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New Issue: BBVA Empresas 3, Fondo de Titulizacion de Activos

€2.6 Billion Floating-Rate Notes

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Ratings Detail

Class	Rating*	Amount (mil. €)	Available credit support (%)	Interest	Legal final maturity
A	AAA	2,210	34.0	Three-month EURIBOR plus 30 bps	Dec. 24, 2038
B	AA	260	24.0	Three-month EURIBOR plus 50 bps	Dec. 24, 2038
C	A	130	19.0	Three-month EURIBOR plus 80 bps	Dec. 24, 2038

*Standard & Poor's ratings address timely payment of interest and ultimate payment of principal.

Transaction Participants	
Originator	Banco Bilbao Vizcaya Argentaria, S.A.
Arrangers	Banco Bilbao Vizcaya Argentaria, S.A. and Europea de Titulización S.G.F.T., S.A.
Trustee	Europea de Titulización S.G.F.T., S.A.
Servicer	Banco Bilbao Vizcaya Argentaria, S.A.
Interest swap counterparty	Banco Bilbao Vizcaya Argentaria, S.A.
GIC and bank account provider	Banco Bilbao Vizcaya Argentaria, S.A.
Paying agent	Banco Bilbao Vizcaya Argentaria, S.A.
Underwriters	Banco Bilbao Vizcaya Argentaria, S.A.
Subordinated loan provider	Banco Bilbao Vizcaya Argentaria, S.A.
Startup loan provider	Banco Bilbao Vizcaya Argentaria, S.A.

GIC—Guaranteed investment contract.

Supporting Ratings

Institution/role	Ratings
Banco Bilbao Vizcaya Argentaria, S.A. as GIC provider, bank account provider, and interest swap counterparty	AA/Negative/A-1+

GIC—Guaranteed investment contract.

Transaction Key Features*	
Closing date	Dec. 23, 2009
Collateral	Loans granted to Spanish SMEs
Principal outstanding (€)	2,991,182,829.90
Country of origination	Spain
Concentration	Largest 20 obligors (6.49% of pool). Regional concentration: Catalonia (18.77%), Madrid (15.34%), Andalucia (15.26%), and Valencia (14.14%). Industrial concentration: building construction (13.00%), wholesale commerce (11.71%), and real estate activities (9.21%). The five major industries represent 43.33% of the pool
Average current loan size balance (€)	149,186.18
Loan size range (€)	1,233.72 to 10,000,000
Weighted-average interest rate (%)	3.95

Transaction Key Features* (cont.)	
Arrears	At closing, no loans were in arrears for more than one month
Redemption profile	Amortizing (95.78%) and bullet (4.22%)
Excess spread at closing¶ (bps)	50
Cash reserve (%)	19.00

*Pool data as of Nov. 26, 2009. ¶Available through the interest swap contract.

Transaction Summary

Standard & Poor's Ratings Services has assigned credit ratings to BBVA Empresas 3, Fondo de Titulización de Activos' €2.6 billion floating-rate notes.

The originator is Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), the second-largest Spanish banking group. At closing, BBVA sold to the issuer a €2.6 billion closed portfolio of secured and unsecured loans granted to Spanish small and midsize enterprises (SMEs) based in Spain.

To fund this purchase, Europea de Titulización S.G.F.T., S.A., the trustee, issued three classes of floating-rate, quarterly paying notes, on the issuer's behalf.

Notable Features

This transaction is the 13th securitization BBVA has completed of its loans granted to SME and corporate clients. This securitization comprises a mixed pool of underlying mortgage-backed and other guarantee assets.

The ratings on the notes reflect the subordination of the respective class of notes below them, the reserve fund, the presence of the interest rate swap (which provides excess spread of 50 bps), comfort provided by various other contracts, the rating on BBVA (AA/Negative/A-1+), and the downgrade language in all of that entity's roles, including that of servicer.

Strengths, Concerns, And Mitigating Factors

Strengths

- BBVA is an experienced originator and servicer, with 12 SME transactions, one corporate loan collateralized loan obligation (CLO) transaction, eight residential mortgage-backed securities (RMBS) transactions, one mortgage-backed securities (MBS) transaction, three auto loan transactions, four consumer loan transactions, a municipality transaction, and a leasing transaction.
- Credit enhancement adequately covers the various stresses we applied to the transaction. Credit enhancement comprises subordination, the available excess spread, the rating on the servicer, and the subordinated loan that fully funded the reserve fund on the closing date.
- Of the pool, 39.34% represents mortgage loans which carry a higher level of recoveries.
- The swap structure provides support to the rated notes. We have given credit for this in our cash flow analysis (see "Interest swap agreement").

Concerns and mitigating factors

- There is borrower concentration risk, as the top 20 borrowers represent 6.49% of the final pool and the biggest borrower represents 0.51% of the pool. We took borrower concentrations into account in the credit analysis when stressing the default rates at each rating level.
- There is a limited geographical concentration risk as 63.51% of the pool is concentrated in four regions: Catalonia (18.77%), Madrid (15.34%), Andalucia (15.26%), and Valencia (14.14%). We took geographical concentrations into account in the credit analysis.
- Industry concentration is also a concern with 27.00% of the pool comprising SMEs in the real estate and construction sectors. In particular, we are concerned about the 9.25% of the pool granted to developers, as these loans are likely to be the most vulnerable to real estate market performance fluctuations. The real estate sector is significant in the SME economy and none of these loans implies construction risk for the issuer. We have taken into account industry concentration in our credit analysis.
- A percentage of the loans have a higher level of risk due to their amortization profile: 4.22% of the loans in the securitized pool follow a bullet amortization profile. Borrowers on this type of loan repay principal due in one lump sum at maturity. We took into account loan amortization profiles in the credit and cash flow analysis.
- Unlike in previous BBVA SME transactions, in this transaction principal amortization of the notes accelerates if there are loans more than 18 months past due instead of loans more than 12 months past due. This is done by using trapped excess spread and by the amount equivalent to the outstanding balance of those overdue loans. Delaying the default definition from 12 to 18 months is less beneficial for the noteholders as excess spread will be leaking out from the transaction six more months before being trapped.
- There are two interest deferral triggers that are more protective toward senior noteholders than subordinated noteholders in cases of poor deal performance. This feature is seen in the priorities of payments that combine interest and principal. Hitting an interest deferral trigger would lead to the issuer using interest from the junior notes to repay the most senior notes. This interest deferral trigger structure is typical in Spanish securitization transactions and credit enhancement is sized accordingly for the junior notes (see "Priority Of Payments").
- Classes B and C could amortize pro rata, affecting the earlier amortization of the senior notes. This feature is typical in Spanish securitization transactions and certain conditions would need to be met before the pro rata amortization of the junior notes (see "Redemption of the notes") .
- The reserve fund can start amortizing after three years if it reaches 38% of the outstanding balance of the class A, B, and C notes. Subject to a floor of half of its initial value, certain conditions need to be met to amortize the reserve fund (see "Reserve fund").
- The originator sweeps collections no later than seven days from collection account to the issuer's account, generating commingling risk. As long as BBVA is rated 'A-1+', the weekly sweep of collections will have no effect on commingling risk. If it were downgraded below 'A-2', BBVA would accelerate to daily sweeps to the issuer's account to partially mitigate commingling risk.

Trustee Or "Sociedad Gestora"

Europea de Titulización S.G.F.T., as trustee, enters into certain contracts on the issuer's behalf (such as GICs, a swap agreement, and subordinated credit facilities and loans). These contracts are needed to protect it against certain credit losses and liquidity shortfalls that are assumed to arise in connection with the holding of the mortgage participations and the unsecured loans.

In this transaction, the trustee's main responsibilities are to create the issuer, issue the notes on the issuer's behalf, calculate the interest rate on the notes, notify noteholders of any relevant information applicable to the notes and mortgage participations, and organize the annual audit.

Banco Bilbao Vizcaya Argentaria, S.A.

The ratings on Spain-based BBVA reflect our view of the bank's strong franchise in its core markets, above-average financial performance, and conservative management. In our opinion, its good performance and credit risk management somewhat offset its higher reliance on emerging markets, deteriorating asset quality, and lower degree of diversification than for some international peers.

