# BBVA RMBS 6 Fondo de Titulización de Activos

## RMBS / Spain

**Closing Date**

13 November 2008

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## DEFINITIVE RATINGS

| Class | Rating | Amount (million) | % of Notes | Legal Final Maturity | Coupon |
|---|---|---|---|---|---|
| A | **Aaa** | €4,795.10 | 96.00 | Jan. 62 | 3mE + 0.30% |
| B | **A1** | €82.50 | 1.65 | Jan. 62 | 3mE + 0.70% |
| C | **Baa3** | €117.40 | 2.35 | Jan. 62 | 3mE + 1.10% |
| Total | | €4,995.00 | 100.00 | | |

*The ratings address the expected loss posed to investors by the legal final maturity. In Moody's opinion the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date. Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.*

## OPINION

### Strengths of the Transaction

– Swap to hedge interest rate risk in the transaction, securing weighted average interest rate of the notes plus 40 bps excess spread and covering the servicing fee

– Excess spread trapping through a 18-month "artificial write-off" mechanism. Investors should note that, compared with BBVA RMBS 4, the "write-off" definition has been increased to 18 months from 12 months, thus reducing the potential benefit of this mechanism. This feature has been taken into account in the quantitative analysis

– 10.03% of the portfolio corresponds to protected life time employed (Spanish civil servant)

– No second-lien products being included

– 100% of the loans are paid via direct debit on a monthly basis

– All the loans paid through monthly installments

– At closing no loans will carry any amounts more than 30 days past due

### Weaknesses and Mitigants

– 18.78% of the loans have an LTV over 80%, which leads to a higher expected default frequency and more severe losses.

– All of the loans are subject to an interest rate Cap, however the risk is eliminated by the swap

– Servicing fee paid senior in the waterfall, but fully funded through the swap payments received by the Fondo

- 14.70% of the portfolio correspond to self-employed
- 7.60% of the portfolio corresponds to second home
- 6.16% of the portfolio correspond to multiple borrowers
- 18.10% of the portfolio corresponds to loans backed by two or more properties. These type of loans entail two risks: (1) As the mortgage loans amortise, the debtor may liberate the mortgage over the second property, so the loan-to-value (LTV) may go back to its original LTV and (2) recourse to each property is limited to a certain percentage; so to calculate the true LTV of the loan due to the lack of information on this percentage Moody's took a conservative approach when calculating the LTV of these loans.
- Flexible product (payment holidays, possibility of enjoying an automatic reduction of the margin, maturity increase). Some of these peculiarities of the loans could lead to a higher default frequency; however the reserve fund and the subordination have been sized accordingly to account for these risks. Additionally the swap eliminates any risk related to the reduction of the margin and holiday payments.
- Pro-rata amortisation of B and C Class of Notes leads to reduced credit enhancement for the senior Class in absolute terms. This is mitigated by strict triggers which terminate the pro-rata amortisation of the notes should the performance of the transaction deteriorate.
- The deferral of interest payments on Class B and C benefits the repayment of the Class senior to each of them, but increases the expected loss on Class B, and C themselves.

## STRUCTURE SUMMARY

| | |
|---|---|
| Issuer: | BBVA RMBS 6 Fondo de Titulización de Activos |
| Structure Type: | Senior/Mezzanine/Subordinated/Reserve Fund |
| Seller/Originator: | Banco Bilbao Vizcaya Argentaria (BBVA) (**Aa1**/**P-1**) |
| Servicer: | Banco Bilbao Vizcaya Argentaria (BBVA) (**Aa1**/**P-1**) |
| Back-up Servicer: | N/A |
| Interest Payments: | Quarterly in arrears on each payment date |
| Principal Payments: | Pass-through on each payment date |
| Credit Enhancement/Reserves: | Excess spread per annum<br>Reserve fund<br>Subordination |
| Liquidity Facility: | N/A |
| Hedging: | Interest rate swap to cover interest rate risk and guaranteeing 40 bppa of excess and covering the servicing fee |
| Principal Paying Agent: | Banco Bilbao Vizcaya Argentaria (BBVA) (**Aa1**/**P-1**) |
| Management Company: | Europea de Titulización S.G.F.T. S.A (EdT) |
| Arranger/Lead Manager: | BBVA, |

