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Research:

New Issue: Fondo de Titulizacion de Activos BBVA-1

Eur1,115.4 million floating-rate notes

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Ratings Detail

Profile

New Ratings	
Class A	AAA
Class B	AA
Class C	A
Class D	BBB
Class E	BB

Closing date:Feb. 29, 2000

Transaction Summary

Collateral: Portfolio of corporate loans originated by Banco Bilbao Vizcaya.
Underwriters: Goldman Sachs and Banco Bilbao Vizcaya Argentaria S.A. (BBVA).
Seller: Banco Bilbao Vizcaya Argentaria S.A.
Master servicer: Banco Bilbao Vizcaya Argentaria S.A.
Sociedad gestora: BBV Titulización S.A.
Swap counterparty: Banco Bilbao Vizcaya Argentaria S.A. (AA-/negative/A-1+).

Rationale

The ratings assigned to the euro (Eur) 1,115.4 million floating-rate bonds issued by Fondo de Titulización de Activos BBVA-1 are in line with the rating criteria for balance sheet collateralized loan obligations (CLOs) using a statistical approach based on the Standard & Poor's CLO-CBO (collateralized bond obligations) default model.

In particular, the ratings rely on the credit analysis performed on the securitized portfolio; the level of credit support for each tranche provided through a combination of subordination and a cash collateral account (the cash collateral account has been sized at 2.75% of the total amount of the portfolio); the review of Banco Bilbao Vizcaya Argentaria's (BBVA) servicing capacity, in its role as servicer in this transaction; the hedging agreements that insulate Fondo de Titulización (the fondo) from variations in interest and foreign exchange rates and transform the cash flows from the securitized assets into the principal and interest payments on the rated bonds; and the sound legal structure of the transaction.

The ratings for the class C, D, and E bonds are linked to the ratings of a Spanish electrical company rated AA-/A-1+ and of a Spanish telecommunication company rated A+/A-1. On the downgrade of either of these entities, the ratings of the class C, D, and E may be affected. Note that Standard & Poor's was provided with the names of all the entities whose obligations are being securitized.

Fondo de Titulización de Activos BBVA-1 is the first CLO completed by BBVA and the first Spanish transaction of this type. The transaction is structured as a cash flow CLO. At closing, a portfolio of term loans and revolving credit lines was transferred to the fondo. The purchase of these assets by the fondo was financed by the issuance of the rated bonds. The portfolio is a static portfolio of corporate loans originated by Banco Bilbao Vizcaya (BBV) to large Spanish and international corporations. A series of swap agreements was entered into at closing between the fondo and BBVA as swap counterparty to transform the cash flows from the securitized assets in interest and principal payments on the rated bonds.

Structure Details

Fondo de Titulización de Activos BBVA-1 (Issuer)

Fondo de Titulización de Activos BBVA-1 was constituted according to the 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 will mature in 2014 unless liquidated earlier.

According to the Royal Decree, the fondo is administered and represented by a sociedad gestora (a management company). The role of the sociedad gestora is to protect the interests of the bondholders and other creditors of the fondo and to manage the cash flows of the fondo on a daily basis. The sociedad gestora is also responsible for liquidating the fondo at maturity or on a termination event.

Assets Transfer

The assets of the fondo are the securitized loan agreements, the acquisition of which was financed through the issuance of the rated bonds. From a legal perspective, full legal title to the loan agreements was transferred to the fondo at closing, and as such the transfer constituted a true sale. When needed, all obligors have been notified of the transfer and have given their approval.

The assignment of the loans is effected through the assignment of a contractual position and acquisition of a covered obligations agreement. This agreement contains various representations from BBVA as to the valid existence and the transferability of the loan agreements.

Lines of Credit and the Excess Funding Account

Some of the loans purchased by the fondo are revolving loans. The fondo has purchased the full committed exposure on these loans, and issued bonds for the same amount. The excess over the drawn portion was deposited into the excess funding account. In the case of further drawings, the sociedad gestora will use the funds available in this account to make the relevant advance to the obligor.

