RMBS/Spain
Presale Report

BBVA RMBS I, Fondo de Titulizacion de Activos

Expected Ratings*

Class	Amount (EURm)	Final maturity	Rating	CE (%)
A1	400.0	Dec 2049	AAA	9.70
A2	1,400.0	Dec 2049	AAA	9.70
A3	495.0	Dec 2049	AAA	9.70
B	120.0	Dec 2049	A	4.90
C	85.0	Dec 2049	BBB	1.50
RF	37.5	Dec 2049	NR	

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* Expected ratings do not reflect final ratings and are based on information provided by the issuer as of 2 February 2007. Final ratings are contingent on final documents conforming to information already received, as well as on satisfactory legal opinion. Ratings are not a recommendation to buy, sell or hold any security. The prospectus and other offering material should be reviewed prior to any purchase.

Special Reports

The following special reports provide additional detail on Fitch Ratings' rating approach to, and the performance of, the RMBS market; all are available at www.fitchratings.com:

- "*Spanish Residential Mortgage Default Model III*", dated 15 September 2005;
- "*Commingling Risk in Structured Finance Transactions*", dated 9 June 2004;
- "*Counterparty Risk in Structure Finance Criteria: Swap Criteria*", dated 13 September 2004;
- "*A Guide to Cash Flow Analysis for RMBS in Europe*", dated 20 December 2002;
- "*Fitch Issuer Report Grades May 2006 Update*", dated 5 June 2006.

Summary

This transaction is a cash flow securitisation of a EUR2,500m static pool of first ranking residential mortgage loans (the collateral) granted by Banco Bilbao Vizcaya (BBVA or the seller, rated AA-/F1+) to individuals in Spain. Fitch Ratings has assigned expected ratings to the class A1, A2, A3, B and C notes (the notes) to be issued by BBVA RMBS I, Fondo de Titulización de Activos (BBVA RMBS I, FTA or the fund) as indicated at left.

This is BBVA's first single-seller RMBS transaction rated by Fitch. The seller is already a very active player in the Spanish securitisation market, focused so far in SME CDOs and consumer loans. A new issue report on the previous transaction, entitled "*BBVA Consumo 2, Fondo de Titulizacion de Activos*" and dated 8 December 2006, is available at www.fitchratings.com.

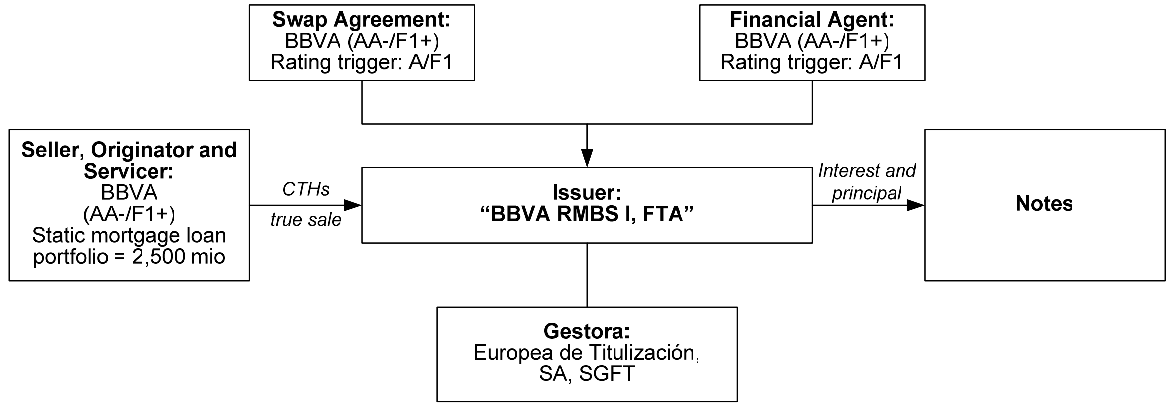
BBVA is the parent of Spain's second-largest banking group, the result of a 1999 merger of Banco Bilbao Vizcaya and Argentaria, Caja Postal y Banco Hipotecario. Its business is focused on core retail and corporate banking activities, as well as asset and pension fund management. Fitch's last credit analysis of BBVA, dated 19 June 2006, is also available at www.fitchratings.com.

The fund will be regulated by Spanish Securitisation Law 19/1992 and Royal Decree 926/1998. Its sole purpose is to convert the mortgage transfer certificates (Certificados de Transmisión de Hipoteca (CTH)) acquired from BBVA into RMBS. The CTHs will be subscribed on behalf of the fund by Europea de Titulizacion, S.A., S.G.F.T. (the sociedad gestora), whose sole function is to manage asset-backed funds.

The expected ratings of the notes are based on the quality of the collateral, the underwriting and servicing of the mortgage loans, available credit enhancement (CE), the integrity of the transaction's legal and financial structure and the sociedad gestora's administrative capabilities. The expected ratings address payment of interest on the notes according to the terms and conditions of the documentation, subject to a deferral trigger on the class B and class C notes, as well as the repayment of principal by legal final maturity for each note.

To verify that the CE available for each class of notes is in line with its respective rating, Fitch analysed the collateral using a loan-by-loan mortgage default model specific to Spain (see "*Spanish Residential Mortgage Default Model III*", dated 15 September 2005). The agency also modelled the cash flow contribution from excess spreads using stress scenarios determined by its default model. This showed that each class of rated notes could withstand loan losses at a level corresponding to the related stress scenario without incurring any principal loss.

