

Rating Action: Moody's has assigned provisional rating to Spanish consumer loans ABS of BBVA Consumo 9, FT

Global Credit Research - 22 Mar 2017

Madrid, March 22, 2017 -- Moody's Investors Service has assigned the following provisional rating to notes to be issued by BBVA Consumo 9, FT (the "Issuer"):

...EUR [1,251.2 million] Series A Fixed Rate Asset Backed Notes due September 2033, Assigned (P)A3(sf)

Moody's has not assigned ratings to the EUR [123.8 million] Series B Notes.

RATINGS RATIONALE

The transaction is a revolving cash securitisation of consumer loans extended to obligors in Spain by Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) (Baa1/P-2(cr), A3 LT Bank Deposits). The revolving period lasts [1.5] years and ends on the payment date falling in September 2018.

BBVA also acts as asset servicer, calculation agent, collection and issuer account bank provider. The previous BBVA Consumo transactions, which had a similar structure, are currently performing in line with Moody's expectations.

The provisional portfolio of underlying assets consists of unsecured consumer loans originated in Spain, with mostly fixed rates ([87.93]% of the pool) and a total outstanding balance of approximately € [1,424.4] million. The final portfolio will be selected at random from the provisional portfolio to match the final note issuance amount.

As at [6 March 2017], the provisional pool cut had [169,230] loans with a weighted average seasoning of [11.35] months. The portfolio consists of unsecured consumer loans used for several purposes, such as new or used car acquisition, property improvement and other undefined or general purposes. Approximately [21.62]% are loans with the purpose to purchase vehicles. The transaction benefits from credit strengths such as the granularity of the portfolio, the high average interest rate of [6.97]% and the financial strength and securitisation experience of the originator. However, Moody's notes that the transaction features some credit weaknesses such as commingling risk and the high linkage to BBVA. In addition, the revolving structure could increase performance volatility of the underlying portfolio. Various mitigants have been put in place in the transaction structure, such as early amortisation triggers, performance-related triggers to stop the amortisation of the reserve fund, substitution criteria both on individual loan and portfolio level and eligibility criteria for the portfolio. Commingling risk is partly mitigated by the transfer of collections to the issuer account within two days. If BBVA's long term deposit rating is downgraded below Baa3, it will either transfer the issuer account to an eligible entity or guarantee the obligations of BBVA.

Moody's analysis focused, amongst other factors, on (i) an evaluation of the underlying portfolio of consumer loans and the eligibility criteria; (ii) historical performance provided on BBVA's total book and past consumer loan ABS transactions; (iii) the credit enhancement provided by subordination, excess spread and the reserve fund; (iv) the revolving structure of the transaction; (v) the liquidity support available in the transaction by way of principal to pay interest and the reserve fund; and (vi) the overall legal and structural integrity of the transaction.

MAIN MODEL ASSUMPTIONS

Moody's determined a portfolio lifetime expected mean default rate of [6.75]%, expected recoveries of [20.0]% and a Aa2 portfolio credit enhancement ("PCE") of [19.0]% for both the current and substituted portfolios of the issuer. The expected defaults and recoveries capture our expectations of performance considering the current economic outlook, while the PCE captures the loss we expect the portfolio to suffer in the event of a severe recession scenario. Expected defaults and PCE are parameters used by Moody's to calibrate its lognormal portfolio loss distribution curve and to associate a probability with each potential future loss scenario in its ABSROM cash flow model to rate consumer ABS transactions.

The portfolio expected mean default rate of [6.75]% is in line with Spanish consumer loan transactions and is based on Moody's assessment of the lifetime expectation for the pool taking into account (i) historic performance of the loan book of the originator, (ii) benchmark transactions, and (iii) other qualitative considerations.

Portfolio expected recoveries of [20.0]% are in line with the Spanish consumer loan average and are based on Moody's assessment of the lifetime expectation for the pool taking into account (i) historic performance of the loan book of the originator, (ii) benchmark transactions, and (iii) other qualitative considerations such as quality of data provided and asset security provisions.