BBVA enjoys strong operating profitability across all business units. We believe that the bank will maintain this profitability, which should help it weather the current economic downturn. Its strong profits are the result of the successful creation of solid franchises in various countries, with strong positions in all banking and ancillary businesses in Spain and Latin America, particularly in Mexico. BBVA is now increasing its diversification by building a cohesive franchise in the southern U.S. after the acquisition of several banks, mainly Compass Bancshares, Inc. (A+/Stable/A-1). BBVA benefits from strong efficiency across business units, in our view, driven by a strict cost-control culture and a sales-focused organization.

We expect that BBVA's asset quality will deteriorate in all countries where the bank is present. This will likely increase provisioning needs, putting some pressure on bottom-line profitability. Higher provisions in Spain should be partly compensated for by releasing generic loan loss reserves following Spanish regulation. We believe nonperforming loans (NPLs) will increase significantly in Spain and the U.S. as the economic crisis deepens, in line with the deterioration we saw in the last quarter of 2008. We also believe the cost of risk is going to increase materially in Latin American countries as they become more affected by the global slowdown, particularly in Mexico as the country enters into recession.

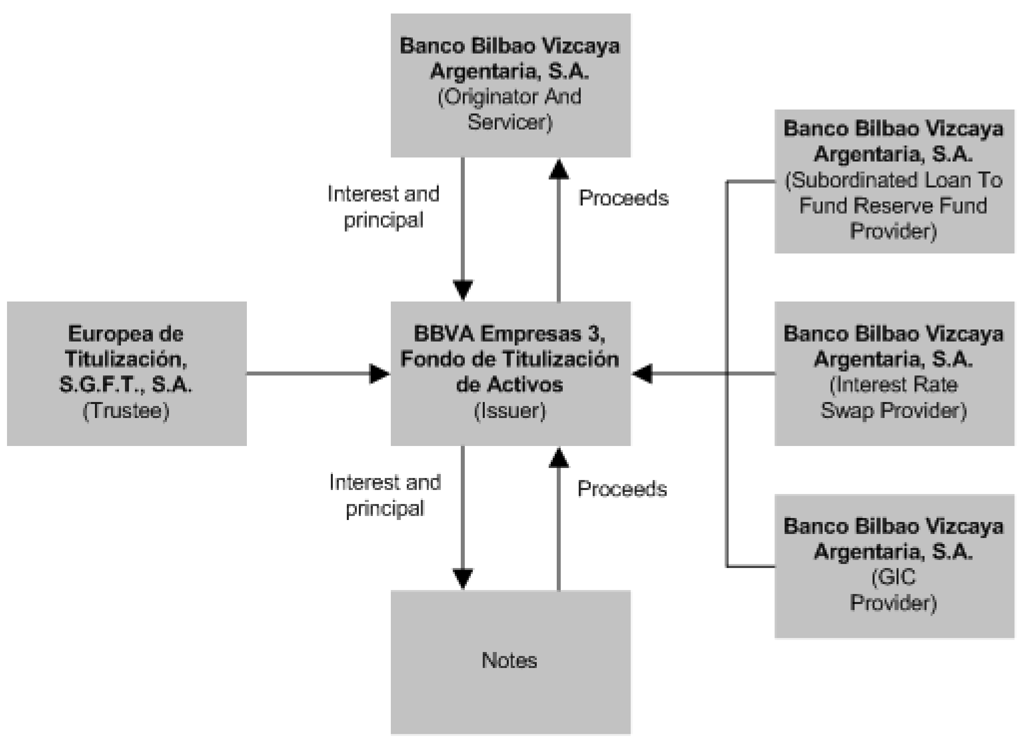
We have classified BBVA's capital ratios as satisfactory. In our opinion, the bank's liquidity position has enabled it to manage the liquidity squeeze in a manner commensurate with the current rating.

We view BBVA as having high systemic importance within the Spanish banking sector. Our ratings on BBVA include the soft benefits derived from being a bank in a regulated and supervised environment. The ratings on BBVA reflect our opinion of its stand-alone credit profile and do not include any explicit uplift for extraordinary government support.

Transaction Structure

At closing, BBVA Empresas 3 funded the purchase of the closed portfolio by issuing three classes of notes through the trustee, Europea de Titulización S.G.F.T. (see chart 1).

Chart 1: BBVA Empresas 3, Fondo de Titulización de Activos Transaction Structure



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The issuer is not a separate entity at law, but holds a distinct and closed pool of assets available for distribution to the noteholders.

The issuer is a "fondo de titulización de activos" created for the sole purpose of purchasing the unsecured loans and the mortgage certificates from BBVA, issuing the notes, and carrying out related activities. The assets are insulated from the insolvency of the originator and the trustee.

The issuer pays principal and interest on the notes quarterly following a determined priority of payments. The transaction features some structural enhancements derived from the swap agreement, amortization of the notes, the reserve fund, and BBVA's servicing.

As in other Spanish transactions, interest and principal from the underlying assets are combined into a single priority of payments. A cumulative default ratio test protects senior noteholders by subordinating the payment of junior interest further down the priority of payments.

Cash collection arrangements

BBVA, as servicer, collects the amounts due under the loans and transfers them weekly to the issuer account held at BBVA. The regularity of the cash sweep may be accelerated if BBVA's creditworthiness deteriorates and would be swept daily if its rating was lowered below 'A-2'. This partially mitigates the potential risk of funds being commingled within the originator's accounts.

The minimum rating required to be the bank account provider is 'A-1', so if BBVA is downgraded below 'A-1', it should take remedy actions following our "Revised Framework For Applying Counterparty And Supporting Party Criteria" (see "Related Research").

Commingling reserve

To protect against commingling risk, if BBVA is downgraded below a short-term rating of 'A-2', then:

- Within 30 calendar days, the servicer should find an eligible guarantor with at least a short-term rating of 'A-1'. The guarantor should provide the issuer with a first-demand, unconditional, and irrevocable guarantee equal to the commingling reserve amount to be applied to pay any amounts the servicer fails to pay to the issuer for the loans. This amount, if required to be paid, would be deposited in an issuer bank account in accordance with the bank account and cash management agreements. We would expect to review the guarantee at the time the downgrade occurs; or
- Within 10 calendar days, the servicer should deposit in the issuer's bank account an amount equal to the commingling reserve amount to be applied to pay any amounts the servicer fails to pay the issuer for the loans.

Alternatively, we encourage the servicer to request our written confirmation that the ratings on the notes would not be adversely affected.

On the date this commingling reserve is required, the initial amount should be a sufficient proportion of the principal amount outstanding to avoid affecting the ratings on the notes.

Cash reserve

The structure benefits from a cash reserve fund. On the closing date a subordinated loan fully funded the reserve fund, which is fixed for the first three years and the issuer uses on each payment date to pay the different items of the priority of payments described below.

The reserve fund required on each payment date is the minimum of:

- 19% of the initial balance of classes A, B, and C; or
- The higher of: (i) 38.0% of the outstanding principal balance of classes A, B, and C, and (ii) 9.5% of the initial balance of classes A, B, and C.

After three years have elapsed, the cash reserve account amortizes if the following conditions are met:

- The outstanding balance of the loans in the pool with any payment in arrears for more than 90 days is lower than 1% of the outstanding balance of the non-delinquent loans (loans in arrears for more than 90 days) in the pool; or
- The reserve fund is at the required level on the previous payment date.

The minimum reserve fund level can never be lower than 9.5% of the initial balance of the class A, B, and C notes (€247 million).

Interest swap agreement

On the issuer's behalf, the trustee entered into a swap agreement with BBVA. This swap provides protection against adverse interest rate resetting and movements.

The issuer pays to the swap counterparty the interest effectively received from the loans during the calculation period. The issuer receives from the swap counterparty an amount equivalent to the weighted-average coupon on the notes plus 50 bps per year over a notional, which is the outstanding balance of the performing loans (up to three months in arrears), and the servicing fee amount.

This type of swap not only provides a hedge for the interest rate risk, but it also provides credit support to the transaction, given that it covers the substitute servicing fee, the weighted-average coupon on the notes, and it also guarantees a spread of 50 bps in the transaction.

