



Tagging Info

**Fitch Downgrades 3 BBVA RMBS Transactions** Ratings

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Fitch Ratings-London/Madrid-11 January 2011: Fitch Ratings has downgraded 14 tranches of three BBVA RMBS transactions, a series of Spanish RMBS deals. The tranches were also removed from Rating Watch Negative (RWN). A full list of rating actions is at the end of this comment.

Fitch downgraded the transactions due to a combination of the agency's revised RMBS criteria assumptions, as well as the negative portfolio performance seen to date. The BBVA RMBS series was issued in 2007, and the loans in the pool were predominantly granted at the peak of the mortgage market. The mortgages in the underlying pools were granted to borrowers with little or no equity, which is why the weighted-average loan-to-value (LTV) ratios are much higher than those seen in most other Spanish RMBS transactions rated by Fitch. The pools also comprise significant portions of self-employed and borrowers on temporary contracts, who are more likely to default on their mortgage payments in times of economic downturn.

Given the high LTV profile of the loans in the pools, the prepayment rates in these deals have remained low in the current environment, which also explains the transactions' lack of deleveraging. In Fitch's view, all three transactions remain exposed to interest rate movements. The agency believes that once interest rates begin to rise, the ability of the underlying borrowers to meet their current payments will be put under pressure, which could cause another wave of high arrears and defaults. Further asset deterioration is likely to put additional pressure on the transactions in their ability to generate sufficient excess spread and has been factored in the analysis.

The most recent investor reports for Q410 show a significant decline in credit support available to the most junior tranches, class C notes of BBVA RMBS 1-3 compared with the levels at the transactions' close. To date, the deals have failed to generate sufficient gross excess spread necessary for provisioning for doubtful loans, defined as loans in arrears by more than 12 months. As a result, the issuers have been utilising proceeds available in the reserve funds towards the amortisation of the notes for the purpose of clearing period provisions. In Q410, the reserve funds of BBVA RMBS 2 and BBVA RMBS 3 remained fully utilised, with outstanding balances of un-provisioned loans reaching EUR6m and EUR97.3m, respectively.

In H210, the stabilisation of arrears, driven by the current low interest rate environment, led to a decline in the rate of default across the three transactions, as evidenced by the decline in the level of reserve fund draws in BBVA RMBS 1. The December 2010 investor report for BBVA RMBS 1 showed a reserve fund draw of EUR0.6m, compared to EUR4.7m in September 2010. In Fitch's opinion, the declining trend in reserve fund draws is likely to continue over the coming quarters, so long as interest rates remain at current lows. In the agency's view, a limited recovery of the reserve fund may be seen in H211, provided that recoveries from doubtful loans remain strong as seen to date. The agency also believes that a slowdown in the outstanding balance of technically un-provisioned loans may occur in BBVA RMBS 2 and BBVA RMBS 3. Meanwhile, the transactions remain exposed to the cost of carry resulting from these doubtful loans which are not generating revenue for the deals.

Despite the stabilisation in performance, the adverse portfolio characteristics have resulted in higher credit enhancement requirements for the transactions under Fitch's revised loss assumptions (see 'EMEA Residential Mortgage Loss Criteria Addendum - Spain', dated 23 February 2010). The positive impact of the sequential amortisation of the notes has been offset by the utilisation of the reserve funds. The credit support available to senior tranches has not built-up to levels necessary to maintain the current ratings, therefore the downgrades of the class A notes were a combination of both performance to date and revised criteria assumptions.

Recoveries on defaulted loans received to date remain between 34.8% (BBVA RMBS 3) and 38.9% (BBVA RMBS 1) of the gross cumulative values. The investor reports indicate that loans defaulted earlier in the transactions' life (before Q408) have seen high levels of recoveries, ranging from 74% to 100% in BBVA RMBS 2 and BBVA RMBS 1, respectively. These recovery rates are predominantly seen three years after the initial loan default. With house-price declines seen until Q310 (from peak in Q108: 12.8%, source: Ministry of Housing), in Fitch's view, recoveries on defaulted loans are likely to be lower than those seen on more seasoned foreclosed loans. High LTV ratios of the underlying loans in combination with Fitch's expected house price decline of 25-30% in Spain are expected to put pressure on the issuers' ability to repay the

most junior tranches. For this reason, the class C notes of all three transactions have been downgraded to 'CCCs'.