Structure Diagram



Source: Transaction documents

Credit Committee Highlights

- **Low or No Equity Borrowers:** The securitised pool comprises loans granted to individuals with little or no equity. The original loan-to-value (OLTV) therefore ranges between 85% and 100%. *Comparison:* The weighted average (WA) OLTV and the current loan-to-value (CLTV) -which are among the highest seen in Spanish RMBS transactions rated by Fitch - stand at 95.5% and 92.4%, respectively. *Mitigated by:* All mortgage loans are first-ranking loans and approximately 72% of the pool by value benefits from a third party co-obligor. Moreover, approximately 54% of the portfolio has at least two co-obligors. Fitch calculated base case default probabilities using these LTVs as the primary drivers and it then adjusted them on a loan-by-loan basis to account for non-standard loan or borrower characteristics. Finally, the overall base case default probability of the pool was adjusted in light of the historical data provided by BBVA on arrears levels and recoveries for its mortgage book. Note that data filters used by BBVA to generate vintage default data mirror the main features of the collateral to be securitised in terms of LTV and rank, among others. The average cumulative level of arrears over 180 days since Q199 was approximately 1.32% as a proportion of the originated amount 27 quarters after origination.

- **Scenario Multipliers:** In an exception to the published rating criteria for Spanish RMBS, multipliers scaling between rating scenarios have been revised to reflect the inherently higher base default probability for this high-OLTV pool and the additional information provided on the performance of this type of loans. The method employed was first adjusting the modelled base case default probabilities with actual observations as from detailed cumulative vintage data by the originator. In a second step the base case was extrapolated to higher rating scenarios using the formula known from Basel II and standard assumptions on correlations for prime residential mortgages. Due to the limited discrepancy, scenarios up to A were kept conservatively at the levels implied by the standard scenario multipliers. The resulting differences in the upper rating scenarios, however, warranted a reduction in default probabilities of around 15% at the AAA and 12% at the AA level compared to the standard approach. This approach will also be used for similar high LTV transactions where specific data is available to warrant the adjustments.

- **Debt-to-Income Information**: BBVA was able to provide debt-to-income (DTI) information for 95% the pool on a loan-by-loan basis. *Comparison:* In BBVA takes into account just the mortgage instalment over net income in its computations, whereas Fitch's model is based on DTI which factors in all debt instalments (such as consumer loans) that the borrower might also have. *Mitigated by*: In its underwriting process, BBVA also takes into account a broader DTI ratio which factors the net disposable income (net income minus all debt obligations minus all minimum household expenses). The agency has stressed DTI figures provided by BBVA by adding 10% to each of them on a loan-by-loan basis. Therefore, DTI ratios fall automatically in a higher DTI class. For those loans where information was not available, the agency assumed a DTI of class 3, which encompasses loans with DTI of between 30% and 40%.

- **Affordability Products:** BBVA offers mortgages that include features designed to increase the affordability of housing for these

Key Information

Portfolio Characteristics

Total Amount at Closing: EUR2,816m, as of 23 January 2007 (of which EUR2,500m will be selected at closing)

WA Original LTV: 95.5%

WA Current LTV: 92.0%

WA Indexed Current LTV: 89.3%

WA Remaining Maturity: 343 months (28 years)

WA Seasoning: 21 months

Structure

Originator and Seller: Banco Bilbao Vizcaya (BBVA)

Servicer: BBVA

Fund: BBVA RMBS I, Fondo de Titulización de Activos

Sociedad Gestora: Europea de Titulización, S.A., S.G.F.T.

Swap Counterparty: BBVA

Final Legal Maturity: 19 December 2049

low-equity borrowers. For 68% of the loans included in the pool, debtors might increase or decrease the amortisation date over the life of the transaction and subject to a maximum of 10 years and/or to postpone by up to 10 monthly instalments also throughout the life of the transaction. Note that currently only 6% of the collateral retains this option. Alternatively, for 7% of the pool, borrowers can select to make a final bullet payment of between 10% and 30% of the loan balance. *Comparison:* These affordability products are increasingly frequent in Spanish RMBS deals in order to facilitate the purchase of a property by the borrower. *Mitigated by*: Fitch increased by 10% the base-case default probability for such borrowers, and in its cash flow analysis, Fitch calculated the adjusted amortisation schedule for these loans. Note that, according to BBVA's underwriting criteria, these features are always subject to the approval of a specific credit risk committee, the LTV being lower than 80% and non delinquent or defaulted records associated to the specific borrower.

- **Margin on the Loans**: 22% of the pool benefits from the possibility of a discount in the margin of the mortgage loan. This is dependent on whether the debtor subscribes to certain products offered by the originator in the course of its commercial strategy (ie life insurance, credit cards or pension plans, among others). *Mitigated by:* Margin compression risk is mitigated by the fact that the fund will enter into a swap agreement whereby it will receive a minimum guaranteed excess spread of 0.65% on a notional defined as the outstanding performing loans. Hence, this agreement will hedge interest and basis risk, but will also provide a guaranteed margin to the fund (see *Swap Agreement*).

- **Self-Employed Borrowers:** BBVA was able to provide employment information on a loan by loan basis for the portfolio. The pool includes loans granted to self-employed borrowers who are more susceptible to economic cycles and business interruption in Fitch's view. *Mitigated by:* The agency increased the default probability on those loans (about 8% of the portfolio) by 15%.

