Fitch Upgrades 4 Tranches of BBVA RMBS Series; Affirms 9

Fitch Ratings, London, 10 August 2015: Fitch Ratings has upgraded four and affirmed nine tranches of the BBVA RMBS series, three Spanish prime RMBS originated and serviced by Banco Bilbao Vizcaya Argentaria (BBVA; A-/Stable/F2). A full list of rating actions is below.

KEY RATING DRIVERS

Additional Information Clarifies Subjective Defaults
Fitch has received additional information from the trustee Europea de Titilizacion (EdT) about the management of subjective defaults, defined as loans whose underlying property has been taken into possession by the SPV prior to the loan reaching the 12-months default classification.

The trustee confirmed that subjective defaults have been excluded from the balance of gross defaults and removed from the outstanding portfolio balance when the property is repossessed by the SPV.

Contrary to the agency previous understanding, subjective defaults are therefore being provisioned within the waterfall of payments with available excess spread and cash reserves, currently fully depleted. EdT has confirmed to Fitch that the cumulative balance of defaulted assets, inclusive of subjective defaults, has reached 5.4% of the initial portfolio balance in BBVA 1 and in BBVA 2 and 12.5% in BBVA 3 (compared to 4.0% for BBVA 1 and 2 and 9.7% for BBVA 3).

The clarification about provisioning has triggered the revision of Fitch assumptions regarding available credit enhancement across the transactions, which led to the upgrade of BBVA RMBS 2 notes.

Subjective Defaults Distort Asset Performance
Fitch would have expected most subjective defaults to be classified and reported as doubtful loans, rather than simply removed from collateral balance. In Fitch's opinion, unreported subjective defaults imply that the arrears ratios are a poor performance indicator, and the removal of subjective defaults from the collateral balance makes the estimation of principal collections from underlying borrowers very challenging.

Interest Deferral Triggers Delayed
The exclusion of subjective defaults from the balance of doubtful loans implies that the deferral of mezzanine and junior interest could be delayed. This is material for tranche C of BBVA 3 because cumulative defaults are currently reported at 9.7%, just below the 10.0% interest deferral trigger established in the documentation. If subjective defaults were added to the doubtful classification cumulative default would be 12.5%, implying that the class C interest deferral trigger would have been breached.

RATING SENSITIVITIES
Deterioration in asset performance or recovery expectations beyond Fitch's standard assumptions would trigger negative rating action.

DUE DILIGENCE USAGE
No third party due diligence was provided or reviewed in relation to this rating action.

DATA ADEQUACY
Fitch has checked the consistency and plausibility of the information it has received about the performance of the asset pool and the transaction. There were no findings that were material to this analysis. Fitch has not reviewed the results of any third party assessment of the asset portfolio information or conducted a review of origination files as part of its ongoing monitoring.

Fitch did not undertake a review of the information provided about the underlying asset pools ahead of the transactions' initial closing. The subsequent performance of the transactions over the years is consistent with the agency's expectations given the operating environment and Fitch is therefore satisfied that the asset pool information relied upon for its initial rating analysis was adequately reliable.

Overall, Fitch's assessment of the information relied upon for the agency's rating analysis according to its applicable rating methodologies indicates that it is adequately reliable.

SOURCES OF INFORMATION
The information below was used in the analysis.
-Information about subjective defaults provided by Europea de Titulizacion as of end-June 2015.
-Loan-by-loan data provided by Europea de Titulizacion as of end-June 2015.
-Loan enforcement data provided by Europea de Titulizacion as of end-June 2015.
-Transaction reporting provided by Europea de Titulizacion as of end-June 2015.

MODELS

EMEA RMBS Surveillance Model.

BBVA RMBS 1, FTA:
Class A2 (ISIN ES0314147010): affirmed at 'BBsf'; Outlook revised to Stable from Negative
Class A3 (ISIN ES0314147028): affirmed at 'BBsf'; Outlook revised to Stable from Negative
Class B (ISIN ES0314147036): affirmed at 'CCCsf'; Recovery Estimate 75%
Class C (ISIN ES0314147044): affirmed at 'CCsf'; Recovery Estimate 0%

BBVA RMBS 2, FTA:
Class A2 (ISIN ES0314148018): upgraded to 'Bsf' from 'CCCsf'; Outlook Stable
Class A3 (ISIN ES0314148026): upgraded to 'Bsf' from 'CCCsf'; Outlook Stable
Class A4 (ISIN ES0314148034): upgraded to 'Bsf' from 'CCCsf'; Outlook Stable
Class B (ISIN ES0314148042): upgraded to 'CCCsf' from 'CCsf'; Recovery Estimate 65%
Class C (ISIN ES0314148059): affirmed at 'CCsf'; Recovery Estimate 0%

BBVA RMBS 3, FTA:
Class A1 (ISIN ES0314149008): affirmed at 'CCCsf'; Recovery Estimate 90%

Class A2 (ISIN ES0314149016): affirmed at 'CCCsf'; Recovery Estimate 90%
Class B (ISIN ES0314149032): affirmed at 'CCsf'; Recovery Estimate 0%
Class C (ISIN ES0314149040): affirmed at 'CCsf'; Recovery Estimate 0%

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