The rating actions are as follows:

BBVA RMBS 1, Fondo de Titulizacion de Activos:

Class A2 (ISIN ES0314147010) downgraded to 'AA-sf' from 'AAAsf'; off RWN; assigned Stable Outlook and Loss Severity Rating 'LS-1'

Class A3 (ISIN ES0314147028) downgraded to 'AA-sf' from 'AAAsf'; off RWN; assigned Stable Outlook and Loss Severity Rating 'LS-1'

Class B (ISIN ES0314147036) downgraded to 'BBBs' from 'Asf'; off RWN; assigned Negative Outlook and Loss Severity Rating 'LS-3'

Class C (ISIN ES0314147044) downgraded to 'CCCs' from 'BBB-sf'; off RWN; assigned Recovery Rating 'RR5'

BBVA RMBS 2, Fondo de Titulizacion de Activos:

Class A2 (ISIN ES0314148018) downgraded to 'AAsf' from 'AAAsf'; off RWN; assigned Stable Outlook and Loss Severity Rating 'LS-1'

Class A3 (ISIN ES0314148026) downgraded to 'AAsf' from 'AAAsf'; off RWN; assigned Stable Outlook and Loss Severity Rating 'LS-1'

Class A4 (ISIN ES0314148034) downgraded to 'AAsf' from 'AAAsf'; off RWN; assigned Stable Outlook and Loss Severity Rating 'LS-1'

Class B (ISIN ES0314148042) downgraded to 'BBBs' from 'A+sf'; off RWN; assigned Stable Outlook and Loss Severity Rating 'LS-3'

Class C (ISIN ES0314148059) downgraded to 'CCCs' from 'BBB-sf'; off RWN; assigned Recovery Rating 'RR5'

BBVA RMBS 3, Fondo de Titulizacion de Activos

Class A1 (ISIN ES0314149008) downgraded to 'Asf' from 'AAAsf'; off RWN; assigned Stable Outlook and Loss Severity Rating 'LS-1'

Class A2 (ISIN ES0314149016) downgraded to 'Asf' from 'AAAsf'; off RWN; assigned Stable Outlook and Loss Severity Rating 'LS-1'

Class A3 (ISIN ES0314149024) downgraded to 'Asf' from 'AAAsf'; off RWN; assigned Stable Outlook and Loss Severity Rating 'LS-1'

Class B (ISIN ES0314149032) downgraded to 'Bs' from 'BBB+sf'; off RWN; assigned Negative Outlook and Loss Severity Rating 'LS-3'

Class C (ISIN ES0314149040) downgraded to 'CCCs' from 'Bs'; off RWN; assigned Recovery Rating 'RR5'

Contact:

Lead Surveillance Analyst

Sanja Paic

Associate Director

+44 20 3530 1282

Fitch Ratings Limited

20 North Colonnade

London E14 5GN

Secondary Analyst

Jose Pablo Zuniga

Director

+34 91 702 4625

Committee Chairperson

Jeffery Cromartie

Senior Director

+44 20 3530 1477

Media Relations: Julian Dennison, London, Tel: +44 20 3530 1372, Email: [julian.dennison@fitchratings.com](mailto:julian.dennison@fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

Applicable criteria, 'EMEA Residential Mortgage Loss Criteria', dated 23 February 2010, and 'EMEA Residential Mortgage Loss Criteria Addendum - Spain', dated 23 February 2010 are available at [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

EMEA Residential Mortgage Loss Criteria

EMEA Residential Mortgage Loss Criteria Addendum - Spain

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