- **Second Homes:** The related property is a second home in 1.5% of the loans, while the remaining 98.5% is linked to a first residential home. Although information concerning mortgage performance for second homes in Spain is limited, Fitch believes that second homes and investment properties are more susceptible to default. A financially distressed borrower is more likely to default on a second home or an investment property than on a primary residence. The agency increased the base default probability for such loans by 20% to mitigate risk.

- **Regional Concentration:** The pool to be securitised does not present local concentration risk as the collateral is fairly well distributed among different Spanish regions. Catalonia (25%), Madrid (21%) and Andalucía (13%) constitute the highest concentrations in single regions.

■ Financial Structure

The issuer will be a limited-liability special-purpose vehicle incorporated under the laws of Spain, whose sole purpose is to acquire credit rights from BBVA as collateral for the issuance of floating-rate and quarterly-paying securities, based on three-month Euribor plus a margin.

In the structure, BBVA acts, among other functions, as the servicer of the collateral, account bank and swap counterparty. However, for the protection of investors, if BBVA is unable to continue to service the collateral, the sociedad gestora must appoint a replacement administration company in accordance with the Spanish securitisation law (RD 685/1982).

Interest and principal collections will be handled jointly through a combined priority of payments as described below. A treasury account, held in the name of the fund at BBVA, will receive all the incoming cash flows from the mortgage pool every seven days. Amounts standing to the credit of this account will receive a guaranteed interest rate equal to three-month Euribor minus 0.1%. This account will also be used to maintain the reserve fund (see *Reserve Fund*).

Concerning this treasury account, if BBVA's Short-Term Rating is downgraded below 'F1', the sociedad gestora will be required to take one of the following steps within 30 days: (i) obtain from an entity rated at least 'F1' a first demand guarantee as security for the amounts deposited in the treasury accounts; (ii) transfer the treasury accounts to an entity rated at least 'F1'. If unable to effect either of the above, it will constitute a collateral guaranteeing the financial agent's obligations in this transaction. This collateral will be invested in short-term, fixed-income assets issued by entities rated at least 'F1' for investments maturing within 30 calendar days, and 'F1+' for longer investments.

As stated above, collections from the collateral will be transferred from BBVA into the treasury account seven days after BBVA receives the monies from the originator. If BBVA is downgraded below 'F1', it will be required to transfer incoming cash flows to the treasury account on a daily basis. Moreover, in the scenario of a downgrade below 'F2' it will constitute a cash deposit in favour of the SPV for an amount that should cover any potential losses in line with Fitch's commingling risk criteria (see *"Commingling Risk in Structured Finance Transactions: Servicer and Account Bank Criteria"*, dated 9 June 2004)

The cash bond administration function for this transaction will be carried out by the sociedad gestora, a special-purpose company with limited liability, supervised by the Comisión Nacional del Mercado de Valores. Europea de Titulización, S.A. – S.G.F.T. was incorporated under the laws of Spain in 1993. The sociedad gestora, whose activities are limited to the management of securitisation funds (currently 63), was involved in the pre-closing phase of the deal. After closing, it will carry out cash reconciliation and waterfall calculation functions, as well as the related reporting, including the verification of applicable triggers. It will also be responsible for taking any action in the interest of the noteholders, such as the replacement of the servicers, account bank or swap counterparty. The transaction envisages that two subordinated loans from BBVA will be granted to the fund: one for initial cost and expenses and one to fund the reserve fund at closing.

Priority of Payments (Waterfall)

On each payment date commencing 19 June 2007, the combined ordinary priority of payments will be as follows:

1. expenses, taxes and servicing fees;
2. net swap payment;
3. interest due on the class A1, A2 and A3 notes on a pro-rata basis;
4. interest due on the class B notes (if not deferred);
5. interest due on the class C notes (if not deferred);
6. principal in order of seniority (see *Principal Redemption*);
7. interest on the class B notes if deferred, which occurs if the cumulative level of defaults exceeds 12.5% of the original balance of the collateral;
8. interest on the class C notes if deferred, which occurs if the cumulative level of defaults exceeds 10% of the original balance of the collateral;
9. replenishment of the reserve fund (see *Reserve Fund*); and
10. subordinated amounts, such as the remuneration and reimbursement of the loans to cover start-up expenses, including interest and principal due.

Cumulative defaults are defined as the aggregate balance of loans more than 12 months past due. The transaction also benefits from a provisioning mechanism whereby these defaulted loans will be written off using available excess spread.

Principal Redemption

The funds available for amortisation will initially be allocated to the redemption of the class A1 notes until fully amortised, and will subsequently be allocated to the class A2 notes and thereafter to the other classes in order of seniority. Once the A1, A2 and A3 notes have been fully redeemed, all amounts available will be used to redeem the class B notes. Finally, once the class B notes are fully amortised, the class C notes will begin to amortise.

Nevertheless, exceptional pro-rata amortisation for the class A notes is envisaged when the ratio of performing collateral (plus any principal collections from the collateral since the last payment date) and the outstanding balance of the class A notes, is equal to or lower than 1.

Class B and C notes will commence to amortise pro-rata respectively with the class A notes, provided that the subordination for the respective A notes represent twice of its original percentage. This pro-rata logic will be applicable subject to the following:

1. the reserve fund its at its required level on the current payment date;
2. no pro-rata amortisation for the class A notes is applicable;
3. the outstanding balance of the non defaulted collateral is equal to or greater than 10% of the original balance of the notes;
4. the delinquency ratio (ie loans more than 90 days in arrears) is less than 1.25% for the class B notes and 1.00% for the class C notes.