The PCE of [19.0]% is in line with other Spanish consumer loan peers and is based on Moody's assessment of the pool taking into account the relative ranking to originator peers in the Spanish consumer loan market. The PCE of [19.0]% results in an implied coefficient of variation ("CoV") of [45.9]%.

METHODOLOGY

The principal methodology used in this rating was "Moody's Approach to Rating Consumer Loan-Backed ABS" published in September 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The rating addresses the expected loss posed to investors by the legal final maturity of the notes. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal with respect to the Class A Notes by the legal final maturity. 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.

FACTORS THAT WOULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING:

Factors or circumstances that could lead to an upgrade of the rating of the notes would be (1) better than expected performance of the underlying collateral; (2) significant improvement in the credit quality of BBVA; or (3) a lowering of Spain's sovereign risk leading to the removal of the local currency ceiling cap. Factors or circumstances that could lead to a downgrade of the rating would be (1) worse than expected performance of the underlying collateral; (2) deterioration in the credit quality of BBVA; or (3) an increase in Spain's sovereign risk.

LOSS AND CASH FLOW ANALYSIS:

Moody's used its cash flow model ABSROM as part of its quantitative analysis of the transaction. ABSROM enables users to model various features of a standard European ABS transaction - including the specifics of the loss distribution of the assets, their portfolio amortisation profile, yield as well as the specific priority of payments, swaps and reserve funds on the liability side of the ABS structure. The model is used to represent the cash flows and determine the loss for each tranche. The cash flow model evaluates all loss scenarios that are then weighted considering the probabilities of the lognormal distribution assumed for the portfolio loss rate. In each loss scenario, the corresponding loss for each class of notes is calculated given the incoming cash flows from the assets and the outgoing payments to third parties and noteholders. Therefore, the expected loss or EL for each tranche is the sum product of (i) the probability of occurrence of each loss scenario; and (ii) the loss derived from the cash flow model in each loss scenario for each tranche.

STRESS SCENARIOS:

As described in above, Moody's analysis encompasses the assessment of stressed scenarios.

MOODY'S PARAMETER SENSITIVITIES

In rating consumer loan ABS, the mean default rate and the recovery rate are two key inputs that determine the transaction cash flows in the cash flow model. Parameter sensitivities for this transaction have been tested in the following manner: Moody's tested nine scenarios derived from a combination of mean default rate: [6.75]% (base case), [7.25]% (base case + 0.5%), [7.75]% (base case + 1.0%) and recovery rate: [20.0]% (base case), [15.0]% (base case - 5.0%), [10.0]% (base case - 10%). The model output results for Class A Notes under these scenarios vary from [A3] (base case) to [Baa1] assuming the mean default rate is [7.75]% and the recovery rate is [10.0]% all else being equal.

Parameter sensitivities provide a quantitative/model indicated calculation of the number of notches that a

Moody's rated structured finance security may vary if certain input parameters used in the initial rating process differed. The analysis assumes that the deal has not aged. It is not intended to measure how the rating of the security might migrate over time, but rather how the initial model output for the Class A Notes might have differed if the two parameters within a given sector that have the greatest impact were varied. Please see the new issue report for more detailed sensitivity analysis.

Moody's issues provisional ratings in advance of the final sale of securities and the above rating reflects Moody's preliminary credit opinions regarding the transaction only. Upon a conclusive review of the final documentation and the final note structure, Moody's will endeavour to assign a definitive rating to the above notes. A definitive rating may differ from a provisional rating. Please note that the actual definitive issuance amounts of the rated classes may change from those stated above given confirmed capital structure and final portfolio levels. However, this aspect should not fundamentally impact the ratings as credit enhancement and portfolio credit features are expected to be consistent.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions of the disclosure form.

Moody's describes its loss and cash flow analysis in the section "Ratings Rationale" of this press release.

Moody's describes the stress scenarios it has considered for this rating action in the section "Ratings Rationale" of this press release.

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