If an ineligible counterparty is not replaced within the remedy period, we may lower the ratings on the notes to levels that could be supported by the counterparty's then-current rating. We take into consideration the amount of collateral in analyzing the transaction after the counterparty is downgraded. Our analysis assumes that a replacement of the ineligible counterparty will occur. However, given the bespoke nature of this swap, it may be more difficult to find a replacement. Therefore, the market should understand and consider the risk of downgrade of the transaction if a replacement is not found.

Under the transaction documentation, any counterparty replacement or guarantee is subject to our rating confirmation. The downgraded counterparty bears all the costs of the remedies.

Redemption of the notes

Amortization occurs for the:

- Class A notes, from the first payment date until fully amortized;
- Class B notes, once the class A notes are fully redeemed; and
- Class C notes, once the class B notes are fully redeemed.

The available amortization fund on each payment date is equal to the balance of the capital repayment fund.

The capital repayment fund, on each payment date, is the difference between:

- The principal outstanding balance under all the classes of notes; and
- The principal outstanding balance of all outstanding non-defaulted loans (no more than 18 months in arrears).

The conditions for the pro rata amortization of the class B and C notes are that they amortize pro rata with the class A notes if:

- The ratio of the aggregate balance of delinquent loans to the aggregate balance of non-doubtful loans is below 1.25% for the class B notes and below 1.00% for the class C notes;
- The total outstanding principal balance of the class B and C notes represents at least double its size at closing, 20% and 10% of the outstanding principal balance of all the notes;
- The cash reserve is at the required amount after the previous payment date; and
- The total outstanding balance of the non-defaulted SME loan portfolio is equal to or greater than 10% of the initial balance of the SME loan portfolio.

Priority Of Payments

On each quarterly interest payment date, the issuer pays in arrears the interest due to the noteholders. To make the payments, the issuer's available funds include the proceeds of the interest swap, the reserve fund, principal received under the loans and any other proceeds received in connection with the loans.

The issuer can mix all interest and principal received to pay principal and interest due under the notes in the following order:

- Fees;
- Administration fees;
- Net payments under the swap agreement (other than swap termination payments due to a default or breach of contract by the swap counterparty);
- Interest on the class A notes;
- Interest on the class B notes if not deferred;
- Interest on the class C notes if not deferred;
- Amortization of the class A notes, and the class B and C notes;
- Interest on the class B notes if deferred;
- Interest on the class C notes if deferred;
- Replenishment of cash reserve;
- Swap termination payments, if any, when the issuer is not the defaulting party;
- Interest and principal payments under the subordinated loan, established to fund the cash reserve;
- Interest payments and principal repayments under the subordinated start-up loan; and
- Cash back to BBVA.

A trigger ensures that in a stressful economic environment, the more senior notes amortize before the issuer pays interest on the subordinated class of notes.

Interest on the class B and C notes is subject to a deferral on a given payment date to a lower position in the priority of payments in the following situations.

Class B notes

If the cumulative ratio of defaulted loans (outstanding balance of the loans when qualified as defaulted divided by the balance of the pool at closing) is greater than 25%, interest on the class B notes pays in a lower position in the priority of payments, until the class A notes, and then the class B and C notes redeem.

Class C notes

If the cumulative ratio of defaulted loans (outstanding balance of the loans when qualified as defaulted divided by the balance of the pool at closing) is greater than 20%, interest on the class C notes pays in a lower position in the priority of payments, until the class A and then the B notes redeem.

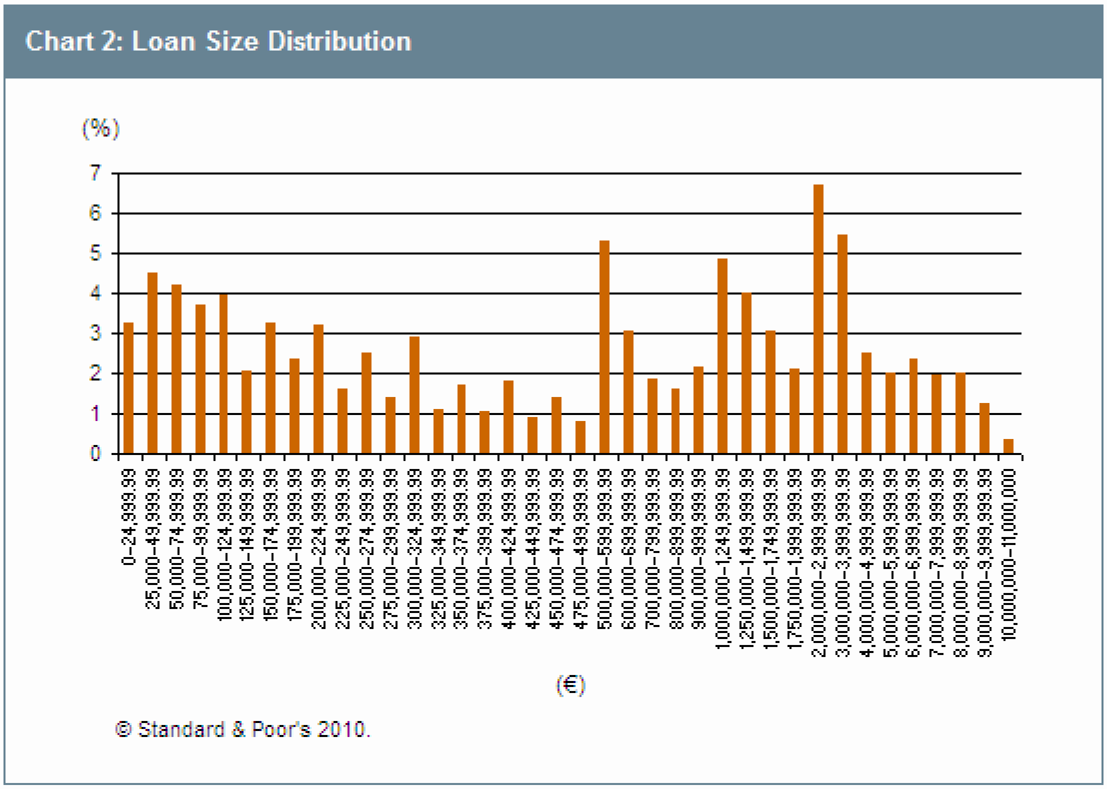
Collateral Description

As of Nov. 26, 2009, the pool comprised 20,050 secured and unsecured loans, and the total number of borrowers was 18,849. The pool was originated between January 2001 and August 2009, and the weighted-average seasoning is 11 months.

The pool has concentration at the obligor level. The largest obligor represents 0.51% of the pool and the largest 20 obligors represent 6.49%.

Chart 2 shows the distribution of the portfolio by loan size.