The legal final maturity date for the notes will be December 2049, which is three years after the final scheduled maturity date for all loans in the collateral pool. This delay has been deemed adequate to ensure that collections from the mortgages will be sufficient to redeem the obligations of the fund in respect of any defaulted loans.

Call Option

All notes are subject to a clean-up call option in favour of the sociedad gestora, when less than 10% of the initial collateral balance remains outstanding.

Swap Agreement

The fund will enter into a swap agreement with BBVA (the swap counterparty), which will hedge the risks arising from the mismatch between the reference indices for the collateral and the three-month Euribor payable on the notes. In addition, the swap as described below will guarantee a 0.65% excess margin.

Under the swap agreement, the fund will pay the swap counterparty all the interest received from the mortgages on the performing balance. In return, it will receive 3-month Euribor, plus the WA margin on the notes plus a spread of 65bp, over a notional defined as the outstanding balance of performing collateral. Note that the issuer will also receive the servicing fees associated to the servicing of the collateral.

If the swap counterparty is downgraded below ‘A/F1’, it will, within 30 calendar days, take one of the following steps:

- find a replacement counterparty with a Short–Term Rating of at least ‘A/F1’;
- find an entity rated at least ‘A/F1’ to guarantee its obligations under the swap agreement; or
- cash or security-collateralise its obligations in an amount sufficient to satisfy existing Fitch criteria.

Fitch’s cash flow analysis modelled for servicing fees to be paid by the swap in all stress scenarios, considering the rating downgrade language incorporated (see *Cash Flow Analysis*). Indeed, if BBVA is downgraded below ‘A/F1’ and when posting of collateral is the action of choice, it will, within 15 calendar days, report to Fitch the formula to calculate the mark-to-market of the swap and therefore the amount to be posted as collateral. If the formula was not in line with Fitch’s criteria, the mark-to-market formula would have to account for an additional 100bp per year with regards to this servicing replacement cost feature.

For details on the method used to calculate the collateral amount see *“Counterparty Risk in Structured Finance Transactions: Swap Criteria”*, dated 13 September 2004 and available at www.fitchratings.com.

Credit Enhancement

In addition to the guarantee excess spread of 0.65%, the transaction will benefit from initial CE provided by subordination and a reserve fund. This will total 9.7% for the class A1, A2 and A3 notes, 4.9% for the class B notes and 1.5% for the class C notes.

Reserve Fund

A reserve fund in an amount equivalent to 1.5% of the original note balance will be created at closing through a subordinated loan granted by BBVA, which will be held in the treasury account at BBVA.

Subject to the following conditions, the reserve fund may amortise to the greater of 3% of the outstanding note balance and 0.9% of the initial note balance:

- the balance of loans more than 90 days in arrears remains below 1% of the outstanding performing collateral;
- on the previous payment date, the reserve fund was replenished to its required amount; and
- the issuance of the notes took place more than three years ago.

■ Legal Structure

At closing, the seller will transfer the mortgages to the fund. However, under Spanish law, mortgage loans are not actually transferred as this would entail a lengthy process of re-registering the mortgages at the property registry. Instead, mortgage originators are permitted to issue mortgage participations (PH) and, since the new Finance Act of December 2003, mortgage certificates (CTH). Mortgages transferred in the form of PH are subject to certain restrictions with which CTH do not have to comply. In particular, PH must be first-ranking mortgages with a CLTV below 80%, and the properties underlying the mortgage must be properly insured. In this transaction, the entire portfolio will be transferred to the fund through the issuance of CTH.

Representations and Warranties

The seller will provide representations and warranties in relation to the collateral, including:

- each mortgage loan is registered in the relevant property registry and represents a first-ranking claim on the corresponding property;
- each mortgage loan finances the purchase, refurbishment or construction of a residential property (however, for those loans granted for construction, the property must be fully built);
- all loans have been fully disbursed and granted to individuals;
- all loans are Euro denominated and instalments are paid monthly via direct debit;
- all properties have undergone a valuation process, as required by law;
- there are no "Viviendas de Protección Oficial" (protected housing) included in the pool;
- each property under the underlying mortgage loan is insured as required by law. BBVA has further contracted a global insurance policy that covers any insufficiency or lack of insurance;
- there are no loans with current LTV higher than 100%;
- the seller has full right and title to, and the power to sell and transfer, the mortgages;
- at closing, all selected loans have paid at least one instalments;
- the seller is unaware that any of the underlying properties have been subject to a reduction in value of more than 20% since acquisition;
- all properties are located in Spain;
- none of the mortgage loans will be more than 30 days delinquent at closing;

Neither the fund nor any other transaction parties will conduct a search of title; instead, they will rely on the abovementioned representations and warranties provided by BBVA in relation to the collateral, and on the external audit on a sample of the collateral. Following an irremediable breach of any of the representations or warranties, BBVA will replace or repurchase the loan(s) in question.

