RMBS/Spain
Presale Report

BBVA RMBS 3, Fondo de Titulización de Activos

Expected Ratings*

Class	Amount (EURm)	Final Maturity	Rating[a]	CE (%)
A1	1,200.0	Feb 2060	AAA	9.45
A2	595.5	Feb 2060	AAA	9.45
A3	960.0	Feb 2060	AAA	9.45
B	156.0	Feb 2060	A+	4.25
C	88.5	Feb 2060	BBB+	1.30
RF[b]	39.0	Feb 2060	NR	n/a

[a] Each rated class has a Stable Outlook
[b] RF = Reserve Fund

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* Expected ratings do not reflect final ratings and are based on information provided by the issuer as of 5 July 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 2007 Update*", dated 31 May 2007.

Summary

This transaction is a cash flow securitisation of a EUR3,000m 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 3, Fondo de Titulización de Activos (BBVA RMBS 3, FTA, or the fund) as indicated at left.

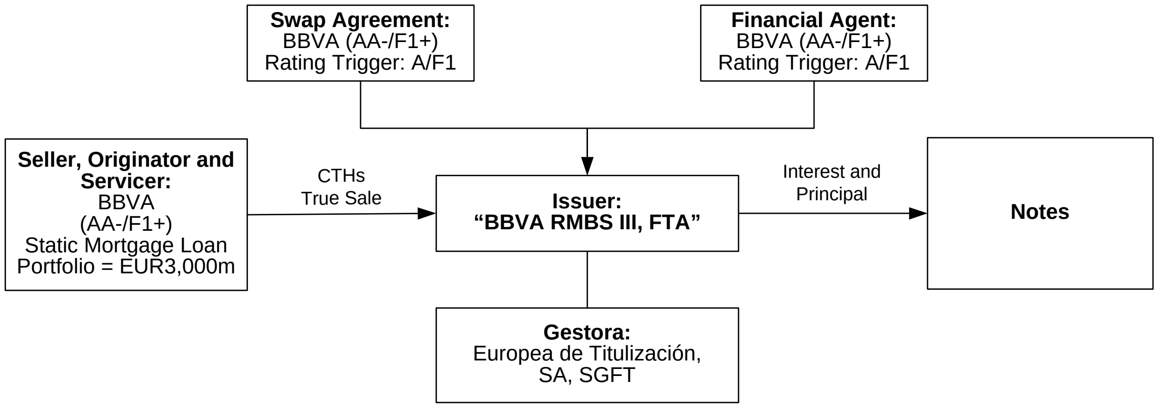
This is BBVA's third single-seller RMBS transaction, all of them rated by Fitch. The new issue reports on the previous transactions, entitled "*BBVA RMBS I, Fondo de Titulización de Activos*" and "*BBVA RMBS II, Fondo de Titulización de Activos*" dated 2 February 2007 and 9 May 2007, respectively, are available at www.fitchratings.com. This transaction shares many similarities in terms of structural and collateral features with the previous ones, and therefore the credit analysis is similar. The seller, who is already a very active player in the Spanish securitisation market, focused last year on SME CLOs and consumer loans.

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 29 June 2007, is also available at www.fitchratings.com.

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 Europea de Titulización, S.A., S.G.F.T's (sociedad gestora) 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. Should a deferral trigger be hit on the B and C notes, interest might not be received during a period, but will be received by final maturity.

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 spread 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

- **Loan to Value (LTV) Ratios:** The original loan-to-value (OLTV) ratios of the collateral range between 79.6% and 100%, with a weighted-average (WA) OLTV and current loan-to-value (CLTV) of 89.2% and 87.7%, respectively. *Comparison:* The WA OLTV and CLTV of the previous BBVA deals (BBVA RMBS I and II) were 95.5% and 92.4%, and 80.9% and 77.3%, respectively. Considering the LTV levels of this transaction, Fitch used, as in BBVA RMBS FTA I, an adjusted base default probability assumption based on historical delinquency data provided by BBVA, to account for the LTVs being on the extreme side of the spectrum, contrary to BBVA RMBS FTA II where a much lower LTV had justified the use of the classic default probability (DP) matrix.