Chart 2



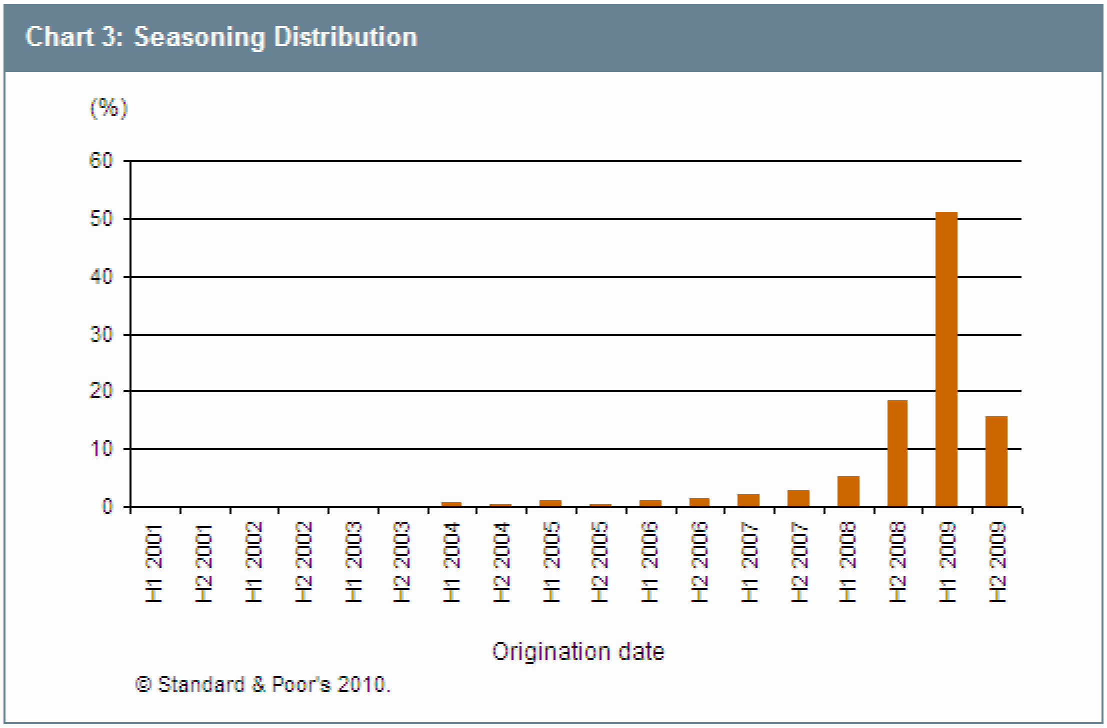
Loans in the pool can follow three different amortization profiles. 79.86% of the loans follow a normal amortizing schedule, while a further 15.92% follow a predefined amortization schedule where the borrower pays the same amount of principal for the rest of the term of the loan. The remaining 4.22% of the pool are loans with a bullet amortization schedule, where the entire principal is paid at maturity (see table 1).

Table 1

Amortization		
Amortization profile	**Outstanding balance (€)**	**% of preliminary pool**
Bullet amortization	126,235,253.68	4.22
Pre-established amortization	476,336,188.82	15.92
Normal amortizing	2,388,611,387.40	79.86
Total	2,991,182,829.90	100.00

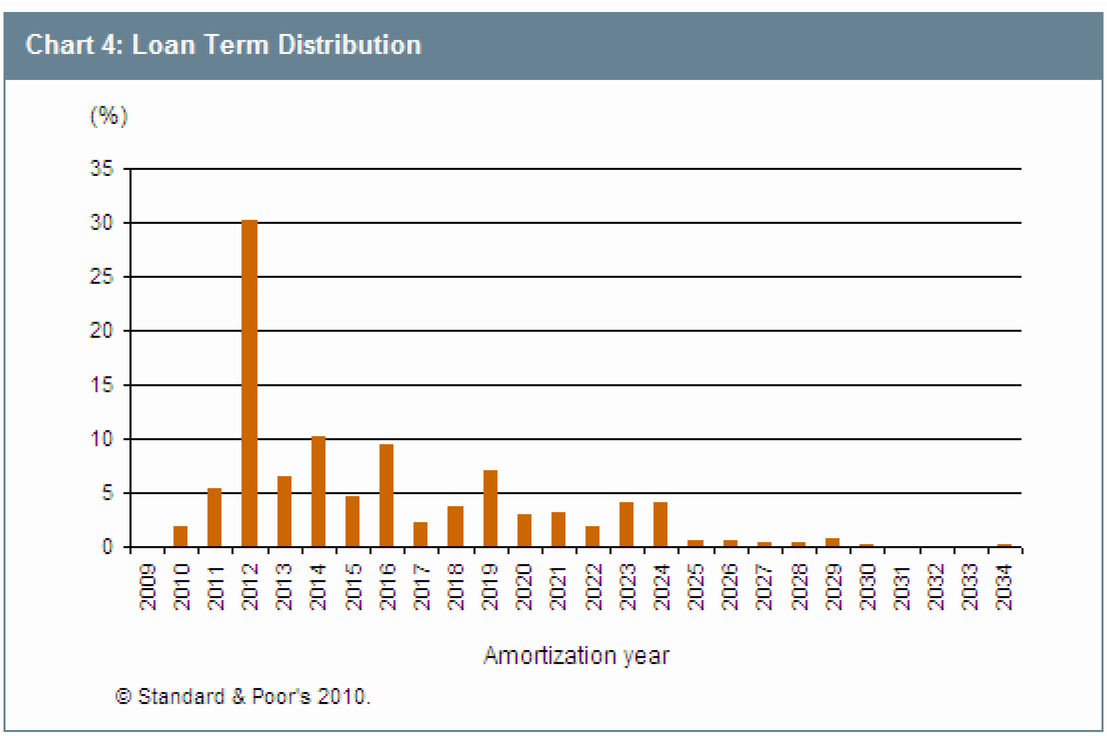
With a weighted-average seasoning of 11.5 months, 66.69% of the loans were originated in 2009 (see chart 3).

Chart 3



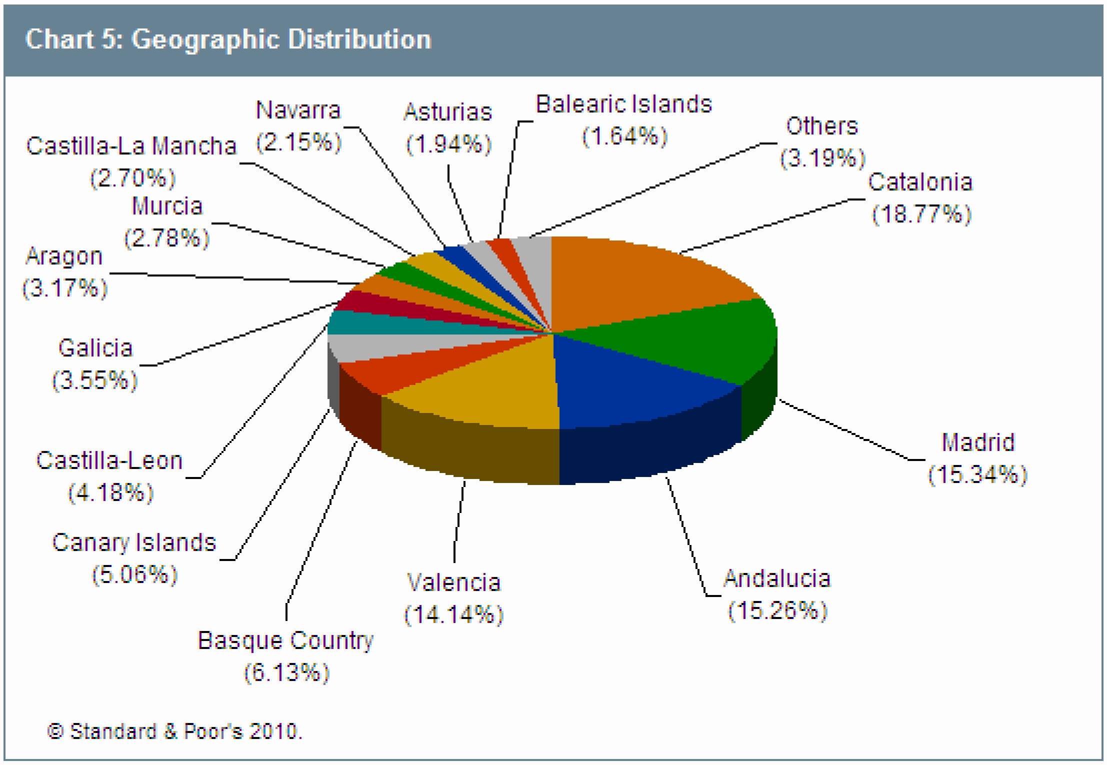
The weighted-average remaining life of the pool is 74.4 months, with 53.95% of the pool maturing within five years (see chart 4).