## COLLATERAL SUMMARY

| | |
|---|---|
| Loan Amount: | €5,411,932,589 |
| Loans Count: | 35,980 |
| Pool Cut-off Date: | 13 October 2008 |
| WA Original LTV: | 72.82% |
| WA Current LTV: | 69.64% |
| WA Seasoning: | 2.06 years |
| WA Remaining Term: | 29.26 years |
| Interest Rate: | 5.68% |
| Geographic Diversity: | Catalonia 19.08%, Madrid 12.36%, Andalusia 20.99% |
| Loan Purpose: | The loans have been granted to finance the purchase and refurbish residential homes located in Spain. All the properties are already constructed |
| Average Loan Size: | €150,415 |
| MILAN Aaa CE range: | 5.99% - 6.19% |
| Moody's EL range: | 0.90% - 1.10% |

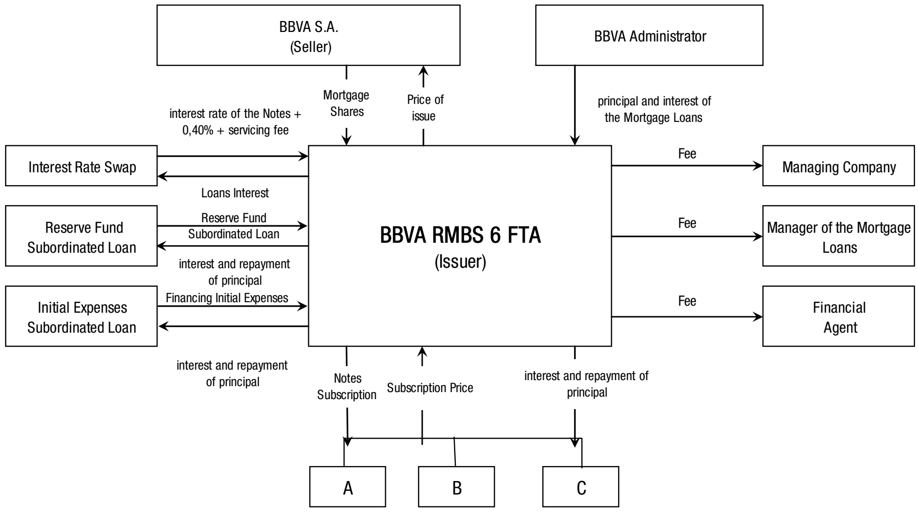
## TRANSACTION SUMMARY

***Plain vanilla structure***

This transaction consists of the securitisation of a pool of first-lien mortgages originated and serviced by BBVA, one of the biggest Spanish banks with a proven track record in the securitisation market. BBVA 6 Fondo de Titulización de Activos (hereafter referred to as the *"Fondo"*) is the sixth RMBS securitisation by BBVA.

The purpose of the transaction is to obtain liquidity and remove the credit risk linked to mortgages on BBVA's balance sheet. In this transaction, BBVA will sell a portfolio of mortgage loans to the *Fondo*, a special purpose vehicle (SPV). The *Fondo* will in turn issue three Classes of notes to fund the purchase of the mortgage loan portfolio.

Chart 1:
**Structure Diagram**




The Fondo will issue three Class of notes to finance the purchase of the loans (at par):

- A subordinated Class C, rated **Baa3**
- A mezzanine Class B, rated **A1**
- A senior Class A rated **Aaa**

## STRUCTURAL AND LEGAL ASPECTS

***Borrower payments swept into BBVA GIC account every week***

The treasury account will be held at BBVA. The proceeds from the loans, amounts received under the swap agreement and the reserve fund will be deposited in the treasury account.

Moody's has set up some triggers in order to protect the treasury account from a possible downgrade of BBVA's short-term rating. Should BBVA's short-term rating fall below **P-1**, it will have to perform one of the following actions in the indicated order of priority within 30 days:

- Find a suitably rated guarantor or substitute.
- Collateralise its payment obligations under the treasury account in an amount sufficient to maintain the then current rating of the notes.
- Invest the outstanding amount of the treasury account in securities issued by a **P-1**-rated entity.

BBVA guarantees an annual yield of the amounts deposited in the treasury account equal to the index reference rate of the notes less 10 bppa

***Interest rate swap guaranteeing the interest rate of the notes plus 40 bppa of excess spread and covering the servicing fee***

According to the swap agreement entered into between the Fondo and BBVA, 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 40 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

The excess spread thus provided through the swap agreement constitutes the first layer of protection for investors.

In the event of BBVA's long-term rating being downgraded below A2 or P-1, within 30 days BBVA will have to (1) collateralise its obligations under the swap in an amount sufficient to maintain the current rating of the notes or (2) find a suitably rated guarantor or substitute.

