BBVA-3 FTPYME, Fondo de Titulización de Activos

BBVA
SME Loans
Spain

CLOSING DATE:
[November 2004]

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PLEASE NOTE: *This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of November 2004. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The* ***definitive*** *ratings may differ from the* ***prospective*** *ratings set forth in this report. Moody's will disseminate the assignment of definitive ratings through its Client Service Desk.*

RATINGS

Series	Rating	Amount	% of Total	Legal Final Maturity	Expected Maturity
A1	(P)**Aaa**	€725,300,000	72.53%	Apr 2028	Apr 2024
A2(G)	(P)**Aaa**	€215,300,000	21.53%	Apr 2028	Apr 2024
B	(P)**A2**	€40,800,000	4.08%	Apr 2028	Apr 2024
C	(P)**Baa2**	€18,600,000	1.86%	Apr 2028	Apr 2024
Total		€1,000,000,000	100%		

The ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. The rating does not address full redemption of the Notes on the expected maturity date. 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.

OPINION

Strengths of the Transaction

- Credit enhancement provided by the excess spread, a subordinated line of credit and the subordination of the notes
- Interest rate swap provided by BBVA (**Aa2**/**P-1**) guaranteeing an excess spread of 65 bppa
- Enhanced excess spread-trapping mechanism through a 12 months' "artificial write-off"
- Guarantee of the Spanish Treasury for the Series A2(G) notes
- Around 47% of the loans are secured by a mortgage guarantee

Weaknesses and Mitigants

- Pro-rata amortisation of Series B and C notes leading to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which terminate the pro-rata amortisation of the notes should the performance of the transaction deteriorate.
- Servicing fee paid senior in the waterfall, but fully funded through the swap payments received by the Fondo.

STRUCTURE SUMMARY

Issuer:	BBVA-3 FTPYME, Fondo de Titulización de Activos
Structure Type:	Senior/Mezzanine/Subordinated floating-rate notes
Seller/Servicer:	Banco Bilbao Vizcaya Argentaria (BBVA) (**Aa2**/**P-1**)
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	The notes will amortise on a pass-through basis
	Final maturity will take place in April 2028
Payment Dates:	21 January, 21 April, 21 July, 21 October
Issue Price:	100%
Credit Enhancement/Reserves:	0.65% excess spread
	2.06% subordinated line of credit
	Subordination of the notes
	Guarantee of the Spanish Treasury (**Aaa**/**P-1**) for Series A2(G)
Hedging:	Interest rate swap provided by BBVA
Paying Agent:	BBVA
Management Company:	Europea de Titulización S.G.F.T., S.A.
Arrangers:	BBVA, J.P Morgan, Europea de Titulización
Lead Managers:	BBVA, J.P Morgan

PROVISIONAL POOL (AS OF 20 OCTOBER 2004)

Collateral:	Loans to Spanish SMEs, including individual professionals ("autonomos")
Number of Contracts:	15,125
Number of Debtors:	13,167
Geographic Diversity:	Catalonia (20.9%), Madrid (14.4%) and Valencia (13.5%)
WA Seasoning:	1.8 years
WA Remaining Term:	6.3 years
Average Loan Size:	€85,476
Highest Debtor:	€6,372,558
Delinquency Status:	Less than 30 days in arrears at the time of securitisation
WA Interest Rate (current):	3.16%
Interest Basis:	100% floating
Total Amount:	€1,292,829,683