Chart 4



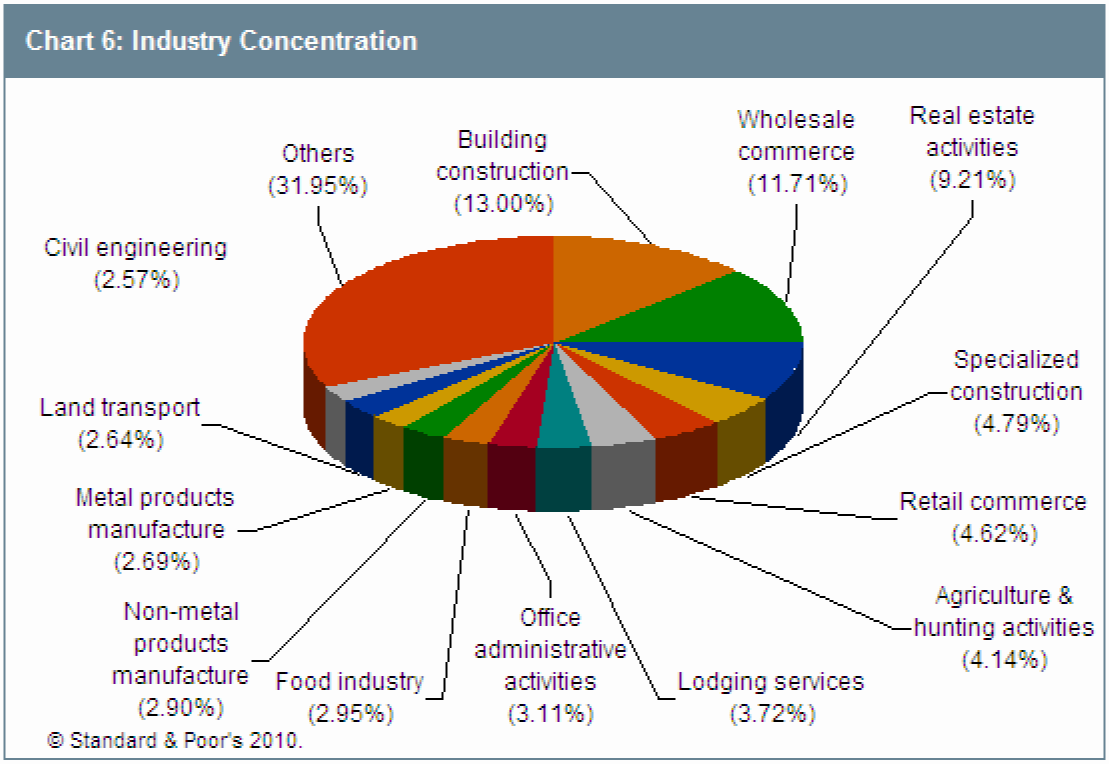
The pool is exposed to different Spanish regions (see chart 5), and at closing the pool had no loans with arrears of more than one month.

Chart 5



The largest industry concentration is building construction, which represents 13.00% of the pool (see chart 6). The second-highest concentration is wholesale commerce (11.71%), followed by real estate activities (9.21%). The five major industries represent 43.33% of the pool.

Chart 6



Of the outstanding amount of the pool, 39.34% is secured by mortgages over properties and commercial premises in Spain. Table 2 shows the pool breakdown.

Table 2

Pool Breakdown

Type of guarantee	Outstanding balance	% of preliminary pool
Industrial warehouse	414,902,905.96	13.87
Retail spaces and offices	299,000,406.54	10.00
Urban land	216,642,646.60	7.24
Residential properties	162,720,914.60	5.44
Rustic land	73,966,071.26	2.47
Garages	9,353,912.78	0.31
Total mortgage guarantee	1,176,586,857.74	39.34
No mortgage guarantee	1,814,595,972.16	60.66
Total	2,991,182,829.90	100.00

Of the pool, 65.59% is indexed to floating rates, with 46.47% of the total outstanding amount of the pool referenced to three-month and six-month EURIBOR/MIBOR (Madrid interbank best offer rate) (see table 3).

Table 3

Reference Index

Reference index	Outstanding balance	% of preliminary pool
Fixed rate	1,029,353,654.81	34.41

Table 3

Reference Index (cont.)		
Total fixed rate	1,029,353,654.81	34.41
One-year EURIBOR/MIBOR	522,995,896.04	17.48
One-month EURIBOR/MIBOR	5,878,724.29	0.20
10-month EURIBOR/MIBOR	1,356,828.28	0.05
11-month EURIBOR/MIBOR	1,825,049.22	0.06
Two-month EURIBOR/MIBOR	30,531,320.10	1.02
Three-month EURIBOR/MIBOR	687,533,235.11	22.99
Four-month EURIBOR/MIBOR	1,057,297.44	0.04
Five-month EURIBOR/MIBOR	3,544,241.65	0.12
Six-month EURIBOR/MIBOR	702,347,417.13	23.48
Seven-month EURIBOR/MIBOR	1,040,714.94	0.03
Nine-month EURIBOR/MIBOR	242,614.41	0.01
Mercado Hipot. Bancos	592,376.83	0.02
Mercado Hipot. Conjunto Entid.	2,883,459.65	0.10
Total Floating	1,961,829,175.09	65.59
Total	2,991,182,829.90	100

Credit Analysis

We conducted an actuarial analysis on historical data that the trustee provided from previous BBVA SME transactions to assess the pool's credit risk. We determined a foreclosure probability and a loss rate at each rating level. The product of these two variables gives an estimate of the required loss protection during the life of the collateral in the absence of additional mitigating factors. The higher the targeted rating, the higher the required credit enhancement level.

Cumulative default rate

To derive our best estimate of future losses, we used performance information from previous BBVA SME transactions that the trustee provided to us (see charts 7 to 11). The pool is representative of the bank book and similar to previous BBVA SME transactions with some concentration differences. This similarity in concentrations, such as real estate and construction industries, real estate developers, bullet loans, geographic concentrations, obligor concentrations, and others is the base for our assumption that the pool might perform in a similar way.

Chart 7

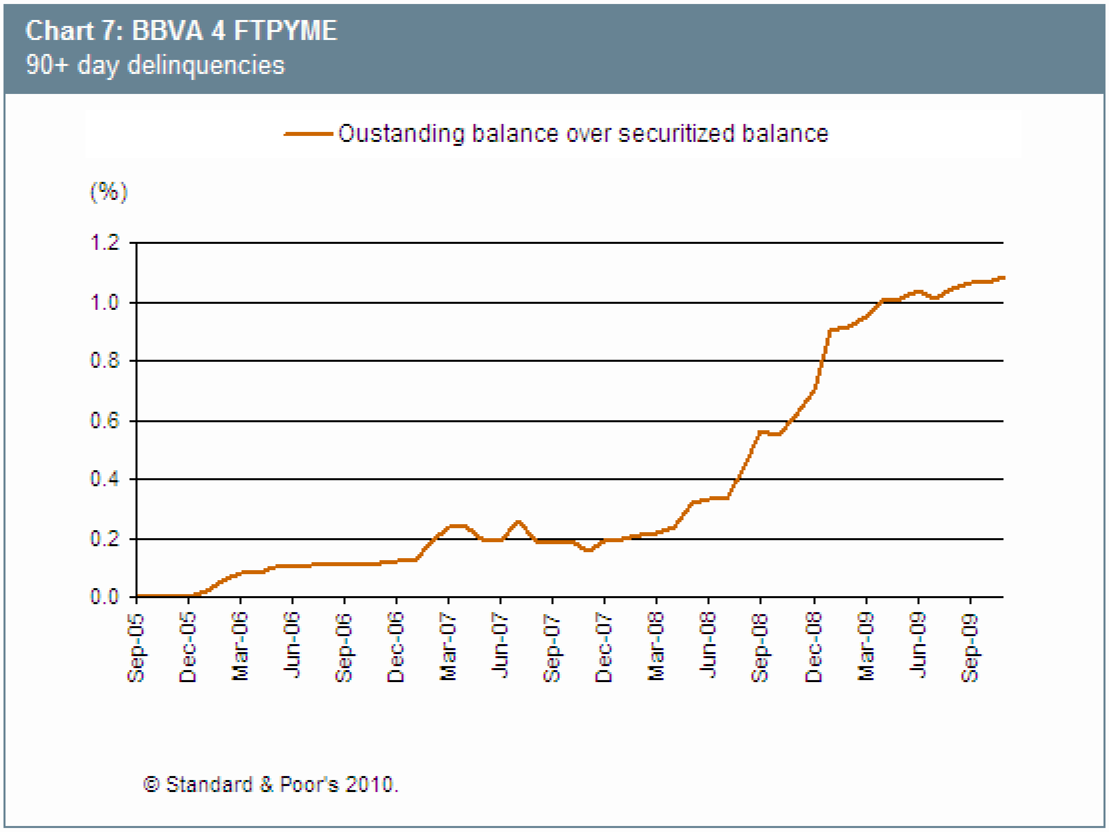


Chart 7: BBVA 4 FTPYME
90+ day delinquencies
Oustanding balance over securitized balance
(%)
1.2
1.0
0.8
0.6
0.4
0.2
0.0
Sep-05
Dec-05
Mar-06
Jun-06
Sep-06
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
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Chart 8

