Moody's Investors Service

Rating Action: **Moody's takes rating actions on Spanish SME ABS BBVA-3 FPYME, FTA**

Global Credit Research - 10 Nov 2009

EUR25.7 million of rated securities affected

Frankfurt, November 10, 2009 -- Moody's Investors Service has today taken the following rating actions on the long-term credit ratings of the following notes issued by BBVA-3 FPYME, FTA:

- EUR 17.7 million Class B: Upgraded to A1 from A2; previously on March 23 2009 placed under review for possible downgrade

- EUR 8 million Class C: Downgraded to Ba1 from Baa2; previously on March 23 2009 placed under review for possible downgrade

Moody's initially assigned definitive ratings in November 2004.

Today's rating action concludes the review for downgrade which was initiated on March 23 2009 as a result of Moody's revision of its methodology for SME granular portfolios in EMEA (published on 17 March 2009).

As a result of its revised methodology, Moody's has reviewed its assumptions for BBVA-3 FPYME's collateral portfolio, taking into account anticipation of performance deterioration of the pool 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 Moody's negative sector outlook for the Spanish SME securitisation transactions (see "EMEA ABS, CMBS & RMBS Asset Performance Outlooks," July 2009). To date, this transaction has been performing better than the Spanish SME index published by Moody's ("Spanish SME Q2 2009 Indices," September 2009). In particular, cumulative 90 days delinquencies since closing in 2004 were at 1.59% of original pool balance as of September 2009.

At the same time, Moody's estimated the remaining weighted-average life of the portfolio as equal to 2.75 years. As a consequence, these revised assumptions have translated into a cumulative mean default assumption for this transaction of 6.1% of the current portfolio balance (corresponding to 2.34% of the original portfolio balance). Moody's original mean default assumption was 2.7% of original portfolio, with a coefficient of variation of 48%. Because of the relatively low effective number of borrowers in the portfolio (342), Moody's used a Monte Carlo simulation to determine the probability function of the defaults with a resulting coefficient of variation of 55%. The average recovery rate assumption was updated at 55% (fixed recovery rate) compared with a 35% to 50% range assumed at closing. The prepayment rate is assumed to be 5%, which is comparable to observed CPR values since closing. Although the equivalent mean default on original portfolio is actually slightly lower than the original assumption, the revised timing of the future defaults has changed, with more defaults expected in the future compared to original expectations, resulting in worse expected loss for the Class C notes.

In summary, Moody's has concluded that the negative effects of the revised default assumption over the remaining life of the transaction were offset by the increased credit support available for the outstanding Class B notes. The rating of Class B notes was upgraded by one notch. However, the rating agency considers that the negative effects of revised assumptions are not fully offset for the Class C notes by the increased credit enhancement for this tranche, which is consequently downgraded by two notches.

As of September 2009, the number of debtors in the portfolio was equal to 2,357. The concentration in the "building and real estate" sector was approximately 32.8% as of September 2009 from 26.5% at closing.

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.

Moody's initially analysed and currently monitors this transaction using the rating methodology for granular SME transactions in EMEA as described in the following Rating Methodology reports: "Moody's Approach to

Rating Granular SME Transactions in Europe, Middle East and Africa," June 2007 and "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. These reports are available on www.moodys.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. In addition, Moody's publishes a weekly summary of structured finance credit, ratings and methodologies, available to all registered users of our website, at www.moodys.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.moodys.com or contact our Client Service Desk in London (+44-20-7772 5454).

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