OVERVIEW

An SME loans transaction with a guarantee from the Spanish Treasury

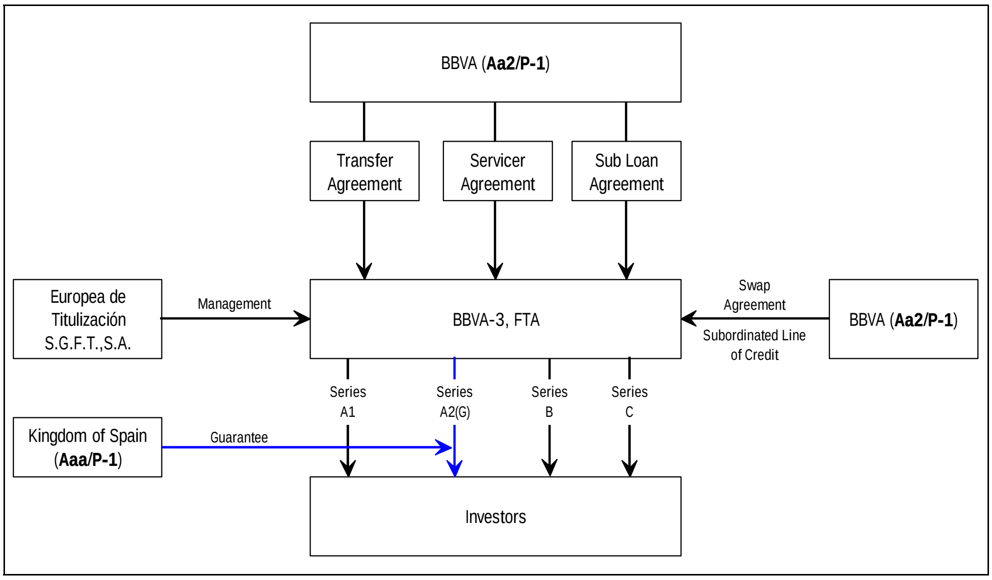
In light of the considerable success achieved by the "FTPYME" programme since it was created in 1998, the Spanish Ministry of Economy has established a budgetary endowment, amounting approximately €1.8 billion, for the current year, the fourth time the Ministry has made such an endowment. The legal framework has not experienced any change since it was last modified in April 2003. The following is a summary of its principal conditions:

1) Securitised assets must be loans (1) originated by institutions that have previously signed an agreement with the Ministry of Industry, (2) granted to non-financial enterprises based in Spain and (3) with an initial duration of more than one year.
2) At least 80% of the loans must be granted to SMEs (as defined by the European Commission in its recommendation).
3) The institutions transferring the loans to an FTPYME must in turn reinvest the proceeds of the sale in granting new loans (such loans complying with conditions 1) and 2) above). 50% of such amount must be reinvested within six months and the remaining 50% within one year.
4) The Spanish Treasury will guarantee interest and principal payments on up to 80% of **Aa** (or higher) rated securities. Significantly, the guarantee is fully binding for the Spanish Treasury.

As on previous occasions, the budgetary endowment has been allocated in full among various Spanish financial institutions, with the respective FTPYME securitisation funds expected to close by the end of the year.

STRUCTURAL AND LEGAL ASPECTS

Structure that incorporates the Spanish Treasury's guarantee with a neutral effect for the non-guaranteed series



Through this deal, BBVA is selling a portfolio of loans to BBVA-3 FTPYME, FTA (the "Fondo"), which in turn will issue four series of notes to finance the purchase of the loans (at par). The capital structure consists of:

- A subordinated Series C rated (P)**Baa2**
- A mezzanine Series B rated (P)**A2**
- A senior tranche A, composed of Series A1 rated (P)**Aaa**, and Series A2(G) rated (P)**Aaa**.

Each series of notes is supported by the series subordinated to itself, the subordinated line of credit and the excess spread guaranteed under the swap agreement.

In addition, the Fondo will benefit from a subordinated loan provided by BBVA to fund the Fondo's up-front costs.

Interest rates swap guaranteeing a 65 bppa excess spread

According to the swap agreement entered into between the Fondo and BBVA, on each payment date:

- The Fondo will pay the amount of interest actually received from the loans; and
- BBVA will pay the sum of (1) the weighted average coupon on the notes plus 65 bppa, over a notional calculated as the daily average outstanding amount of the loans not more than 90 days in arrears, (2) the weighted average margin on the notes plus 10 bppa over a notional calculated as the daily average outstanding amount of the amortisation account and (3) the servicing fee due on such payment date.

The excess spread thus provided through the swap agreement constitutes the first layer of protection for investors.

In the event of BBVA's long-term rating being downgraded below **A1**, within 30 days BBVA will have to (1) collateralise its obligations under the swap in an amount sufficient to maintain the then current rating of the notes or (2) find a suitably rated guarantor or substitute.