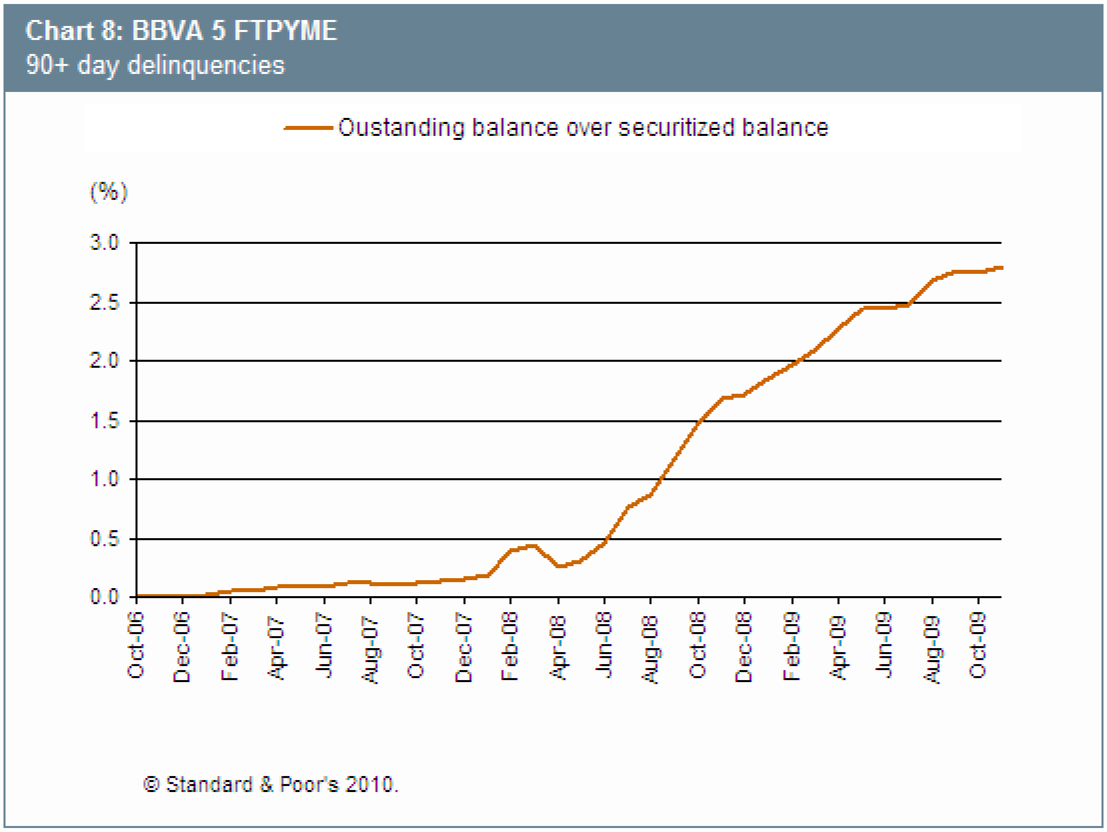
Chart 8: BBVA 5 FTPYME
90+ day delinquencies
Oustanding balance over securitized balance
(%)
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Oct-06
Dec-06
Feb-07
Apr-07
Jun-07
Aug-07
Oct-07
Dec-07
Feb-08
Apr-08
Jun-08
Aug-08
Oct-08
Dec-08
Feb-09
Apr-09
Jun-09
Aug-09
Oct-09
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Chart 9

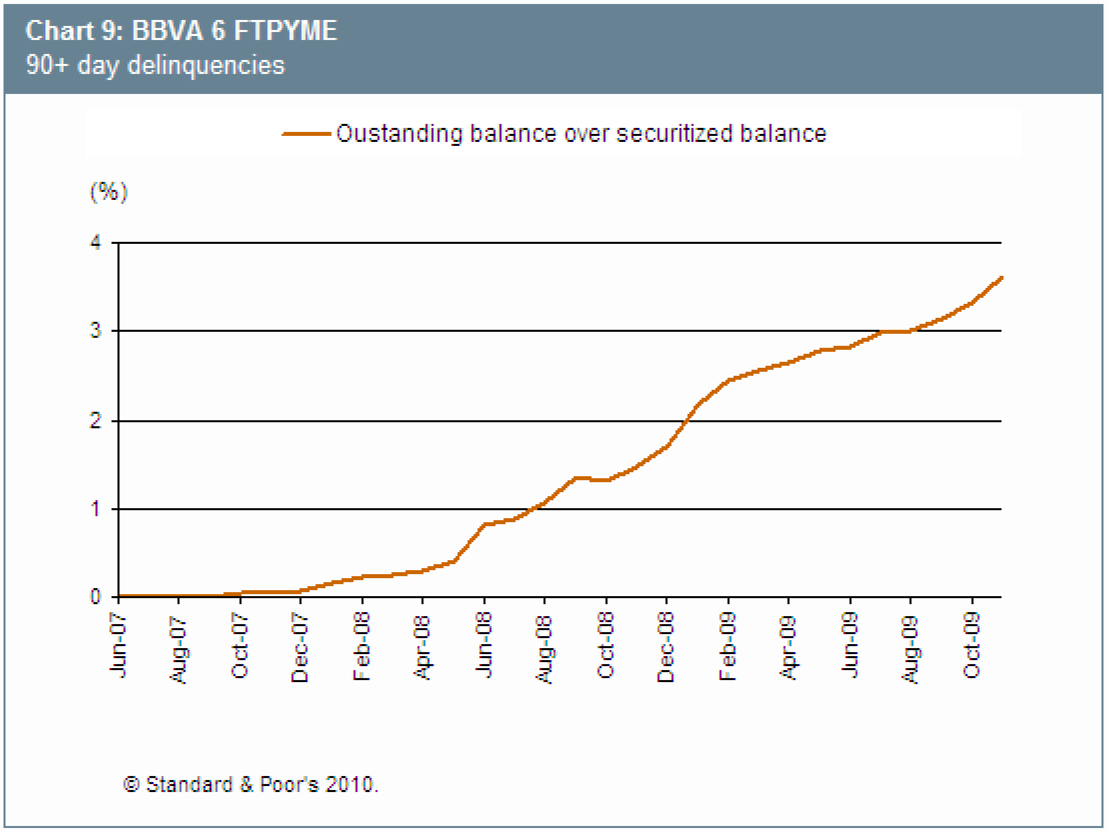
Chart 9: BBVA 6 FTPYME
90+ day delinquencies
Oustanding balance over securitized balance
(%)
4
3
2
1
0
Jun-07
Aug-07
Oct-07
Dec-07
Feb-08
Apr-08
Jun-08
Aug-08
Oct-08
Dec-08
Feb-09
Apr-09
Jun-09
Aug-09
Oct-09
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Chart 10