■ Set-Off Risk

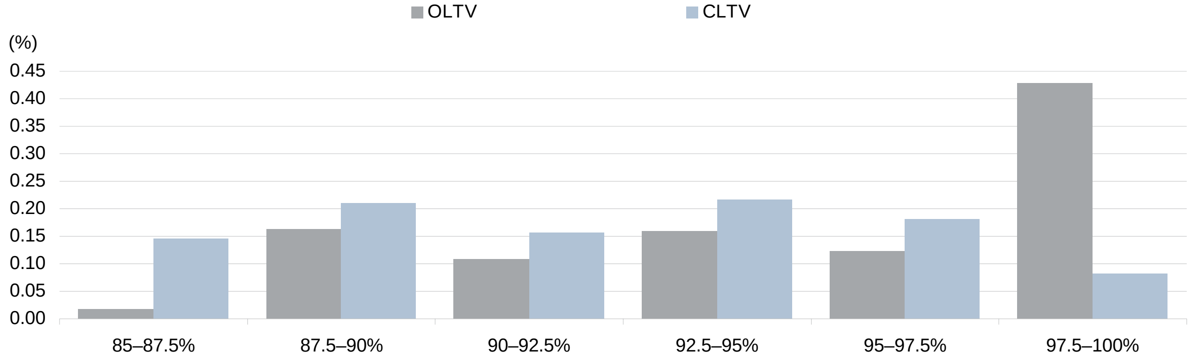
In the event that BBVA defaults, the fund could be affected by the set-off rights of borrowers with deposits in an account held with BBVA. According to Spanish law, the set-off risk should cease to be valid following the notification of assignment of the receivable to the other party (ie borrowers), or the bankruptcy of one of the parties. The documents include a provision to inform debtors within 5 days in case BBVA is replaced as servicer of the collateral.

In addition, in the event of any set-off amounts being crystallised while BBVA is not in insolvency state is fully mitigated as the seller commits in the documentation to pay such amounts plus accrued interest to the issuer.

■ Provisional Collateral

At closing, the sociedad gestora will select randomly the loans to be securitised from the current provisional pool. The final portfolio will have an outstanding balance of EUR2,500m , selected from a provisional portfolio of 17,184 mortgage loans. Furthermore, all the loans are first-ranking mortgages secured by residential properties in Spain. Security for the loans takes the form of mortgages registered in the "Registro de la Propiedad" (the official register).

BBVA RMBS I, FTA
Loan to value distribution



Source: Fitch

Portfolio Summary

Pool characteristics

Current principal balance (EURm)	2,816.183
Average current loan per borrower (EUR)	163,884
Average original loan per borrower (EUR)	170,064
Oldest loan in portfolio	January 2003
Most recent loan in portfolio	June 2006
Floating-rate loans (%)	100.0
WA interest rate (%) (1)	4.23
Interest index	12-month Euribor and IRPH
Payment method	Direct debit
Loans <30 days in arrears (%)	2.3
Region concentration (%)	44.4
Catalonia	25.5
Madrid	21.2
First-ranking mortgages (%)	100.0
WAOLTV (%)	95.5
WACLTV (%)	92.0
CLTV>80%	100
WA seasoning (months)	21

Source: BBVA

As of 23 January 2007, the provisional portfolio's main characteristics, in volume terms, included:

5. the WAOLTV and WACLTV ratios of 95.5% and 92.2% respectively. The WA indexed current LTV was 89.3%;
6. around 63.7% of the loans had CLTVs greater than 90%;
7. the WA seasoning of 21 months.

At closing, none of the mortgage loans will be more than 30 days in arrears.

Origination and Servicing

In addition to the pool analysis, Fitch has reviewed and analysed BBVA's origination and servicing guidelines. The agency conducted an on-site review in January 2006, where it met with the originator and servicer managers responsible for the mortgage loan department. The results of the operational visit are summarised bellow.

BBVA is the parent of Spain's second-largest banking group, which came into being following the 1999 merger of Banco Bilbao Vizcaya and Argentaria, Caja Postal y Banco Hipotecario. BBVA is a universal bank with a focus in retail banking where it manages around six million active clients. Its business is also centred on corporate banking activities, as well as asset and pension fund management. As of March 2006, total assents amounted to EUR392,656mn. BBVA had 94,951 employees and more than 7,400 branches in 37 countries.

BBVA offers a wide number of products that reflect market demands, including a catalogue of "affordability" products designed to facilitate the purchase of property. These include maturities up to 40 years and loans that grant the borrowers the ability to benefit from:

- a discount in the margin applied to the reference interest rate;
- bullet payment up to 30% of the original balance;
- an increasing maturity date up to 10 years (or up to 10 instalment deferrals) through the life of the loan.

These features are always subject to the approval of a credit risk committee and LTV being lower than 80%.

Origination

As of December 2005, BBVA's mortgage book amounted to approximately EUR85,000m with residential mortgages representing approximately EUR64,500m. Mortgage financing reached 15,668 loans in 2005 with an average mortgage size of EUR129,000.

BBVA originates loans through the following three channels:

- Branches: these represent approximately 70% of total originated loans. As of January 2007 there were 3,362 branches in Spain dependent on seven regional offices;
- Real State Agents (APIs): these represent 15% of the total originated and are specially supervised through checks on defaulted loans (among others);
- Real State Developers: BBVA finances the construction and then subrogates the mortgage loan.

Regardless the origination channel, all the loans are examined at a branch level and approved by BBVA trained personnel.

Loan Underwriting Guidelines

The underwriting process combines a scoring system, qualitative alerts and a hierarchical system of authorisation levels and factors in the size of the loan and features such as LTV. All this information is taken into account by a specifically trained analyst operating at either the lower level (the branch itself), the regional office (the Unidad de Centros de Crédito), - or the highest level (the Comisión Delegada Permamente). BBVA estimates that approximately 45% of the loans are not subscribed at the branch level but at a higher one. Note that for all mortgages with OLTV above 80%, the loan must be underwritten at the regional office level. As a result, all the securitized pool was underwritten at this level.