***Reserve fund to help the Fondo meet its payment obligations***

The second layer of protection against losses is a reserve fund provided by BBVA. It will be used to cover potential shortfalls on interest or principal on an ongoing basis.

At every point in time, the amount requested under the reserve fund will be the lesser of the following amounts:

– 1.75 % of the initial balance of the notes

The higher of the following amounts:

– 3.50% of the outstanding balance of the notes
– 0.875% of the initial balance of the notes

The amount requested under the reserve fund will not be reduced on any payment date on which either of the following scenarios occurs:

– The arrears level (defined as the percentage of non-written-off loans that are more than 90 days in arrears) exceeds 1.00%.
– The reserve fund will not be funded at its required level on the current payment date.

Additionally the reserve fund will not amortise during the first 36 months of the life of the transaction.

***Class B and C amortisation***

– The Class B notes will start amortising pro rata with the Class A notes when they represent 3.303% of the outstanding balance under Class A, Class B and C.
– The Class C notes will start amortising pro rata with the Class A and Class B notes when they represent 4.701% of the outstanding balance under Class A, Class B and C.

Pro-rata amortisation entails greater risk than fully sequential transactions, given that the credit enhancement decreases in absolute terms. The risks introduced by pro-rata amortisation are mitigated by the following triggers:

Table 1:
**Pro-rata amortisation triggers**

| Class B | Class C |
|---|---|
| The arrears level (loans more than 90 days in arrears, excluding the written off loans) exceeds 1.25% | The arrears level (loans more than 90 days in arrears, excluding the written off loans) exceeds 1.00% |
| The reserve fund is not funded at the required level | |
| The loan balance is less than 10% of the initial loan balance | |

***The Pre-enforcement Waterfall***

On each quarterly payment date, the *Fondo's* available funds (principal received from the asset pool, the Reserve Fund, amounts received under the swap agreement and interest earned on the transaction accounts) will be applied in the following simplified order of priority:

1) Cost
2) Servicing fees
3) Any amount due under the swap agreement (except termination payments if BBVA defaults under the swap agreement)
4) Interest payment to Class A
5) Interest payment to Class B notes (if not deferred)
6) Interest payment to Class C notes (if not deferred)

7) Retention of an amount equal to the principal due under the notes
8) Interest payment to Class B notes (if deferred)
9) Interest payment to Class C notes (if deferred)
10) Replenishment of the reserve fund
11) Termination payments under the swap agreement upon default of BBVA
12) Junior expenses

***Principal due to the notes incorporates a 18-month artificial "write-off"***

The transaction's structure benefits from an "artificial write-off" mechanism. This mechanism is implicit in the definition of the principal due under the notes, which is calculated as the difference between (1) the outstanding amount of the notes and (2) the outstanding amount of the non-written-off loans (the "written-off loans" being defined as those loans with any amount due but unpaid for more than 18 months, or earlier if the loan is in a foreclosure procedure).

***Interest Deferral trigger based on default***

The payment of interest on Class B and C notes will be brought to a more junior position if, on any payment date, the following criteria are met:

Table 2:
**Interest deferral trigger**

| | |
|---|---|
| Class B: | The accumulated amount of written-off loans is higher than 11.0% of the initial amount of the assets pool<br>Class A is not fully redeemed |
| Class C: | The accumulated amount of written-off loans is higher than 9.00% of the initial amount of the assets pool<br>Class A and Class B are not fully redeemed |

## COLLATERAL

As of October 2008, the portfolio comprised 35,980 loans, representing a provisional portfolio of €5,411,932,589. The loans are first-lien mortgages on residential properties contracted by individuals located in Spain. All the properties on which the mortgage security has been granted are covered by property damage and fire insurance. At closing date there are no loans more than 30 days in arrears. The average loan is €150,415.