A 2.06% subordinated line of credit to help the Fondo meet its payment obligations

The second layer of protection against losses is a subordinated line of credit provided by BBVA. It will be used to cover potential shortfalls on interest or principal on an ongoing basis.

At every point in time, the subordinated line of credit required amount will be equal to the sum of:

a) The lesser of the following amounts:
   1. 2.06% of the initial balance of the notes
   2. The higher of the following amounts:
      - 4.00% of the outstanding balance of the notes
      - 1.00% of the initial balance of the notes, and

b) The amount of interest due and unpaid under the subordinated line of credit

The subordinated line of credit required amount will be maintained constant:

- During the first three years of the transaction,
- If the amount of loans more than 90 days but less than 12 months in arrears exceeds 1.00% of the outstanding principal balance of the loans not more than 12 months in arrears, or
- If the subordinated line of credit is not funded at its required level on the previous payment date.

In addition to these triggers, if BBVA is downgraded below **P-1**, the subordinated line of credit will automatically be drawn and deposited in the treasury account (instrumented as a reserve fund), unless BBVA obtains a first demand guarantee from a **P-1**-rated entity.

Treasury Account and Amortisation Account

The treasury account will be held at BBVA. Any amount received from the loans, the swap agreement, the subordinated line of credit or the Spanish Treasury will be deposited in the treasury account.

In order to protect the treasury account from a potential deterioration of BBVA's credit quality, should its short-term rating be downgraded below **P-1**, the management company will have to implement one of several pre-established alternatives in order to maintain the then current rating of the notes.

BBVA guarantees an annual yield on the amounts deposited in the treasury account equal to the index reference rate of the notes minus 10 bppa.

Until the payment date falling on 21 April 2006, all funds available to the repayment of the notes will be transferred to a specific account held at BBVA (the amortisation account). This account is subject to the same triggers and yield as the treasury account.

Interest rate and maturity variations subject to the management company approval

Any renegotiation of the terms and conditions of the loans is subject to the management company's approval. However, initially, the management company authorises BBVA to (1) renegotiate the interest rate of any loan if the weighted average margin of the pool is greater than 0.50% and (2) extend the maturity of up to 10% of the initial pool provided that no renegotiated maturity is later than April 2024.

Payment structure incorporates the reimbursement of the guarantee payments

On each payment date, the Fondo's available funds (principal and interest received from the asset pool, the subordinated line of credit, amounts received under the swap agreement and interest earned on the transaction accounts) will be applied in the following order of priority:

1. Costs and fees
2. Servicing fee
3. Any amount due under the swap agreement (except the termination payment if BBVA is the defaulting party)
4. Interest payment to Series A1 and A2(G) notes and reimbursement of any amount obtained, and not redeemed yet, from the Spanish Treasury on previous payment dates to cover shortfalls on interest payments to Series A2(G) notes
5. Interest payment to Series B notes (if not deferred)
6. Interest payment to Series C notes (if not deferred)
7. Retention of an amount equal to the principal due under the notes
8. Interest payment to Series B notes (if deferred)
9. Interest payment to Series C notes (if deferred)
10. Reimbursement of any amounts drawn from the subordinated line of credit or replenishment of the reserve fund (if constituted)
11. Termination payment under the swap agreement if not due under 2.
12. Junior expenses

The payment of interest on the Series B and C notes will be brought to a more junior position if the following conditions are met:

Series B	Series C
The difference between (1) the outstanding amount of Series A1 and A2(G) plus the amount obtained, and not redeemed yet, from the Spanish Treasury on previous payment dates to cover shortfalls on principal payments to Series A2(G) notes and (2) the sum of (i) the outstanding amount of the amortisation account, (ii) the Fondo's available funds after the repayment of the first four items of the above waterfall, and (iii) the outstanding amount of the loans that are less than 12 months in arrears, is equal to or greater than zero.	The difference between (1) the outstanding amount of Series A1, A2(G) and B plus the amount obtained, and not redeemed yet, from the Spanish Treasury on previous payment dates to cover shortfalls on principal payments to Series A2(G) notes and (2) the sum of (i) the outstanding amount of the amortisation account, (ii) the Fondo's available funds after the repayment of the first five items of the above waterfall, and (iii) the outstanding amount of the loans that are less than 12 months in arrears, is equal to or greater than zero.