A scoring system has been in place and binding for more than 15 years. There are 12 different models, dependent on the main features of the transaction (first or second home for example) or those of the borrower (client, non client etc). The system, which is audited both internally and externally through an independent and well known consultancy, generates three possible outputs:

1. positive: the application will be underwritten at the appropriate level, given the mortgage size and the credit borrower exposure;
2. negative: the application is either rejected or transferred to the next authorisation level;
3. doubtful: the application has to be revaluated in order to make a decision.

Other information requirements include credit bureau checks; property valuation (always through valuation companies registered at the Comisión Nacional del Mercado de Valores (CNMV) and validated by BBVA) and DTI. For loans with OLVT above 80%, BBVA might require additional co-guarantors on a loan-by-loan basis, depending on the specific features of a transaction.

Arrears Management

Early arrears management

- Loans in arrears for up to 90 days are managed through an automated system and include the issuance of letters to borrowers and co-obligors. Besides, for arrears greater than 60 days, BBVA has the support of an outsourcing company called ATENTO that has been in place for over 10 years.

- At this stage, BBVA strategy is also supported by other internal checks, in place to identify any increase in the delinquencies rates with a special focus on real state agents.

Serious arrears management

- The recovery process is managed by a specialised department called Centros Especiales de Recuperaciones (CER) supported by a team of approximately 205 people.

- For loans in arrears between 90 to 180 days, the servicing is conducted both automatically through the issuance of letters. Where possible, BBVA will try to reach an agreement (never considering debt cancellations) with its client.

- For loans in arrears of more than 180 days, BBVA stars the legal procedure (contencioso) supported by internal lawyers.

Foreclosure, repossession and sale

- BBVA estimates that judicial proceedings last around 17 months. Nevertheless, if repossession is not enough to cover the mortgage debt, BBVA continues its serving proceedings through the possession of debtors' assets or salary.

- BBVA estimates that total recoveries reach 88% of defaulted amounts

■ Credit Analysis

Fitch analysed the collateral by subjecting the mortgage loans to stresses resulting from its assessment of historical house price movements and defaults in Spain. The agency's analysis is based on the probability of default and expected recoveries for the portfolio's individual loans *(*see *Appendix I).*

The following section details the agency's particular areas of focus and concerns regarding BBVA RMBS I, FTA, as well as the factors it has incorporated into its analysis to deal with these concerns.

Default Probability

Generally, the two key determinants of default probability (DP) are the borrowers' willingness and ability to make their mortgage payments. The willingness of a borrower to pay is usually measured by LTV. Fitch assumed higher DPs for high-LTV loans and lower DPs for low-LTV loans. The main reason for this is that, in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low LTV loans) have an incentive to sell and maintain/protect their equity, thereby eliminating the need for the lender to repossess the property.

The ability to pay is usually measured by the mortgage payment in relation to the borrower's net income. BBVA was able to provide DTI information for most of the pool on a loan-by-loan basis. Nevertheless, as BBVA's computation was more conservative than that of Fitch's model computation, the agency stressed DTI figures provided by the originator so that they fall into the immediately higher DTI class (see *Credit Committee Highlights*).

Once the base case default probabilities had been calculated using these LTVs and DTIs as parameters, Fitch adjusted them on a loan by loan basis to account for the following individual loan and borrowers characteristics in the portfolio:

- there is no local concentration risk as the collateral is fairly well distributed among different Spanish regions. The highest concentration in one single region is in Catalonia (25%), followed by Madrid (21%) and Andalucía (13%);

- the default probabilities for loans to self-employed borrowers have been increased by 15% on 8% of the loans in the portfolio;

- the default probabilities of loans granted for the purchase of second homes, which account for 1.46% of the outstanding balance, have been adjusted upwards by 20%;

- the default probabilities for loans currently 1-30 days in arrears (2.3% of the collateral balance) has been increased by 25%. Loans more than 30 days in arrears were not hit since they will not be included in the final pool;

- the default probabilities for loans benefiting from interest deferral options or bullet payments have been increased by 10% (75% of the collateral balance).

Note that exceptionally for this transaction, Fitch adjusted the overall base case default probability as well as the multipliers escalating to the higher rating scenarios in light of historical data provided by BBVA (see *Credit Committee Highlights*).

Recovery Proceeds

To estimate recoveries on mortgage loans in Spain, Fitch examined house price movements on a regional basis from 1987 to 2005. The agency found significant differences, most notably between Madrid, Catalonia and the Basque Country, and the other regions of Spain. Cities in these three regions have experienced higher price increases than regions elsewhere in Spain. Based on its analysis of the real estate market, Fitch assumed slightly higher market value declines (MVDs) for certain regions, as well as for some large urban areas.

To derive MVDs for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with those of markets in other European countries. As with its other European mortgage default models, the agency has increased MVDs for higher-value properties. These are generally subject to higher declines in a deteriorating market than houses with average or below-average market values, owing to limited demand.

When calculating recovery value, the agency's model reduces each property's worth by the MVD, external foreclosure expenses and the cost to the servicer of carrying the loan from delinquency through to default. This cost depends on the time to foreclosure as well as the applied interest rate, which Fitch assumes to be 10%. Fitch assumes a time to foreclosure of 36 months.

Fitch Default Model Outputs

Rating level (%)	AAA	A	BBB
WAFF	20.91	14.82	9.88
WARR	54.34	64.91	68.97

Source: Fitch

Cash Flow Analysis

To evaluate the contribution of structural elements such as excess spread, the reserve fund and other factors, Fitch modelled the cash flows from the mortgages based on the WA recovery rate (WARR) and WA frequency of foreclosure (WAFF) provided by the loan-by-loan collateral analysis. Recoveries included both interest and principal.