- **Debt-to-Income Information:** BBVA was not able to provide any debt-to-income (DTI) data for the pool. *Comparison:* In the BBVA RMBS I transaction, Fitch was provided with DTI information on 95% of the pool on a loan-by-loan basis. *Mitigated by*: For BBVA III, the agency relied on the same DTI distribution as in the BBVA RMBS I transaction. However, as the calculation is not computed by BBVA in the same manner as Fitch, the agency stressed the DTI figures provided by 10.0% to align them to Fitch’s methodology and subject to a maximum Class 4 to be consistent with the origination guidelines, which indicates loans with a DTI between 40.0% and 50.0%.

- **Affordability Products:** BBVA offers mortgages that include features designed to increase the affordability of housing. For 82.3% of the loans included in the pool, debtors had the option to lengthen or shorten the time to the amortisation date over the life of the transaction subject to a maximum of 10 years. Alternatively, for 68.3% of the pool, borrowers could select to make a final bullet payment of between 10% and 30% of the loan balance. *Comparison:* These affordability products are increasingly common in Spanish RMBS deals to facilitate the purchase of a property by the borrower. *Mitigated by*: Only 28% of the borrowers in the pool have made use of the first option, and 21.1% used the second option according to BBVA data. Fitch has increased by 10% the base-case default probability for such borrowers, and in its cash flow analysis, the agency calculated the adjusted amortisation schedule for these loans.

- **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 and temporarily 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 10.0% of the portfolio in the case of self-employed, and 19.7% for temporary workers) by 15.0%. When the information regarding employment was not provided (3.2% of the pool) the default probability was also increased by 15.0%.

- **Second Homes:** The related property is a second home in 1.9% of the loans, while the remaining 98.1% 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

Key Information

Portfolio Characteristics

Total Amount at Closing: EUR3,671m, as of 25 June 2007 (of which EUR3,000m will be selected at closing)

WA Original LTV: 89.2%

WA Current LTV: 87.7%

WA Indexed Current LTV: 87.2%

WA Remaining Maturity: 33 years

WA Seasoning: 12.5 months

Structure

Originator and Seller: Banco Bilbao Vizcaya (BBVA, rated 'AA-/F1')

Servicer of the collateral: BBVA

Fund: BBVA RMBS 3, Fondo de Titulización de Activos

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

Swap Counterparty: BBVA

Final Legal Maturity: February 2060

base default probability for such loans by 20.0% to mitigate risk.

- **Regional Concentration:** The pool to be securitised does not present geographical concentration risk as it is fairly well distributed among different Spanish regions. Catalonia (24.0%), Andalucía (15.6%) and Madrid (14.6%) constitute the highest concentrations in single regions.

■ Financial Structure

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 notes to be issued will be 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 Spanish securitisation law.

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 the treasury account, if BBVA's Short-term rating is lowered 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; or (2) transfer the treasury accounts to an entity rated at least 'F1'. If unable to effect either of the above, it will constitute a cash deposit 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 up to 24 hours. 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, 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 20 November 2007, the combined ordinary priority of payments will be as follows:

1. expenses, taxes and servicing fees;
2. net payments under the swap agreement (if applicable), and any swap termination payment solely in the event of the issuer not meeting its obligations under the swap agreement;
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 (i.e. defined as loans in arrears over 12 months) 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 10.0% 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 and subordinated loans, including interest and principal due.

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 1.2.

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

1. the reserve fund is 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 10.0% of the original balance of the notes; and
4. the delinquency ratio (i.e. loans more than 90 days in arrears) is less than 1.25% for the class B notes and 1.0% for the class C notes.

The legal final maturity date for the notes will be February 2060, 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. In return, it will receive three-month Euribor, plus the WA margin on the notes plus a spread of 65bp, over a notional defined as the outstanding balance of performing and delinquent loans up to 90 days. Note that the issuer will also receive the servicing fees associated with 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. 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.

Reserve Fund

A reserve fund in an amount equivalent to 1.3% 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. On each payment, the required reserve fund will be the lesser of 1.3% of the initial balance (EUR39m), or the greater of: (i) 2.6% of the remaining principal of the notes and (ii) 0.80% of the initial balance of the notes, subject to the following conditions:

- the balance of loans more than 90 days in arrears remains below or equal 1.0% 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 PHs are subject to certain restrictions with which CTHs do not have to comply. In particular, PHs must be first-ranking mortgages with a CLTV below 80.0%, 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 CTHs.