The principal due to the notes incorporates a 12-month "artificial write-off" mechanism

The transaction's structure benefits from an "artificial write-off" mechanism. This mechanism is implicit in the definition of principal due under the notes, which is calculated as the difference between (1) the outstanding amount of the notes, plus the amount obtained, and not redeemed yet, from the Spanish Treasury on previous payment dates to cover shortfalls on principal payments to Series A2(G) notes, less the outstanding amount of the amortisation account and (2) the difference between (i) the outstanding amount of the portfolio and (ii) the outstanding amount of the loans with any amount due but unpaid for more than 12 months (or before if the debtor is declared bankrupt or the management company considers that there are no reasonable expectations of recovery under each such loan).

An amortisation deficit will occur, on any payment date, if the issuer's available funds are not sufficient according to the waterfall described above to reimburse the principal due under the notes. The amortisation deficit attributable to Series A2(G) will be covered by the Spanish Treasury's guarantee.

A sophisticated principal allocation …

Until the payment date in which the aggregate outstanding amount of Series B and C would exceed 11.88% of the current outstanding amount under all series, the available amount for principal redemption will be used sequentially to repay Series A1 notes, Series A2(G) notes and any amount obtained, and not redeemed yet, from the Spanish Treasury on previous payment dates to cover shortfalls on principal payments to Series A2(G) notes

From the payment date in which the aggregate outstanding amount of Series B and C would exceed 11.88% of the current outstanding amount under all series, a portion of the available amount for principal redemption will be allocated to Series B and C notes, so that they represent 8.16% and 3.72%, respectively, of the outstanding amount under all series following such repayment. The remaining portion will be allocated sequentially to Series A1, Series A2(G) and the Spanish Treasury.

However, should (1) the outstanding amount of loans more than 90 days (but less than 12 months) in arrears be higher than 1.5% of the outstanding amount of the loans less than 12 months in arrears, (2) the available amount under the subordinated line of credit be lower than its required amount, or (3) the outstanding amount of loans be lower than 10% of the initial pool balance, the pro-rata amortisation of Series B and C would stop, the available amount for principal redemption being sequentially allocated to Series A1, Series A2(G) and the Spanish Treasury.

Additionally, should the outstanding amount of Series A1 and A2(G) notes be equal to or greater than the sum of (1) the outstanding amount of the amortisation account, and (2) the outstanding amount of loans less than 90 days in arrears, the available amount for principal redemption will be pro-rata allocated between (1) Series A1 and (2) Series A2(G) and the Spanish Treasury.

… with a principal accumulation mechanism

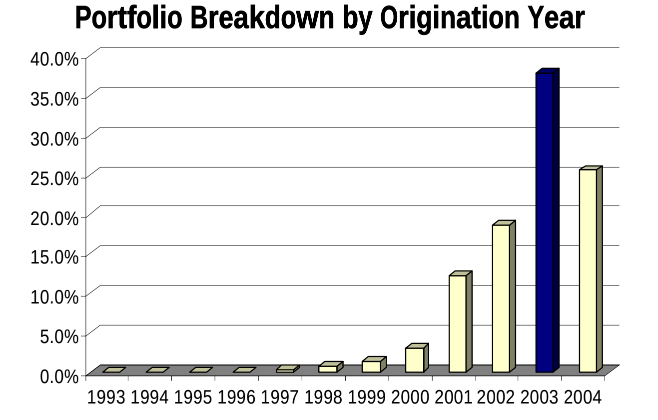
All amounts otherwise payable for the redemption of the notes on the payment dates prior to 21 April 2006, will be deposited in the amortisation account, the outstanding amount of which will be part of the available amount for principal redemption on such payment date.