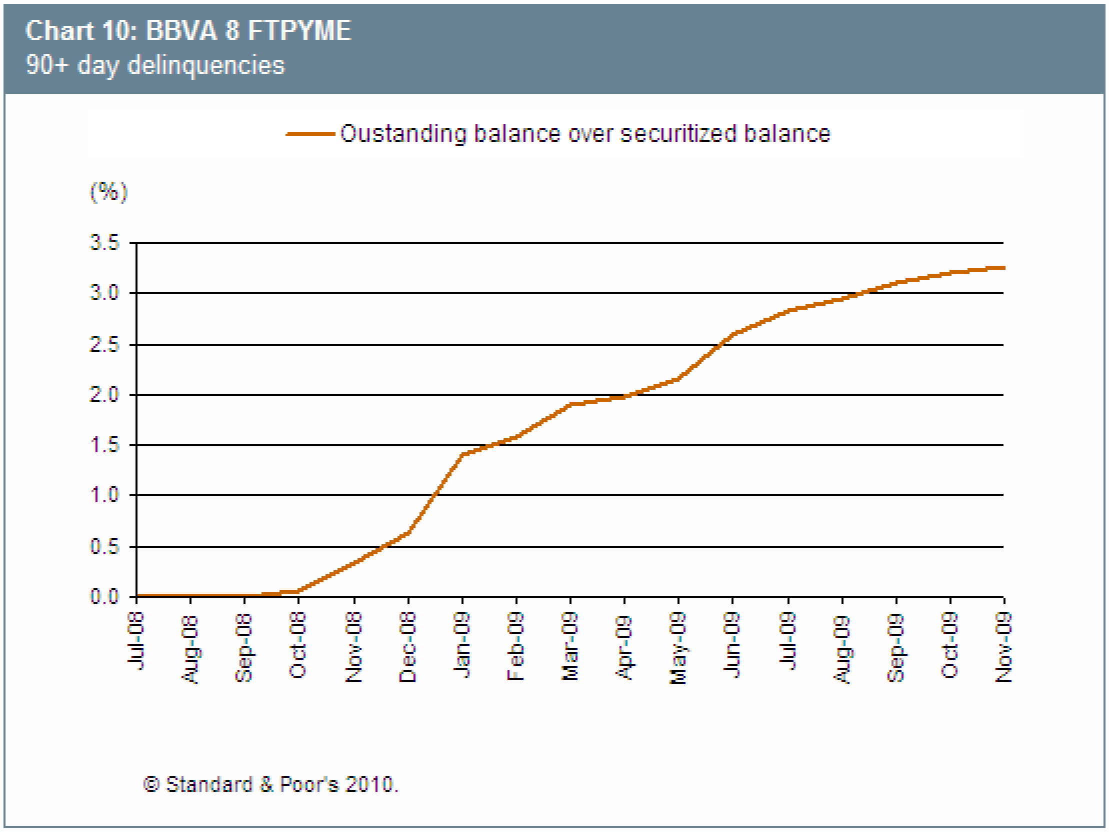

Chart 10: BBVA 8 FTPYME
90+ day delinquencies
Oustanding balance over securitized balance
(%)
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
Jul-08
Aug-08
Sep-08
Oct-08
Nov-08
Dec-08
Jan-09
Feb-09
Mar-09
Apr-09
May-09
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
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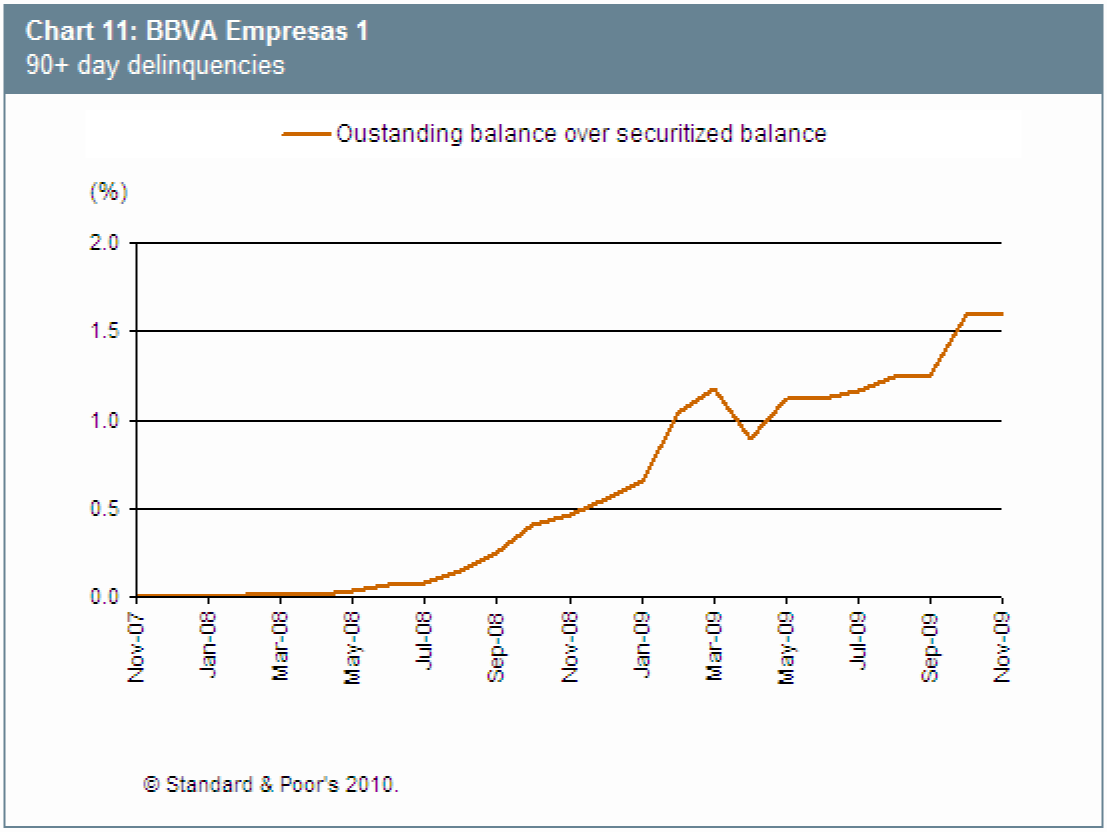
Chart 11



Recoveries

To obtain the base-case recovery rate, we estimated an average recovery rate from previous BBVA SME transactions with similar concentrations of secured and unsecured. We then applied a haircut to obtain the loss severity for different scenarios.

Cash Flow Analysis

Prepayments

Prepayments correspond to the early exercise of the purchase option by loans and credit receivables. We stressed the annual prepayment rate up to 24.0% and down to 0.5%.

Yield

We modeled the spread guaranteed by the asset swap.

Commingling

We did not model any commingling stress in the structure, as there is downgrade language to set up the foundation of a contingent commingling reserve if the servicer is downgraded below 'A-2' (see "Commingling reserve").

Timing of defaults

We assume defaults occur periodically in amounts calculated as a percentage of the default rate. Tables 4 and 5 show the timing of defaults.

Table 4

Timing Of Defaults

Percentage of DR (equal)	Months when applied	Percentage of DR (slow) (%)	Months when applied	Percentage of DR (fast) (%)	Months when applied
1/3	1	5	7	30	1
1/3	13	5	13	30	7
1/3	25	10	19	20	13
—	—	20	25	10	19
—	—	30	31	5	25
—	—	30	37	5	31

DR—Default rate.

Table 5

Timing Of Defaults

Percentage of DR (standard back) (%)	Months when applied	Percentage of DR (standard front) (%)	Months when applied	Percentage of DR (standard 5 year seven) (%)	Months when applied	Percentage of DR (standard 4 year seven) (%)	Months when applied
15	1	40	7	20	7	25	7
30	7	20	13	20	13	25	13
30	13	20	19	20	19	25	19
15	19	10	25	20	25	25	25
10	25	10	31	20	31	—	—

DR—Default rate.

Timing of recoveries

For this transaction, we assume that the issuer would regain 50% of recoveries 21 months after a payment default and the other 50% of recoveries 42 months after a payment default. The value of recoveries at the 'AAA' level is 100% minus the loss severity assumed at each rating level.

Interest and prepayments rate

We modeled three interest rate scenarios—up, down, and flat—using both high and low prepayment assumptions. Interest rates were 1% at the time of modeling and we modeled them to rise by 2% a month to a cap of 12% ("up" scenario) and a floor of 0% ("down" scenario).

Scenario Analysis

As part of a broad series of measures that we announced in 2008 to enhance our analytics and dissemination of information, we have committed to provide a "what-if" scenario analysis in rating reports to explain key rating assumptions and the potential effect of positive or negative events on the ratings.