Representations and Warranties

The seller will provide representations and warranties in relation to the collateral. These ensure:

- 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 of a residential property;
- 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 loans in arrears over 30 days;
- 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 a CLTV higher than 100.0%;
- 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 two instalment;
- the seller is unaware that any of the underlying properties have been subject to a reduction in value of more than 20.0% since acquisition; and
- all properties are located in Spain.

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 (i.e. borrowers), or the bankruptcy of one of the parties. The documents include a provision to inform debtors within five days in case BBVA is replaced as servicer of the collateral.

In addition, any set-off amounts crystallised while BBVA is not in an 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 randomly select the loans to be securitised from the current provisional pool. The final portfolio will have an outstanding balance of EUR3,000m, selected from a

Portfolio Summary

Preliminary pool characteristics

Current principal balance (EURm)	20,566
Average current loan per borrower (EUR)	178,524
Average original loan per borrower (EUR)	181,585
Oldest loan in portfolio	January 2003
Most recent loan in portfolio	February 2007
Floating-rate loans (%)	100.00
WA interest rate (%)	4.73
Interest index	12-month Euribor, and IRPH
Payment method	Direct debit
Loans <30 days in arrears (%)	3.3
Region concentration (%)	
Catalonia	24.0
Andalucia	15.6
First-ranking mortgages (%)	100.0
WAOLTV (%)	89.2
WACLTV (%)	87.7
CLTV>80%	85.7
WA seasoning (months)	12.5

Source: BBVA

provisional portfolio of EUR3,671m of 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).

As of 25 June 2007, the provisional portfolio’s main characteristics are detailed in the table above.

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 below.

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 on 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 EUR392,656m. At that time, BBVA had 94,951 employees and more than 7,400 branches in 37 countries.

BBVA offers a wide range 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:

- bullet payments up to 30.0% of the original balance; and
- 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 80.0%.

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 70.0% 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 15.0% of the total originated loans 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 of the origination channel, all the loans are examined at 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. It also factors in the size of the loan and features such as LTV. All this information is taken into account by a 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 45.0% of the loans are subscribed at a level higher than the branch level. (Note that for all mortgages with an OLTV above 80.0%, the loan must be underwritten at the regional office level. As a result, all the securitised 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 or not). 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; or
3. doubtful – the application has to be re-evaluated 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 an OLTV above 80.0%, 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. 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.

- BBVA's strategy is also supported by other internal checks, put in place to identify any increase in the rate of delinquency, with a special focus on real estate 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 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 starts 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 88.0% 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)*.

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 unable to provide DTI information for most of the pool on a loan-by-loan basis, but Fitch relied on the same DTI distribution as in the BBVA RMBS I transaction as the collateral composition of the two transaction is very similar and the origination and underwriting policies have not changed since the time BBVA RMBS I was rated back in February 2007. Nevertheless, as BBVA's computation was less 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 the LTVs and DTIs as parameters, Fitch adjusted them on a loan-by-loan basis to account for the following individual loan and borrower characteristics in the portfolio:

- There is no local concentration risk as the collateral is fairly well distributed among different Spanish regions.

- The DPs for loans to self-employed and temporarily employed borrowers have been increased by 15.0% on 10.0% and 19.7%, of the pool respectively, of the loans in the portfolio.

- The DPs of loans granted for the purchase of second homes, which account for 1.9% of the outstanding balance, have been adjusted upwards by 20.0%.

- The DPs for loans benefiting from affordability products such as flexible maturity date or bullet payments have been increased by 10.0% (49.1% of the collateral balance).

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	17.5	12.1	8.1
WARR	61.9	76.4	81.3
WAMVD	45.2	35.4	31.7

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, completing the subordination of the former ones and preserving the seniority of the latter ones. Hence, should the triggers be hit (10.0% for class B notes and 12.5% for class C notes), 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. These triggers are high in comparison with historical default data available for the Spanish mortgage market (which can very exceptionally reach 2.5%), and that under Fitch's cash flow modelling and rating methodology assumptions, this mechanism provides little support for the class A notes as the triggers will be hit too late. Indeed, the diversion of proceeds available to junior notes, and hence their subordination to the class A notes, will take place well after 'AAA' stresses have occurred.