Chart 2:
**Portfolio Breakdown by LTV**

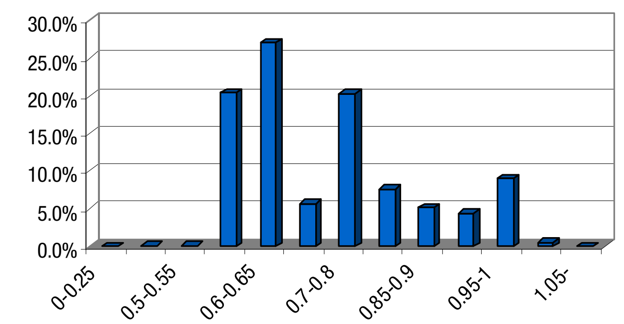



Chart 3:
**Portfolio Breakdown by Region**

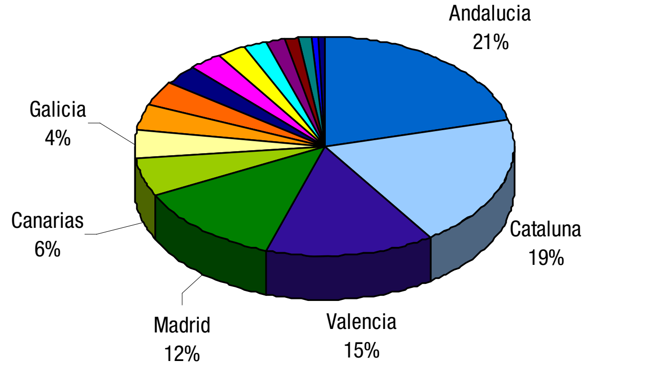



Chart 4:
**Portfolio Breakdown by Occupancy Type**

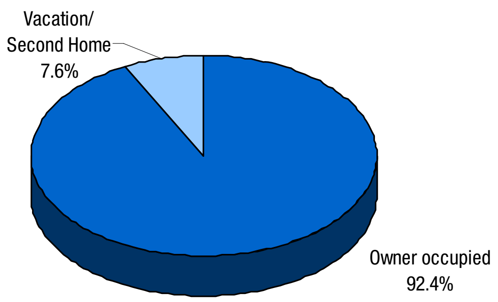
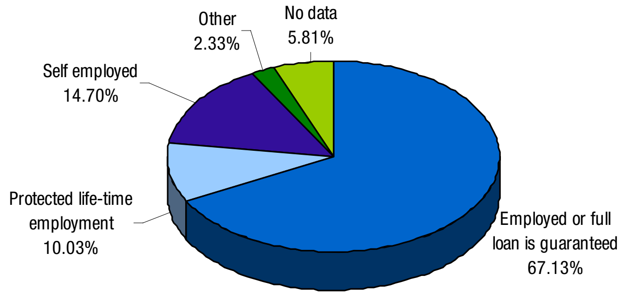



Chart 5:
**Portfolio Breakdown by Employment Data**



- The purpose of the mortgage loans is the acquisition or refurbishment of residential properties.
- 100% first lien mortgages
- The loans have been originated between 2001 and May 2008, with a weighted average seasoning of 2.06 years and a weighted average remaining term of 29.26 years.
- The original WALTV is 72.81%. The current weighted average LTV is 69.63%. Maximum LTV in portfolio 100%
- 100% of the loans are linked to floating interest rate.
- 7.60% of the portfolio corresponds to second home properties.
- 10.03% of the portfolio corresponds to protected life time employed,
- 100% of the portfolio corresponds to residents in Spain
- The top 20 debtors represent 0.30% of the portfolio
- 100% of the loans are paid via direct debit on a monthly basis
- Largest maturity 30-June-2058 (assuming the maximum allowed maturity)

## Particular Characteristics of the Loans

- 82.17% of the debtors have the possibility of enjoying an automatic reduction in their margin in cases where they have been cross-sold other BBVA products (e.g. insurance). In addition the debtor may have the possibility to change to a fix interest rate or viceversa (fixed to variable).
- 88.51% of the debtors will have the option of enjoying holiday payments, during which neither principal nor interest are paid. Unpaid interest is capitalized at the end of the grace period.
  - No more than 2 instalments can be granted in a year
  - No more than 10 instalments can be granted during the life of the loan
- For 20.75% of the debtors - the last instalment of the loan represents 10%/30% of loan.
- Although 88.51% of the portfolio can increase the maturity of the loans, it is important to mention that for 26% of the loans (1) maturity was increased to the maximum allowed when they were originated or (2) maturity can not be extended due to the age limitation (age + loan term < 70 years). Therefore, the maturity of these loans is lower than 40 years.
- Payment holidays or maturity extension can only be granted if the following conditions are met:
  1) The loan is not in arrears
  2) Previous notification to the originator by the debtor
  3) Always granted subject to BBVA's approval, it is not automatic, BBVA will re-analyse the situation of the debtor.
  4) The maximum maturity of the loan can be 40 years or lower if the debtor is closer to 70 years old (age + loan term < 70 years). Example:
- Debtor is 30 year old maximum maturity is 40 (30 + 40 < 70)
- Debtor is 50 years old maximum maturity is 20 (50 + 20 < 70)
- Debtor is 60 years old maximum maturity is 10 (50 + 10 < 70)