This scenario analysis section incorporates:

- A description of our methodology and scenario stresses;
- Results of the effects of the stresses on ratings; and
- Results of the effects of the stresses on our cash flow analysis.

Methodology

When rating European ABS transactions, we have developed a scenario analysis and sensitivity testing model framework. This demonstrates the likely effect of scenario stresses on the ratings in a transaction over a one-year outlook horizon. For this asset class, we consider scenario stresses over a one-year horizon to be appropriate given the relatively short weighted-average life of the assets backing the notes. For these types of securities there are many factors that could cause the downgrade and default of a rated note, including asset performance and structural features. However, for the purposes of this analysis we focused on the three fundamental drivers of collateral performance, namely:

- Gross default rate;
- Recovery rate; and
- Prepayment rate.

Given current economic conditions, the stress scenarios proposed reflect negative events for each of these variables. Increases in gross default rates could arise from a number of factors, including rises in unemployment and company insolvencies, together with falls in house prices and a reduction in the availability of credit. In addition, these effects would most likely cause collateral recovery rates to fall as the structural imbalance between supply and demand leads to reductions in asset prices. In this environment, we also expect prepayment rates to fall as fewer refinancing options leave obligors unable to prepay finance agreements and demand for replacement vehicles falls.

For this analysis we have included two stress scenarios to demonstrate the rating transition of a bond (see table 6).

Table 6

Scenario Stresses

Rating variable	Scenario 1 (relative stress to base case)	Scenario 2 (relative stress to base case)
Gross default rate (%)	30.0	50.0
Recovery rate (%)	(30.0)	(50.0)
Constant prepayment rate (%)	(20.0)	(33.3)

It is worth noting that our base case assumptions for each transaction are intended to be best estimates of future performance for the asset portfolio. Our approach in determining these base cases would take account of historically observed performance and an expectation of potential changes in these variables over the life of the transaction. The sensitivity of rated bonds in each transaction will differ depending on these factors, in addition to structural features of the transaction, including its reliance on excess spread, payment waterfalls, and levels of credit enhancement at closing.

For each proposed scenario stress, we separate the applied methodology into three distinct stages. In the first stage we stress our expected base case assumptions over a one-year period to replicate deviations away from our expected performance over the stress horizon. We assume the stresses that we apply occur at closing, with gross losses applied based on our expectation of a cumulative default curve for the portfolio.

The second stage applies our usual rating methodology, including revising our base case assumptions at the one-year horizon to reflect the assumed deviations as a result of the stressed environment. In the final stage of the analysis we re-rate the transaction at the one-year horizon, after revising our base case assumptions and applying our standard credit and cash flow stresses at each rating level. The output of the analysis shows the likely rating transition of the rated notes given the applied stresses and the value and timing of any forecasted principal and interest shortfalls under the most stressful scenario.

Scenario stress and sensitivity analysis

When applying scenario stresses in the manner described above, the results of this modeling are intended to be a simulation of what could happen to the ratings on the notes for the given transaction. For the purposes of our analysis for this transaction, we applied the two scenarios described above in our cash flow modeling. The implied base case stresses and scenario stress results are shown in tables 7 to 12.

Table 7

Scenario Stresses (Class A, 'AAA' Rating)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	31.50	40.95	47.25
Loss Severity (%)	80.75	86.53	90.38
Constant prepayment rate (%)	6.00	4.80	4.00

Table 8

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	A	AAA	AA+
Scenario 2	A	AAA	AA

Table 9

Scenario Stresses (Class B, 'AA' Rating)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	24.50	31.85	36.75
Loss Severity (%)	77.25	84.08	88.63
Constant prepayment rate (%)	6.00	4.80	4.00

Table 10

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	B	AA	A
Scenario 2	B	AA	A-

Table 11

Scenario Stresses (Class C, 'A' rating)

Stress horizon—12 months

Rating variable	Base case	Scenario 1	Scenario 2
Gross loss rate (%)	17.50	22.75	26.25
Loss Severity (%)	73.75	81.63	86.88
Constant prepayment rate (%)	6.00	4.80	4.00

Table 12

Scenario Stress Analysis—Rating Transition Results

Scenario stress	Class	Initial rating	Scenario stress rating
Scenario 1	C	A	BBB+
Scenario 2	C	A	BBB

Where interest or principal shortfalls occur under the most senior notes, the holders of these notes and/or the trustee can call an event of default. This could lead to multiple events, such as the senior fees of the transaction stepping up, the swap terminating (with the issuer needing to make termination payments), and application of the post-enforcement priority of payments. All of these events have an effect on the transaction cash flows.

For the purposes of the analysis above, we make a simplified assumption that the trustee will not call an event of default.

Surveillance

We have seen the performance of Spanish securitizations backed by loans to SMEs that we rate continue to decline in line with the ongoing deterioration in the Spanish economy. According to Bank of Spain statistics, the number of nonperforming loans granted by Spanish financial entities had increased to 4.4% by April 2009, almost quadruple what it was at the start of 2008 and the highest level for 13 years. At the same time, Spanish SME transactions that we rate reported their highest delinquency rates across all arrears buckets. As of April, the weighted-average of 90-365 day delinquent loans represented 2.29% of the outstanding collateral balance of the transactions we rate, up from 0.30% in January 2008.

Gross cumulative default levels in the pools underlying the Spanish SME transactions we rate are increasing significantly, albeit from a very low base. Since Spanish SME transactions typically feature a structural mechanism that traps excess spread to provide for defaults, in the current environment a greater number of transactions have drawn on their cash reserves over the past few months. Prepayment rates have also slightly increased since the start of the year. This is partially due to certain securitized loans being renegotiated and, as a result, fully repaid ahead of their scheduled maturity.

We remain concerned about the continued property market contraction and its knock-on effect on Spanish SME transactions as, on average, they have more than 30% exposure to the real estate and construction sectors. In general, transactions with a higher exposure to these sectors are reporting higher levels of delinquent loans as a percentage of their outstanding balance. However, we believe that shrinking levels of consumption may lead to a decline in demand not just for real estate and construction but for a wider range of industries, potentially reducing borrowers' business and their ability to repay debts.

Delinquencies and severe delinquencies for BBVA SME transactions are in line with the Spanish SME index CPR and construction and real estate concentration levels are also in line with the Spanish SME Index. For further information see "Spanish SME Performance Report: Delinquencies For Spanish SME Asset-Backed Securities Transactions Reach A New High," published July 23, 2009 and "Spanish SME ABS Collateral Deterioration Focused On Construction Sector And Coastal Regions," published Dec. 17, 2009.

We maintain continual surveillance on the transaction until the notes mature or are otherwise retired. To do this, we analyze regular servicer reports detailing the performance of the underlying collateral, monitor supporting ratings, assess pool cuts, and make regular contact with the servicer to ensure that minimum servicing standards are sustained and that any material changes in the servicer's operations are communicated and assessed.

Key performance indicators for this transaction include:

- Rating migration of the collateral and default levels;
- Different concentrations of the collateral;
- Collateral prepayment levels;
- The evolution of the ratings on the supporting parties; and
- Increases in credit enhancement for the notes.

Related Research

- Revised Framework For Applying Counterparty And Supporting Party Criteria, May 8, 2007
- European Legal Criteria for Structured Finance Transactions, Aug. 28, 2008
- Global Interest Rate and Currency Swaps: Calculating the Collateral Required Amount, Feb. 26, 2004
- Standard & Poor's Global Interest Rate and Swap Counterparty Rating Criteria Expanded, Dec. 17, 2003
- Global Cash Flow and Synthetic Criteria, March 21, 2002
- Global CBO/CLO Criteria, June 1, 1999
- Standard & Poor's Rating Methodology for CLOs Backed by European Small- and Midsize-Enterprise Loans, Jan. 30, 2003
- Securitizing Spanish-Originated Loans to Small and Midsize Enterprises, April 7, 2003
- Spanish SME Performance Report: Delinquencies For Spanish SME Asset-Backed Securities Transactions Reach A New High, July 23, 2009
- Spanish SME ABS Collateral Deterioration Focused On Construction Sector And Coastal Regions, Dec. 17, 2009

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at www.standardandpoors.com. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

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