

**Rating Action: Moody's upgrades BBVA RMBS 4's class A RMBS notes and confirms ratings on class B and C**

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Global Credit Research - 09 May 2011

**Approximately EUR4.9 billion of rated debt securities affected**

Madrid, May 09, 2011 – Moody's Investors Service has today upgraded the ratings of BBVA RMBS 4 FTA's class A notes and confirmed the ratings of class B and C. These rating actions follow Moody's review of the recent structural changes to BBVA RMBS 4 and concluded that these amendments have positive or neutral impact on the ratings:

...EUR2,740MA1 Certificate, Upgraded to Aaa (sf); previously on Apr 19, 2011 Aa3 (sf) Placed Under Review Direction Uncertain

...EUR960MA2 Certificate, Upgraded to Aaa (sf); previously on Apr 19, 2011 Aa3 (sf) Placed Under Review Direction Uncertain

...EUR1,050.5MA3 Certificate, Upgraded to Aaa (sf); previously on Apr 19, 2011 Aa3 (sf) Placed Under Review Direction Uncertain

...EUR41.7M B Certificate, Confirmed at Baa3 (sf); previously on Apr 19, 2011 Baa3 (sf) Placed Under Review Direction Uncertain

...EUR107.8M C Certificate, Confirmed at Caa1 (sf); previously on Apr 19, 2011 Caa1 (sf) Placed Under Review Direction Uncertain

**RATINGS RATIONALE**

In October 2010, Moody's downgraded the ratings of all notes of BBVA RMBS 4 following the review of the transaction that showed worse-than-expected performance of the collateral. In April 2011, the ratings of all notes were placed on review direction uncertain following an internal review after the discovery of an input error in the cash flow model.

Today's rating action concludes the review of the input error and takes into consideration the recent structural changes. The structural amendments relates to an increase in credit enhancement by increasing the size of reserve fund. The increase in the reserve fund will be funded by a subordinated loan granted by BBVA for an amount equal to €409,290,000 representing 12% of the current outstanding balance of all the notes. At every point in time, the amount requested under the reserve fund will be the lesser of the following amounts:

(i) €409,290,000,

(ii) The higher of the following amounts:

- 24% of the outstanding balance of the notes

- €204,645,000

The ratings of the notes also take into account the credit quality of the underlying mortgage loan pools, from which Moody's determined the MILAN Aaa Credit Enhancement (MILAN Aaa CE) and the lifetime losses (expected loss), as well as the transaction structure and any legal considerations as assessed in Moody's cash flow analysis. The expected loss and the Milan Aaa CE are the two key parameters used by Moody's to calibrate its loss-distribution curve, used in the cash-flow model to rate European RMBS transactions.

**Portfolio Expected Loss:**

BBVA RMBS 4 is still performing in line with the assumptions that were revised in October 2010 following the review of the transaction. Cumulative write-offs rose to 2.56% of original pool balance in January 2011, up from 2.13% a year earlier. The share of 90+ day arrears was 0.73% at the end of January 2011.

Moody's updated its lifetime loss expectation taking into account the collateral performance as of October 2010, as well as the current macroeconomic environment in Spain. Moody's expects the portfolio's credit performance to continue to be under stress, as Spanish unemployment remains elevated. Moody's believes that the anticipated tightening of Spanish fiscal policies is likely to weigh on the recovery in the Spanish labour market and further constraint Spanish households finances. Moody's also has concerns over the timing and degree of future recoveries in a weaker Spanish housing market. On the basis of the rapid increase in defaults in the transaction and Moody's negative sector outlook for Spanish RMBS, the portfolio expected loss assumption is 2.71% of original pool balance.

**MILAN Aaa CE:**

Moody's assessed the loan-by-loan information for BBVA RMBS 4 in October 2010 to determine the MILAN Aaa CE of 10.50%. The increase in the MILAN Aaa CE reflected concentration of mortgage loans originated via brokers (15%); loans granted to non-national borrowers (6.95%); and the uncertainty generated by rising systemic risk and the deteriorating Spanish economic environment. It also considered the exposure to special mortgage products features such as semi-bullet loans (having the possibility of a last installment of 10/30% of the loan amount), as well as loans that could enjoy a payment holidays (78%).

The rating addresses the expected loss posed to investors by the legal final maturity of the notes. In Moody's opinion, the structure allows for timely payment of interest and principal with respect of the notes by the legal final maturity. Moody's ratings only address the credit risk associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

**TRANSACTION FEATURES**

BBVA RMBS 4 closed in November 2007. The transaction is backed by a portfolio of first-ranking mortgage loans originated by Banco Bilbao Vizcaya Argentaria (Aa2/P-1). The loans were originated between 2000 and 2007, with current weighted average loan-to-value standing at 67%.

As mentioned above, a significant share of the securitised mortgage loans was originated via brokers and loans to non-Spanish nationals are also included in the pool. BBVA acts as servicer, paying agent and swap counterparty to the transactions.

Commingling and operational risk: Moody's notes that the transaction documentation contains a trigger for the appointment of a back-up servicer. All of the payments under the loans in this pool are collected by the servicer under a direct debit scheme, whereby payments are deposited into the collection account held at BBVA and then transferred to the reinvestment account on a monthly basis. Upon the loss of BBVA's Prime-1 rating, collections will be transferred on a daily basis.

Swap: According to the swap agreement entered into between the Fondo and BBVA (Aa2 / P-1), on each payment date:

- The Fondo will pay the amount of interest actually received from the loans; and
- BBVA will pay the sum of (1) the weighted average coupon on the notes plus 50 bppa, over a notional calculated as the daily average outstanding amount of the loans not more than 90 days in arrears and (2) the servicing fee due on such payment date

For details on the deal structure, please refer to the BBVARMBS 4, New Issue Report. The report is available on [www.moody's.com](http://www.moody's.com).

The principal methodology used in this rating was Moody's Approach to Rating RMBS in Europe, Middle East, and Africa published in October 2008.

Other methodologies used in this rating were Moody's Updated Methodology for Rating Spanish RMBS published in July 2008, Cash Flow Analysis in EMEARMBS: Testing Features with the MARCO Model (Moody's Analyser of Residential Cash Flows) published in January 2006, Moody's Approach to Automated Valuation Models in Rating UK RMBS published in August 2008, A Framework for Stressing House Prices in RMBS Transactions in EMEA published in July 2008 and Global Structured Finance Operational Risk Guidelines: Moody's Approach to Analyzing Performance Disruption Risk published in March 2011.

Please also refer to the "Spanish RMBS September 2010 Indices", which is available on [www.moody's.com](http://www.moody's.com) in the Industry / Sector Research sub-directory under the Research & Ratings tab.

Moody's Investors Service did not receive or take into account a third party due diligence report on the underlying assets or financial instruments related to the monitoring of this transaction in the past six months.

#### REGULATORY DISCLOSURES

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