***Limitations on the renegotiation of the loan***

Any renegotiation of the terms and conditions of the loans is subject to the management company’s approval. Exceptionally, the management company authorises BBVA to renegotiate the interest rate or maturity of the loans without requiring its approval. However, BBVA will not be able to extend the maturity of any loan beyond 30/06/2058. Moreover, the renegotiation of the maturity of the loans is subject to various conditions, of which the following are the most significant:

1) The total initial amount of loans on which the maturity has been extended cannot be greater than 10% of the initial amount of the pool.
2) The frequency of payments cannot be decreased.
3) The amortisation profile cannot be modified.

## ORIGINATOR, SERVICER AND OPERATIONS REVIEW

***BBVA, the second-largest financial group in Spain with a strong focus in the Spanish retail segment, is the originator and servicer of the asset pool***

BBVA is the second largest financial group in Spain, after Banco Santander (Aa1/P-1/B), with reported assets of €496 billion as of September 2007. More than half of the bank's revenues are generated in Spain, while the rest are originated mainly in Latin America and to a lesser extent the US and Portugal.

With total assets of €496 billion, BBVA is the second-largest banking group in Spain. Excluding international operations, however, BBVA is Spain's leading domestic bank with marketshares around 13% in loans and 15% in deposits followed closely by Banco Santander and Caja de Ahorros y Pensiones de Barcelona with nationwide market shares of about 10% each; the Iberian franchise contributes to around 46% of net earnings.2 BBVA has also built up a solid franchise in Latin America, holding a 16% share of loans and 15% of deposits at September 2006 and a leading position in the pension fund business, with a market share of 23.6%.3 Although the Latin American franchise adds volatility to the group's earnings, we note positively that, as at September 2007, 62% of BBVA's current investment in Latin America was in Mexico, an investment-grade country. We also note that BBVA's investments in the USA should eventually increase the contribution from more mature markets, although, given the early stages of the full integration of the acquired banks, earnings from this market are limited at this stage (2% of net attributable profits at the end of September 2007). BBVA's earnings-generation capacity hinges on its focus on retail banking with a limited contribution from inherently more volatile business lines.

The bank's rating reflects the group's impressive combined market shares and its strong competitive position in Spain across all business segments, and its solid franchise in Latin America with leadership positions in pensions. Current ratings are also underpinned by the fact that BBVA's revenue generation capacity hinges on its focus on retail banking, which adds stability to its revenue stream. Nonetheless, we note that the contribution from its successfully growing Latin American franchise is rapidly increasing. In this regard, we remain moderately concerned about the group's potential vulnerability to Latin America considering the size of its aggregated investments in the region. We therefore view positively the steps taken by the bank to mitigate Latin American risk, and to protect its investments and financial flows in the region, and the fact that the bulk of BBVA's investment in the region is in Mexico, an investment-grade country with improving economic and financial trends.

***Servicer***

BBVA will act as servicer of the loans, and will transfer the proceeds from the loans to the treasury account on a weekly basis.

In the event of BBVA being declared bankrupt, failing to perform its obligations as servicer or being affected by a deterioration in its financial situation, either it or the management company will have to designate a new suitable institution as guarantor of BBVA's obligations under the servicing agreement or even as new servicer.

Moody's believes that BBVA is capable of fulfilling its servicing obligations in the transaction.

Likewise, the management company may require BBVA, upon an insolvency process or because the management company considers it appropriate, to notify the transfer of the loans to the Fondo to the relevant debtors. Should the relevant originator fail to comply with this obligation within 5 business days, the notification would then be carried out by the management company.

***Paying Agent***

BBVA will act as paying agent of the *Fondo*. In the event of BBVA's short-term rating falling below **P-1**, it will within 30 days have to be replaced in its role of paying agent by a suitably rated institution.

***EdT***

Europea de Titulización is a company with substantial experience in the Spanish securitisation market. Its obligations within the structure are guaranteed by its shareholders, with respect to their proportion of the holding. Banco Bilbao Vizcaya Argentaria (BBVA) accounts for 84.46% of the capital of the *gestora* (trustee). The remainder is owned by 15 institutions, including JP Morgan (4%), Bankinter (1.56%), and Citibank España (1.53%). Currently Europea de Titulización carries out the management of 93 securitisation funds.