The cash flow model assumes that defaults are spread over the first five years of origination, starting straight after closing. The analysis calculated the cost of carrying defaulted loans as being the difference between the performing balance of the collateral and the notional note balance until all the recovery proceeds are collected. Excess spread, the reserve fund and principal collections must be sufficient to cover the carrying cost until all recoveries are received after 36 months.

CE analysis accounted for the interest deferral mechanism in place on the class B and C notes; this will redirect funds away from junior notes and towards the more senior ones. Should the triggers be hit, while interest on the class B and C notes may be deferred for a period, it will ultimately be paid prior to the legal maturity date.

Interest rates are stressed upwards over time, although the effect of this factor is limited because the swap covers the basis and reset risks, with the interest on the notes based on three-month Euribor.

Fitch ran various stress tests on the key variables affecting the cash flows generated by each mortgage portfolio, including prepayment speed, interest rates, default and recovery rates, the timing of recession, WA margin compression and delinquencies. The agency also modelled prepayments, which can affect certain components of a transaction (primarily, they lower the absolute amount of excess spread, which is vital to the total CE in this structure). However, since the principal repayment is directed towards the senior series, these notes benefit from higher CE as a result of the increase in subordination. Prepayments may also cause adverse selection as the strongest obligors are likely to be most inclined to prepay, which would leave the pool dominated by weaker obligors as the collateral ages. The high level of prepayments peaks at 25%, 20% and 18% under 'AAA', 'A' and 'BBB' scenarios respectively. The low level of prepayments is modelled at 5% per year in all rating scenarios.

Fitch's cash flow analysis also took into account the fact that servicing fees are to be paid by the swap. Nevertheless, the agency made the conservative assumption that the fund would still have to cover some senior expenses.

Finally, the analysis showed that the CE levels provided for each of the tranches would be sufficient to withstand the default hurdles and losses determined by the agency for the individual ratings.

■ Performance Analytics

Fitch will monitor the transaction regularly and as warranted by events. Its structured finance surveillance team ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk. Details of the transaction's performance are available to subscribers at www.fitchresearch.com.

Please call the Fitch analyst listed in the first page of this report with any queries regarding the initial analysis or the ongoing performance.

■ Issuer Report Grade

Fitch has recently introduced Issuer Report Scores as part of an ongoing effort to improve the transparency of transaction performance to investors. Transactions are scored on a system ranging from one star (meets basic requirements) to five stars (outstanding). For further information on the agency's Issuer Report Scores, please see the "*Fitch Issuer Report Grades May 2006 Update*", dated 5 June 2006..

Appendix I

Rating Methodology

To determine appropriate levels of credit enhancement, Fitch analyses the collateral for Spanish residential transactions using a loan-by-loan mortgage default model. The model subjects the mortgage loans to stresses resulting from its assessments of historical house price movements and defaults. Fitch's study showed that the LTV, reflecting the size of the borrower's down payment, and the borrower's debt-to-income ratio (total monthly debt payments over monthly net income) are the primary indicators of default risk in Spain. Fitch also modelled the cash flow contribution from excess interest using stress scenarios determined by its default model. The cash flow test showed that each class of rated notes, taking available credit enhancement into account, can withstand loan losses at a level corresponding to the related stress scenario, without incurring any principal loss or interest shortfall.

Default Probability

Generally, the two key determinants of default probability are the borrower's willingness and ability to make the mortgage payments. The willingness of a borrower to pay is usually measured by the LTV. Fitch's model assumes higher default probabilities for high LTV loans and lower default probabilities for low LTV loans. The main reason is that in a severe negative equity situation, borrowers in financial distress but with equity in their homes (low LTV loans) have an incentive to sell and maintain/protect their equity, eliminating the need for the lender to repossess the property.

The ability to pay is usually measured by the borrower's net income in relation to the mortgage payment. Historical data available for Spain shows low levels of default. Base default probabilities are determined using a matrix which considers each loan's affordability factor and LTV. The matrix classifies affordability into five classes: the lowest (class 1) encompasses loans with DTIs of less than 20%, while the highest (class 5) encompasses all loans with DTIs exceeding 50%. The average DTI for the mortgage market in Spain is between 27%–33%.

Adjustments

Fitch adjusts the base default rates on a loan-by-loan basis to account for the individual loan characteristics of the collateral across all rating levels. In the absence of case-by-case specific mitigants, Fitch conducts the following adjustments:

- **Product type:** Fitch may increase default probability assumptions by 0%–20% for loans that have riskier profile (ie flexible products) vis-à-vis standard variable rate amortising loans.

- **Repayment type:** Mortgage payments by Spanish borrowers are generally made monthly by direct debit. Fitch will increase base default rates by 5% for quarterly payments and 10% for biannual or annual payment frequencies. Interest-only mortgages may be included in Spanish transactions at some point in the future. Fitch increases the default assumptions for these loans by up to 25% to take into account the balloon risk to the borrower and the strong reliance on the borrower's equity in the property.

- **Loan purpose:** Fitch believes that a financially distressed borrower is more likely to default on a second home or investment property than on a primary residence. Accordingly, Fitch will increase the default probability by 15% to 50%. If the purpose of the loan is not the acquisition of a property in Spain, Fitch will increase the default probability by 50%–100%.