Subordinated Loan

Credit support in the transaction is provided through a combination of subordination and the cash collateral account. The cash collateral account was funded in full at closing through a subordinated loan from BBVA. This loan is in an amount of 2.75% of the full amount of the portfolio. The subordinated loan is repayable after all the rated bonds.

Set-up Expenses Loan

All the set-up expenses of the fondo were covered by a set-up expenses loan provided by BBVA. The amortization of this loan as well as all the operating expenses of the fondo are covered by the swap agreements.

Liquidity Facility

The fondo also benefits from a liquidity facility to be provided by BBVA in an amount of 4% of the total outstanding of the securitized portfolio. This liquidity facility will be used to cover the shortfall in interest throughout the recovery proceedings once a loan has become delinquent and until it has been declared defaulted. Both the principal and the interest payments on the liquidity facility are senior to the payments due under the bonds. This has been taken into account when determining the subordination levels and sizing the cash collateral account.

Terms and Conditions of the Rated Bonds

To finance the purchase of the loan agreements, the fondo has 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 as a function of 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 and then the lowest rated tranches. If not otherwise redeemed, the bonds are to be repaid in full in 2014. Note that BBVA has the option to repurchase the securitized assets once the balance of the portfolio has reached 20% of its original amount or if its senior unsecured short-term rating falls below 'A-1+.'

Hedging

This transaction is a cash flow CLO. Therefore, it relies on the cash flow generated by the securitized assets for timely payment of interest and ultimate repayment of principal on the rated bonds. In this case, the loans in the portfolio pay interest on various dates and at various rates. Also, some loans are denominated in U.S. dollars and/or have multi-currency options. In order to insulate the fondo against adverse fluctuations both in interest and foreign exchange rates, the fondo has entered into a series of interest rate and currency swaps with BBVA. To the extent received by the swap counterparty, these swaps will transform 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 for the principal payments, the swaps will convert at the relevant foreign exchange rate all non-denominated principal receipts (including recovery amounts).

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

Collections

The transaction is not expected to be affected by any commingling risk as all obligors have been notified to pay into segregated accounts in the name of the fondo. All accounts of the fondo have to be maintained with 'A-1+' institutions at any time.

Servicing

BBVA is responsible for the servicing of the loans according to its standard credit and collections policy. It is also in charge of implementing loan work-out agreements in accordance with its own workout procedures for non-performing loans. Only once BBVA has informed the sociedad gestora that it does not expect to recover more under a delinquent loan is the loan regarded as defaulted and the amount written off from the subordinated loan and thereafter from the rated bonds. All recoveries are first used to repay the liquidity facility then the rated bonds in sequential order. BBVA, as servicer, is limited in its ability to manage and modify the securitized loan agreements.

Credit Analysis

Portfolio

The portfolio is made up of 53 loans to 42 obligors for an amount of approximately Eur1.1 billion. All obligors are Spanish or international corporates. The portfolio contains both term loans (83.98% of the total amount of the portfolio) and revolving credit lines (16.02%). Revolving credits are approximately 50% drawn.

The loans have a base currency of either U.S. dollars (18.9% of the portfolio) or euros (81.01%) and about 41.3% have multi-currency options. The transaction is insulated against foreign currency risk through the swap agreements. Similarly, all the loans pay floating rates with various margins at various dates. The swap agreements will cover any basis and interest rate risk and cover any negative spread in the transaction. Most of the loans are amortizing which results in a weighted average life of about 4.4 years.

The main characteristic of the portfolio is the lack of diversification. In particular, the three largest obligor groups represent almost 57% of the portfolio. They are described in table 1.

Table 1 Three Largest Obligor Groups – Characteristics

Number of loans	Percentage of total portfolio (%)	Rating	Industry sector	Scheduled maturity of the longest obligation
Six	29.6	AA-/A-1+	Electric Utility	2007
Two	16.6	A+/A-1	Telecommunication	2005
Five	10.5	N.R.	Motorways	2005

These levels of single-obligor concentration are unusual for transactions of this type. For the class A and B bonds, the subordination levels take into account the probability that these companies may default over the life of the transaction. This is not the case for class C, D, and E bonds the ratings of which are dependent on the performance of the largest two obligor groups. On a lowering of the senior unsecured long-term rating of either of these two obligor groups, the ratings of the class C, D, or E bonds may be affected.