## MOODY'S ANALYSIS

***Moody's used a lognormal approach***

The first step in the analysis is to determine a loss distribution for the pool of mortgages to be securitised. Due to the high volume of loans and supporting historical data, Moody's uses a continuous distribution model to approximate the loss distribution: lognormal distribution.

In order to determine the shape of the curve, two parameters are needed: the expected loss and the volatility associated with this expected loss. These parameters are derived from the Moody's Individual Loan Analysis ("MILAN") model.

In order to extrapolate expected losses for the loan pool, Moody's has compared the underwriting criteria of the originators with those of other mortgage originators in Spain.

Moody's thus determines a number representing the enhancement that would be required for a pool of mortgages to obtain a 'Aaa' rating under highly stressed conditions. This credit enhancement number (the "Aaa CE" number) is obtained by means of a loan-by-loan model.

***The Aaa CE number is determined by using MILAN, Moody's loan-by-loan model for rating RMBS transactions***

The "MILAN" model looks at each loan in the pool individually and, based on its individual characteristics such as LTV or other identified drivers of risk, computes a benchmark CE number. This number assumes stressed recovery rates (through house price decline), interest rates and costs of foreclosure, as well as a stressed recovery time. The weighted average benchmark CE number is then adjusted according to the positive and negative characteristics of each loan and to those of the pool as a whole, in order to produce the "Aaa CE" number.

The "Aaa CE" number and the Expected Loss Number form the basis of Rating Committee discussions and are used to derive the lognormal distribution of the pool losses.

The standard deviation of the distribution is found by setting the probability of a loss greater than the expected loss that is consistent with the Idealised Expected Loss target of the "Aaa CE" number.

***Modelling assumptions for the transaction***

The key parameters used to calibrate the loss distribution curve for this portfolio include:

– Milan Aaa CE range of 5.99% - 6.19% and
– an expected loss range of 0.90% - 1.10%

***MARCO, Moody's cash-flow model, is used to assess the impact of the structural features of RMBS transactions***

Once the loss distribution of the pool under consideration has been computed, a cash flow model, Moody's Analyser of Residential Cash-Flows ("MARCO"), is used to assess the impact of structural features of the transaction, such as the priorities of interest and principal, and the related triggers, swap features and excess margins, liquidity mechanisms and the value of excess spread.

The sum of the loss experienced per note Class in each scenario, weighted by the probability of such loss scenarios, will then determine the expected loss on each tranche and hence the rating, in line with Moody's target losses for each rating category.

## RATING SENSITIVITIES AND MONITORING

Europea de Titulización will, in its capacity as management company, prepare quarterly monitoring reports on the portfolio and on payments to the notes. These reports will detail the amounts received by the issuer during each collection period and will provide portfolio data.

Moody's will monitor the transaction on an ongoing basis to ensure that its transaction continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

## RELATED RESEARCH

**Special Reports**

- Introducing Moody's Arrears Index for Spanish Mortgage-Backed Securities, March 2002 (SF12700)
- Moody's Spanish RMBS Arrears Index: Delinquency Levels Remained Persistently Low in 2002 But Are Likely To Rise Given Weakening Global Economy And Factors Affecting Homeowners' Indebtedness, May 2003 (SF21607)
- Structural Features in the Spanish RMBS Market Artificial Write-Off Mechanisms: Trapping the Spread, January 2004 (SF29881)

**Performance Review**

- Spanish RMBS Q3 2006 Performance Review, February 2007 (SF91595)

**Rating Methodologies**

- Moody's Approach to Rating Spanish RMBS: The "MILAN" model, March 2005 (SF49068)

**Pre-Sale Reports**

- BBVA Consumo 1, April 2006 (SF73189)
- BBVA Consumo 2, November 2006 (SF86960)
- BBVA Autos 1, September 2004 (SF44612)
- BBVA Autos 2, December 2005, (SF65988)
- BBVA Hipotecario 3, May 2005 (SF56207)
- BBVA 3 FTPYME, November 2004 (SF47008)
- BBVA 4 PYME, September 2005 (SF61111)
- BBVA 5 FTPYME, October 2006 (SF83565)
- BBVA 1 RMBS, February 2007 (SF90874)

**Performance Overviews**

- BBVA Consumo 1
- BBVA Consumo 2
- BBVA Autos 1
- BBVA Autos 2
- BBVA Hipotecario 3
- BBVA 3 FTPYME
- BBVA 4 PYME
- BBVA 5 FTPYME

*To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.*

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