- **Borrower profile:** Fitch increases the default probability on loans to self-employed borrowers by 20%-50% to account for their lack of a fixed annual salary and for non-Spanish residents, as presumably such borrowers may have less incentive to repay a mortgage loan in periods of stress.

- **Arrears status:** When rating portfolios combining current and arrears mortgages, Fitch increases base default rates for mortgages in arrears by 1–30, 31–60, and 61–90 days by 25%, 50% and 70% respectively. Fitch assumes that mortgages over 91 days in arrears (non-performing status) will have a 100% probability of default.

Underwriting Quality: Fitch's review and analysis of the origination process determines whether the agency decreases default rates by up to 25% or increases them by 0%-200%.

The adjusted default probability is scaled across rating scenario via scenario multipliers. Standard multipliers common to all European jurisdictions and independent of the type of collateral have generally been applied in the past. However, in some cases where concentrations in higher risk segments (such as high LTV), multipliers warrant adjustment according to the nature of the underlying collateral. Multipliers may be adjusted according to outcomes from benchmarking exercises using portfolio model approaches, taking into account default correlations among borrowers.

Recoveries

To estimate the recovery rates on the mortgage loans in Spain, Fitch examined house price movements in Spain on a regional basis from 1987-2005. Fitch found significant differences in price development among the regions, mainly between Madrid, Catalonia and the Basque region, and the rest of the country. The cities in these regions have experienced higher price increases than cities in other regions in Spain. As in most other countries, rural areas tend to develop on a more stable basis. Based on its analysis of the real estate market, Fitch assumed slightly higher MVDs for certain regions and for some large urban areas.

To derive MVDs for the respective stress scenarios, Fitch then compared the characteristics of the Spanish real estate market with markets in other European countries. As with its other European mortgage default models, Fitch has increased MVDs for higher value properties. These properties are generally subject to larger MVDs in a deteriorating market than homes with average or below-average market values, due to limited demand for such properties.

When calculating recovery value, Fitch’s model reduces each property value by the MVD, external foreclosure expenses and the cost to the servicer of carrying the loan from delinquency through default. For Spain, Fitch assumes that external foreclosure costs represent 10% of the loan’s balance at the time of default. Loss severity also incorporates the fact that the length of the foreclosure process might be longer than the actual one in a recession period. To calculate carrying costs, Fitch uses a worst-case scenario analysis, one that assumes the borrower does not pay any interest and the collateral is not realised for a period of three years.

Excess Spread

Excess spread represents the monetary difference between the income received by the issuer from the borrowers and the interest on the notes and other expenses paid by the issuer. Any reserve fund will be replenished from available excess spread, if it is drawn. The actual value of excess spread depends on levels of delinquencies, defaults and prepayments, as well as the WA interest rate of the reference mortgage portfolio throughout the life of a transaction.

Appendix II

Summary

BBVA RMBS I, Fondo de Titulización de Activos — RMBS/Spain

Capital Structure

Class	Rating	Size[a] (%)	Size (EURm)	CE (%)	I/P PMT freq	Legal maturity	Coupon
A1	AAA	16.0	400.0	9.70	Quarterly	Dec 2049	3M Euribor plus a spread
A2	AAA	56.0	1,400	9.70	Quarterly	Dec 2049	3M Euribor plus a spread
A3	AAA	19.8	495.0	9.70	Quarterly	Dec 2049	3M Euribor plus a spread
B	A	4.8	120.0	4.90	Quarterly	Dec 2049	3M Euribor plus a spread
C	BBB	3.4	85.0	1.50	Quarterly	Dec 2049	3M Euribor plus a spread
RF	NR	1.5	37.5				

[a] These percentages are expressed as a proportion of the initial collateral balance.
Source: Fitch

Key Information

Closing date	22 February 2007 (expected)	**Role**	**Party**
Country of assets	Spain	**Seller/originator**	BBVA
Structure	Pass-through	**Issuer**	BBVA RMBS I, FTA
Type of assets	Residential mortgages	**Trustee**	Europea de Titulización, S.A. S.G.F.T.
Currency of assets	EUR	**Swap provider**	BBVA
Currency of notes	EUR	**Financial agent**	BBVA
Primary analyst	marina.alcalde@fitchratings.com		
Secondary analyst	marta.aisa@fitchratings.com		
Performance analyst	charlotte.eady@fitchratings.com		

Source: Fitch

Rating Level

(%)	AAA	A	BBB
WAFF	20.9	14.8	9.8
WARR	54.3	64.9	68.9
WALS	60.7	50.1	46.0
WAMVD	45.4	35.5	31.7

Source: Fitch

Collateral as of 23 January 2007

Pool characteristics (percentages are expressed in volume terms)

Current principal balance (EURm)	2,816,183	**Regional concentration (%)**	
Average current loan per borrower (EUR)	163,884	Catalonia	25.58
Average original loan per borrower (EUR)	170,064	Madrid	21.26
Number of loans	17,184	Andalucía	13.44
WA seasoning (months)	21	**Mortgage characteristics (%)**	
Oldest loan in portfolio	January 2003	First-ranking	100
Most recent loan in portfolio	June 2006	**Loan to value (LTV) (%)**	
Interest rate type (%)		WAOLTV	95.5
Variable	100	WA indexed CLTV	89.3
Fixed	0	WACLTV	92.0
WA interest	4.23	OLTV > 80%	84.0
Interest index	12-month Euribor (94.84%) IRPH Cajas, (5.16%)	CLTV > 80%	63.7

Source: BBVA