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 classes, 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 25.0%, 20.0% and 18.0% under ‘AAA’, ‘A’ and ‘BBB’ scenarios, respectively. The low level of prepayments is modelled at 5.0% 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 performance analytics 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 Grades

Fitch has recently introduced Issuer Report Grades 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 Grades, please see “*Fitch Issuer Report Grades May 2007 Update*”, dated 31 May 2007.

Appendix 1

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 mitigants, Fitch conducts the following adjustments:

- *Product type*: Fitch may increase default probability assumptions by 0%–20% for loans that have riskier profiles (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, as presumably such borrowers may have less incentive to repay a mortgage loan in periods of stress. The same applies to non-Spanish residents.

- *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 scenarios 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 are 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 2: Summary

BBVA RMBS 3, Fondo de Titulización de Activos — RMBS/Spain

Capital Structure

Class	Rating [a]	Size [b] (%)	Size (EURm)	CE (%)	I/P PMT freq	Legal maturity	Coupon
A1	AAA	40.00	1,200.0	9.45	Quarterly	Feb 2060	3M Euribor plus a spread
A2	AAA	19.85	595.5	9.45	Quarterly	Feb 2060	3M Euribor plus a spread
A3	AAA	32.00	960.0	9.45	Quarterly	Feb 2060	3M Euribor plus a spread
B	A+	5.20	156.0	4.25	Quarterly	Feb 2060	3M Euribor plus a spread
C	BBB+	2.95	88.5	1.30	Quarterly	Feb 2060	3M Euribor plus a spread
RF	NR	1.30	39.0				

[a] Each rated class has a Stable Outlook
[b] These percentages are expressed as a proportion of the initial collateral balance
Source: Fitch

Key Information

		Role	Party
Closing date	26 July 2007 (expected)		
Country of assets	Spain	**Seller/originator**	BBVA (AA-/F1+)
Structure	Pass-through	**Issuer**	BBVA RMBS 3, FTA
Type of assets	Residential mortgages	**Trustee**	Europea de Titulización, S.A. S.G.F.T.
Currency of assets	EUR	**Swap provider**	BBVA (AA-/F1+)
Currency of notes	EUR	**Financial agent**	BBVA (AA-/F1+)
Primary analyst	natalia.bourin@fitchratings.com		
Secondary analyst	carlos.masip@fitchratings.com		
Performance analyst	charlotte.eady@fitchratings.com		

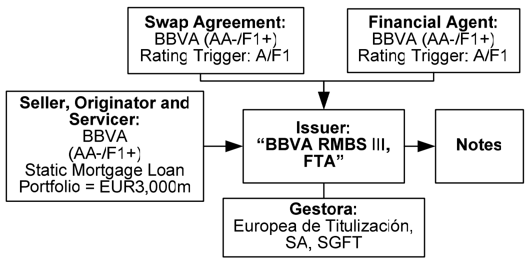
Source: Fitch

Rating Level

(%)	AAA	A	BBB
WAFF	17.5	12.1	8.1
WARR	61.9	76.4	81.3
WALS	59.3	48.7	44.6
WAMVD	45.2	35.4	31.7

Source: Fitch

Simplified Structure Diagram



Source: Transaction documents

Collateral as of 25 June 2007

Preliminary pool characteristics (percentages are expressed in volume terms)

Current principal balance (EURm)	3,671	**Regional concentration (%)**	
Average current loan per borrower (EUR)	178,524	Catalonia	24.0
Average original loan per borrower (EUR)	181,585	Andalucía	15.6
Number of loans	20,566	Madrid	14.6
WA seasoning (months)	12.5	**Mortgage characteristics (%)**	
Oldest loan in portfolio	January 2003	First-ranking	100.0
Most recent loan in portfolio	February 2007	**Loan to value (LTV) (%)**	
Interest rate type (%)		WAOLTV	89.2
Variable	100.0	WA indexed CLTV	87.2
Fixed	0.0	WACLTV	87.7
WA interest	4.7	OLTV > 80%	89.4
Interest index	12-month Euribor (96.5%) IRPH Bancos and Financial Institutions, (3.5%)	CLTV > 80%	85.7

Source: BBVA and transaction documents