Industry Concentrations

Large single-obligor concentrations result in large concentrations in specific industries. However, in these cases the risk of correlation is limited as only one company is involved. The hotel industry is the only industry that according to the CLO-CBO criteria presents a correlation risk for the transaction. This risk has been taken into account when sizing the preliminary credit enhancement levels.

Credit Analysis

When sizing the preliminary credit enhancement levels, the traditional statistical approach was used, which involves the use of the CLO-CBO Default Model. The Default Model computes the probability to reach a specific level of defaults in the securitized portfolio and compares it to the expected probability of default at a specific rating level over the life of the transaction. This calculation relies on four major elements as follows:

- The issuer credit rating of the obligor;
- The maturity date of the loans;
- The relative size of the exposure to the obligor as a percentage of the total size of the pool; and
- Any industry concentrations.

The risk of correlation for obligors operating in the same industry sectors is taken into account by adjusting the ratings. In this case, as mentioned earlier, all the loans in the hotel industry were notched down by one notch.

Credit Mapping

As common in European CLOs, the majority of the obligors in the securitized portfolio do not have a public rating. As mentioned previously, the issuer credit ratings are necessary to compute the probability of default of each asset and, therefore, to derive the probability of having a certain percentage of defaults of the total pool over the life of the transaction. Therefore, in addition to public and confidential ratings and to credit assessments already available, a correlation analysis was performed between Standard & Poor's rating scale and BBVA's internal scores. This exercise relies on an in-depth review of BBVA's credit process and underwriting policy as well as methodology for assigning internal scores. This correlation analysis was performed on the securitized portfolio itself and as such is only applicable to this transaction.

Based on this methodology, the vast majority of the portfolio is rated above investment grade (around 90%).

To determine the subordination levels and the size of the cash collateral account, the default rate given by the CLO/CBO Default Model has been adjusted with expected recovery rates.

Recovery Levels

The portfolio includes both senior secured and senior unsecured loans. Expected recovery levels for loans to electrical utilities and motorways were closely examined. For secured loans and unsecured loans (except for electrical utilities and motorways), standard recovery levels were assumed (55% for senior secured and 40% for senior unsecured). For loans to electrical utilities, some credit was given to the fact that, historically, recoveries in this sector have been slightly higher than usual owing to the inherent value of the assets and their importance for a country. This analysis applies particularly to Spain where deregulation is not yet fully complete. As for motorways, slightly higher recovery rates were also granted to take into account the fact that lending to these companies is made on the basis of an undertaking by the Spanish state to cover losses up to a certain level upon a bankruptcy of the company operating the motorway concession. Based on these assumptions, the weighted average recovery rate used for the transaction was around 51%.

Cash Flow Analysis

This transaction does not benefit from any excess spread but has the use of a liquidity facility that feeds the swap agreements by advancing interest payments when a loan becomes delinquent until the final losses have been established. The liquidity facility has been sized at 4% of the outstanding portfolio which should be adequate to provide enough cash flows to the swaps. BBVA (AA-/negative/A-1+) provides the facility. However, any liquidity facility provider is a supporting rating for the transaction. Therefore, at any time the liquidity facility should be provided by entities whose short-term senior unsecured credit rating is 'A-1+.'

Credit Enhancement Levels

Credit protection for each class of bonds is provided through a combination of subordination for the class A, B, C, and D bonds and cash for the class E bonds. The cash reserve has been sized at 2.75% of the total amount of the portfolio. Total credit protection for each class of bonds is shown in table 2.

Table 2 Total Credit Protection

Class	Preliminary recommended credit protection (%)
A	19.3
B	17.0
C	7.23
D	5.26
E	2.75

On a yearly basis, the portfolio is reviewed and it is determined whether the performance of the portfolio allows for an adjustment of the cash collateral account.

Surveillance Details

Continuous surveillance is maintained on the transaction until the notes mature or are otherwise retired. To do this, regular reports detailing the performance of the underlying mortgages are produced, supporting ratings are monitored, and regular contact is made with the servicer to ensure minimum servicing standards are being sustained. The servicer is also expected to highlight any new developments in its situation in a timely manner.