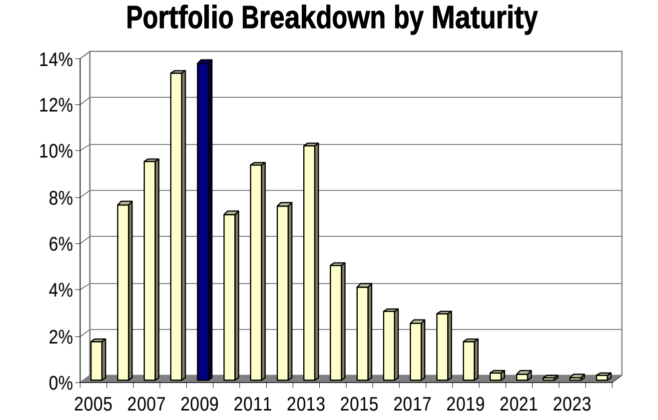
COLLATERAL – REFERENCE PORTFOLIO

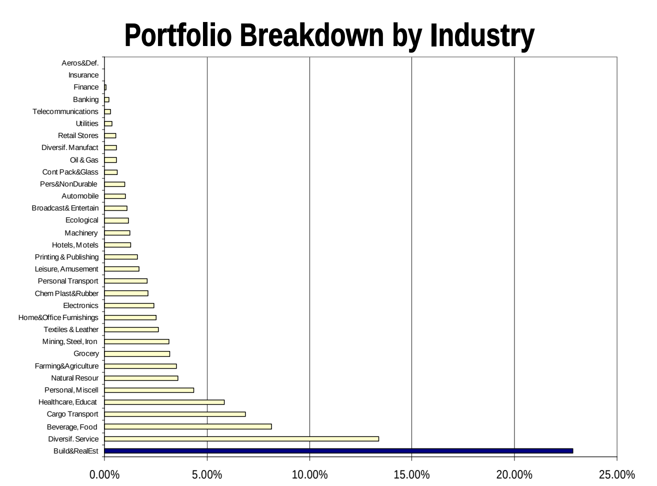
As of 20 October 2004, the provisional portfolio was made up of 15,125 loans for a total amount of €1,292,829,683. The loans have been originated between 1993 and June 2004 with a weighted average seasoning of 1.8 years and a weighted average remaining life of 6.3 years.

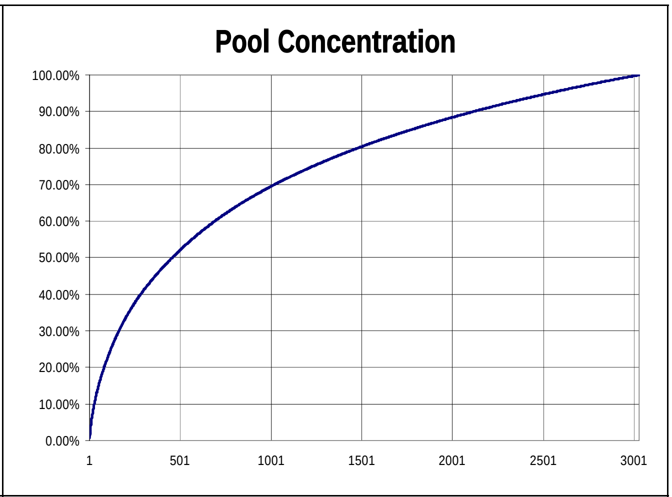
The loans are referenced to 12-month Euribor/Mibor (30.14%), three-month Euribor/Mibor (27.96%), six month Euribor/Mibor (38.14%) and IRPH (3.76%). Around 47% of the portfolio is composed of loans secured by a mortgage.

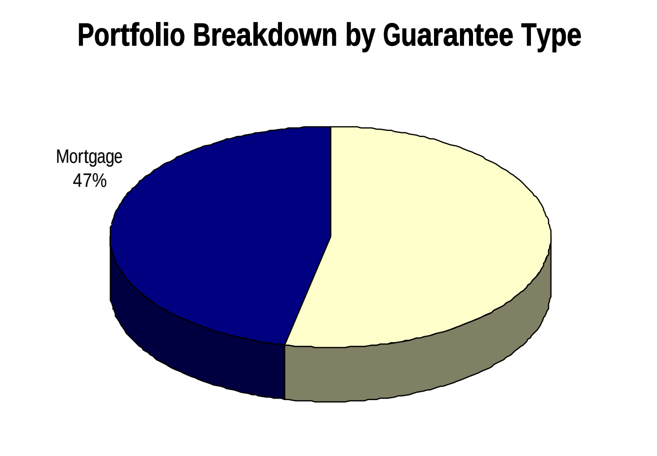
Geographically the pool is concentrated in Catalonia (20.9%), Madrid (14.4%) and Valencia (13,5%). Around 23% of the portfolio is concentrated in the “building and real estate” sector according to Moody’s industry classification.

