institutions.

Credit Analysis

Description of the Assets and Portfolio

The noteholders are exposed to the credit risk of a portfolio of loans to SMEs originated by the various local branches of BBVA.

SMEs and Their Importance for BBVA

The corporates involved in this transaction are companies that have a turnover below Eur40 million, fewer than 250 employees, and which are not controlled by a larger group. SMEs are a key element of the Spanish economy, accounting for 98% of all registered companies and 70% of the country's GDP. They are, therefore, also a core element of BBVA's assets and strategy (7% of the bank's balance sheet). The type of loans granted to these companies and included in this portfolio can be split into two categories: ICO loans and "standard", nonsubsidized loans.

The ICO Loans

The ICO loans are loans that qualify for subsidized funding from the Spanish Treasury. ICO loans are meant to facilitate SMEs' access to bank funding to finance specific capital expenditures. These loans are granted by commercial banks which in turn benefit from subsidized funding from the Treasury. To be eligible for the ICO program, the loans must comply with specific criteria, the primary of which is that they should finance a specific project.

The ICO loans granted by BBVA are subject to the same monitoring and credit policy as the other loans advanced by BBVA to SMEs. The terms of the loans are either five or seven years on an amortizing basis for a maximum amount of Eur250 million. These loans are generally unsecured. Their regional and industry diversification is very similar to BBVA's overall SMEs loan book, and reflect Spain's main economic regions and industries.

The Standard, Nonsubsidized Loans

The rest of the portfolio (60%) is made up of loans advanced by BBVA to SMEs for which BBVA does not benefit from any subsidized funding. These loans are usually either working capital lines or financing specific capital expenditures. The majority of them are secured by a wide range of security, ranging from personal guarantees to real estate. About 60% of the portfolio is secured by real estate. As with ICO loans, standard loans are amortizing.

Diversification of the Portfolio

The securitized portfolio is highly diversified with no obligor accounting for more than 1% of the portfolio. In terms of regional diversification, the portfolio is concentrated in the country's largest economic centers. The portfolio shows industry concentration in Spain's main industries, especially the building and development sectors. The building and development sector is subdivided into a number of more diversified combination of subsectors, most of which are related to construction rather than to real estate development.

In addition, this concentration has been a pattern of BBVA's lending to SMEs over several years. This has been demonstrated by the historical stratification of BBVA's total SME book per industry. Any correlation in defaults owing to overconcentration of the book in one industry should, therefore, have been captured by any historical loss data. As explained below, historical loss data has been the basis for determining the initial credit enhancement levels (see Methodology below).

The securitized portfolio is also similar to BBVA's total book in terms of the proportion of secured assets, maturity profile, and single obligor concentration. The only difference is the proportion of ICO loans: the securitized portfolio contains a higher proportion of ICO loans than the total book in order to be eligible for the FT Pyme guarantee. Historical performance data has been provided for both ICO and other loans.

Methodology for Determining Credit Enhancement Levels: an Actuarial Approach

The methodology used to determine the credit enhancement levels rely on an analysis of BBVA's historical loss experience on these assets. Standard & Poor's has been provided with static pool information on a semiannual basis since 1994 for gross losses, recoveries, and net losses on BBVA's ICO loan book and standard loan book. Credit enhancement levels were calculated by multiplying the peak historical losses by a stress factor. The stress factor was dependent on the rating sought.

Such an approach is applicable to this transaction because:

- The portfolio is highly diversified and homogeneous;
- The assets are a core component of the bank's business;
- The securitized portfolio has the same distribution and diversification patterns as the bank's total book from which the historical loss data was extracted;
- The replenishment criteria ensure that the credit quality of the portfolio does not migrate away for the credit quality of the bank's total book; and
- BBVA has strong underwriting and monitoring policies for these assets.

BBVA's Underwriting and Credit Monitoring Policies for SMEs

BBVA is responsible for servicing the portfolio throughout the life of the transaction. Its underwriting and credit monitoring policies are, therefore, a key aspect of this transaction. BBVA has a particularly strong credit monitoring process for SME exposure based on continuous active and proactive management of credit risks, involving good use of automated and manual monitoring systems.

The SME credit monitoring function is clearly defined at BBVA. The process is handled by a dedicated team of credit monitoring professionals and is considered rigorous. BBVA also has clearly established procedures for handling problem SME loans. The responsibility for collections under defaulted loans is shared between the relationship manager and the legal department. The all-bad credit charges must, however, be assumed by the originating branch.

Standard & Poor's considers that the historical loss experience of BBVA reflects the bank's current underwriting and monitoring processes. It is important to note, however, that should there be a change in these procedures or in BBVA's strategy towards SMEs, this would have a negative impact on the level of losses to be expected. Accordingly, although this transaction has a rating that is independent of BBVA's rating, Standard & Poor's may take rating action with respect to this transaction in the event that BBVA materially changes its underwriting procedures or overall strategy towards SMEs.

BBVA performs a number of roles in the transaction, including lender under the loan for set-up expenses, depository of the accounts of the fondo, counterparty to the swap agreement, the advance payment facility agreement, the subordinated facility agreement, servicer, and paying agent. As a result, bondholders rely not only on the creditworthiness of the obligors, but also on the creditworthiness of BBVA under the various roles assumed by BBVA in the transaction. In the event that BBVA's creditworthiness declines, the roles initially assumed by BBVA must be transferred to other suitable counterparties with sufficient ratings. The fondo may be terminated early if no suitable counterparty can be found.

Another Key Factor of the Credit Analysis

The other key element in the credit analysis is the cumulative loss and default trigger, which would stop the revolving period on the occurrence of losses and defaults above 1% of the initial portfolio amount.

Surveillance Details

Continual surveillance is maintained on the transaction until the notes mature or are otherwise retired. To do this, regular servicer reports detailing the performance of the underlying collateral are analyzed, supporting ratings are monitored, and regular contact is made with the servicer to ensure that minimum servicing standards are being sustained and that any material changes in the servicer's operations are communicated and assessed.