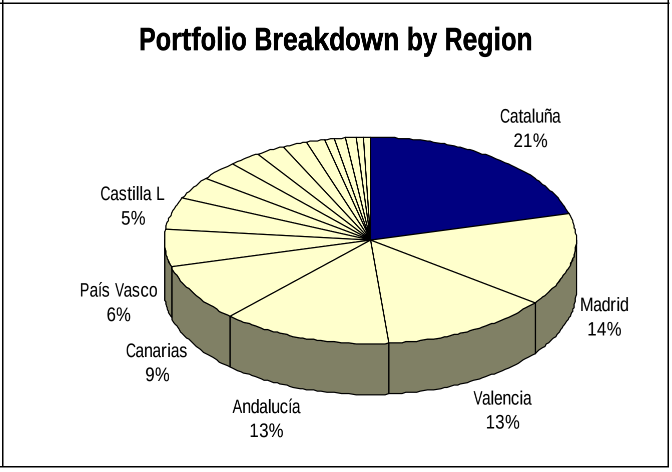












The originator represents and guarantees that, as of the transfer date:

- There will be no amounts more than 30 days past due
- There has been no breach under any loan agreements
- The pool complies with the conditions to apply for the guarantee of the Spanish Treasury
- The loans have been originated during BBVA ordinary course of business
- The loans have been formalised under public deed
- The loans and their security are valid and enforceable
- The loans are denominated in euro.

ORIGINATOR, SERVICER AND MANAGEMENT COMPANY

BBVA, the second largest financial group in Spain, will act as servicer of the loans

With total assets amounting €316 billion in June 2004, BBVA is the second-largest financial group in Spain. The group enjoys impressive market shares and a strong competitive position in Spain across all business segments, as well as in Latin America, where BBVA is also the second major financial group. In Moody's opinion, BBVA's leading positions across a wide range of products should continue to allow the group to sustain good recurring earning power for the foreseeable future, despite less favourable, although improving, economic conditions in Spain and the inherent volatility of earnings coming from Latin America.

Retail banking in Spain and Portugal remains BBVA's main contributor to profits, accounting for approximately 46% of net attributable income in June 2004. In Spain, where the bank's domestic retail banking accounts for the bulk of the Iberian business, BBVA has 3,361 branches and 30,784 employees. Mortgage lending is the main growth driver, although other business segments are also showing high growth rates, underpinned by the implementation of focused strategies on both the individual and SME segments.

The group's overall asset quality has been gradually improving on a quarterly basis, with non-performing loans accounting for 1.2% of total loans at end-June 2004, compared to 1.4% in the previous quarter. All main franchises showed a positive performance. Domestically, asset quality is performing better than anticipated, despite weaker economic conditions. A deterioration remains a possibility, especially if interest rates pick up, given that the bulk of the system's lending is at variable rates. At end-March 2004, the non-performing loan ratio for the retail banking business in Spain and Portugal was 0.75%.

BBVA will act as servicer, and will transfer the proceeds of the loans to the treasury account on a daily basis with a 12-day lag. Should BBVA be downgraded below **P-1**, such lag could be reduced down to 1 day so that the then current ratings of the notes are maintained.

Europea de Titulización will act as management company

The management company, Europea de Titulización, is an experienced company in the Spanish securitisation market. BBVA accounts for 83% of the management company's capital. The remainder is owned by 15 institutions including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.53%), Barclays Bank (1.53%) and Citibank España (1.53%).

MOODY'S ANALYSIS

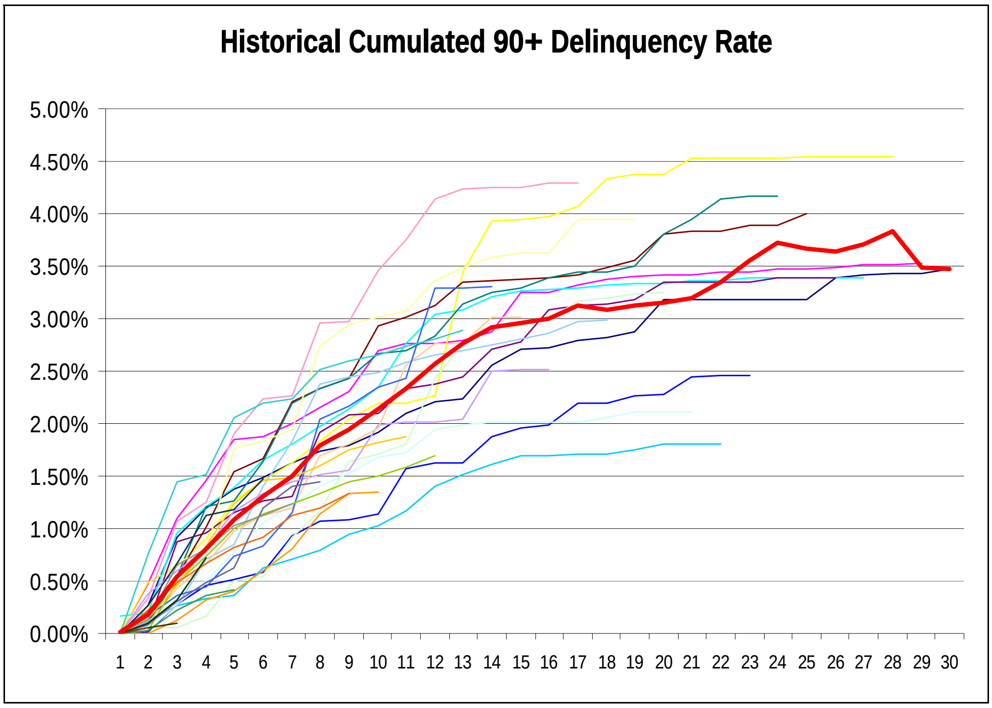
Moody's used a Monte-Carlo simulation to derive the gross loss distribution of the portfolio, and a cash flow model to determine the notes losses under each gross loss scenario

Given the number of assets and size of the exposures in the portfolio, Moody's derived the gross loss distribution through a two-factor Monte-Carlo approach, rather than assuming that it follows a given general density law.

Two basic parameters to be assessed as main inputs for the model are as follows:

- The default probability of each single entity
- The correlation structure among the different industries represented in the portfolio

The default probability has been primarily derived from the historical data provided by the originator and then adjusted for (1) the seasoning of the portfolio, and (2) an expected less favourable macro-economic environment. As a result, Moody's assumed the mean gross loss to be 2.70%.



As regards the correlation structure, Moody's split the portfolio into 33 different industries and, with the purpose of reflecting the diversity shown by the exposures in the securitised portfolio, Moody's made different assumptions, both for the asset correlation within one industry and between assets in different industries (the two factors in the Monte-Carlo model).

The Monte-Carlo simulation was then run, incorporating each exposure's size, default probability and implied asset correlation, thus determining the gross loss probability distribution for the portfolio.

On the basis of this distribution (as well as other assumptions for recoveries, delinquency and prepayments), Moody's built a cash flow model that reproduces all deal-specific characteristics. The sensitivity to a variation in the initial assumptions was also tested. Weighting each gross loss scenario's severity on the notes by its probability of occurrence, Moody's calculated the expected loss level for each series of notes which, combined with each series' expected average life, is consistent with the ratings assigned.

Structural Analysis

Moody's considers how the cash flows generated by the collateral are allocated to the parties within the transaction, and the extent to which various structural features of the transaction may provide additional protection to investors, or act as a source of risk themselves.

Legal Analysis

Moody's makes sure that the legal documents correctly reflect the structure of the deal, as well as the assumptions made in its analysis.

RATING SENSITIVITIES AND MONITORING

Moody's will monitor the transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

RELATED RESEARCH

Visit Moodys.com for more details

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions, please refer to the following reports:

- RATING METHODOLOGY: "FTPYMES: Moody's Analytical Approach to Spanish Securitisation Funds Launched Under Government's FTPYMES Programme", October 2003
- SPECIAL REPORT: "Moody's Spanish SME Loan-Backed Securities Index", April 2004

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