BBVA Hipotecario 3, Fondo de Titulización de Activos

BBVA
MBS
Spain

PLEASE NOTE: *This pre-sale report addresses the structure and characteristics of the proposed transaction based on the information provided to Moody's as of 11 May 2005. Investors should be aware that certain issues concerning this transaction have yet to be finalised. Upon conclusive review of all documents and legal information as well as any subsequent changes in information, Moody's will endeavour to assign definitive ratings to this transaction. The* ***definitive*** *ratings may differ from the* ***provisional*** *ratings set forth in this report. Moody's will disseminate then assignment of definitive ratings through its Client Service Desk.*

CLOSING DATE
[9 June 2005]

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RATINGS

Series	Rating	Amount	% of Total	Legal Final Maturity	Maturity Expected
A1	(P)**Aaa**	€511,500,000	31.00	November 2038	April 2035
A2	(P)**Aaa**	€1,053,400,000	63.85	November 2038	April 2035
B	(P)**A2**	€63,600,000	3.85	November 2038	April 2035
C	(P)**Baa2**	€21,500,000	1.30	November 2038	April 2035
Total		€1,650,000,000	100		

The ratings address the expected loss posed to investors by the legal final maturity. 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

- 100% of the loans secured by a first-lien mortgage guarantee
- Interest rate swap agreement provided by BBVA (**Aa2**/**P-1**) guaranteeing an excess spread of 0.65% and covering the servicer fee
- Extensive historical default and recovery information provided by BBVA
- Well diversified pool in terms of geography

Weaknesses and Mitigants

- Pro-rata amortisation of Series B and C leads to reduced credit enhancement of the senior series in absolute terms. This is mitigated by strict triggers which interrupt the pro-rata amortisation of the notes should the performance of the transaction deteriorates
- The deferral of interest payments on series B and C benefits the repayment of the series senior to them, but increases the expected loss on series B and C. The reserve fund and the subordination have been sized accordingly to account for this deterioration on the expected loss

STRUCTURE SUMMARY

Issuer:	BBVA Hipotecario 3, Fondo de Titulización de Activos
Structure Type:	Senior/Mezzanine/Subordinated floating-rate notes
Seller/Originator:	Banco Bilbao Vizcaya Argentaria, S.A. (BBVA, **Aa2**/**P-1**)
Servicer:	BBVA
Interest Payments:	Quarterly in arrears on each payment date
Principal Payments:	Pass-through on each payment date
Payment Dates:	21 February, 21 May, 21 August and 21 November
	First payment date: 21 November 2005
Issue Price:	100%
Credit Enhancement/Reserves:	0.65% excess spread per annum
	1.80% line of credit
	Subordination of the notes
	GIC account
GIC Account Provider:	BBVA
Hedging:	Interest rate swap to cover interest rate risk
Interest Rate Swap Counterparty:	BBVA
Paying Agent:	BBVA
Trustee (Management Company):	Europea de Titulización, SGFT, S.A. (Europea de Titulización)
Arranger:	J.P. Morgan Securities Ltd. (JP Morgan)
Lead Manager:	BBVA
	JP Morgan

PROVISIONAL POOL (AS OF 16 MARCH 2005)

Receivables:	Loans granted to individuals and corporates secured by a first-lien mortgage
Total Amount:	€1,800,494,380
Number of Contracts:	8,711
Number of Borrowers:	8,221
Geographic Diversity:	Andalusia (21.1%), Madrid (16.6%), Catalonia (16.4%)
WA LTV:	50.2%
WA Remaining Term:	9.64 years
WA Seasoning:	2.3 years
Interest Basis:	94.52% floating, 5.48% fixed
WA Interest Rate:	3.29%
Delinquency Status:	No loans more than 30 days in arrears at the time of securitisation
Historical Loss Experience:	Default and recovery data provided

OVERVIEW

Securitisation of loans granted to individuals and companies and secured by a first-lien mortgage guarantee

BBVA Hipotecario 3, FTA (the "*Fondo*") is a securitisation fund created with the aim of purchasing a pool of loans granted by BBVA to individuals and corporates. The feature these loans have in common is that they are all secured by a first-lien mortgage guarantee.

The *Fondo* will issue four series of notes to finance the purchase of the loans (at par). The capital structure consists of:

- A subordinated Series C, rated **Baa2**
- A mezzanine Series B, rated **A2**
- A mezzanine Series A2, rated **Aaa**
- A senior Series A1, rated **Aaa**

Each series of notes is supported by the series subordinated to itself, a line of credit granted up-front by BBVA and the excess spread guaranteed under the swap agreement with BBVA. The swap agreement will also hedge the *Fondo* against the risk derived from having different index reference rates and reset dates on the assets (as well as fixed-rate loans) and on the notes.

In addition, the *Fondo* will benefit from a €1.73 million subordinated loan provided by BBVA to fund the up-front expenses and the costs of issuing the notes.

The provisional pool consists of 8,221 debtors and 8,711 loans (57% of which correspond to companies). The pool is well diversified in terms of geography, and all the loans are secured by a first-lien mortgage guarantee over different types of properties (mainly residential, commercial and industrial).

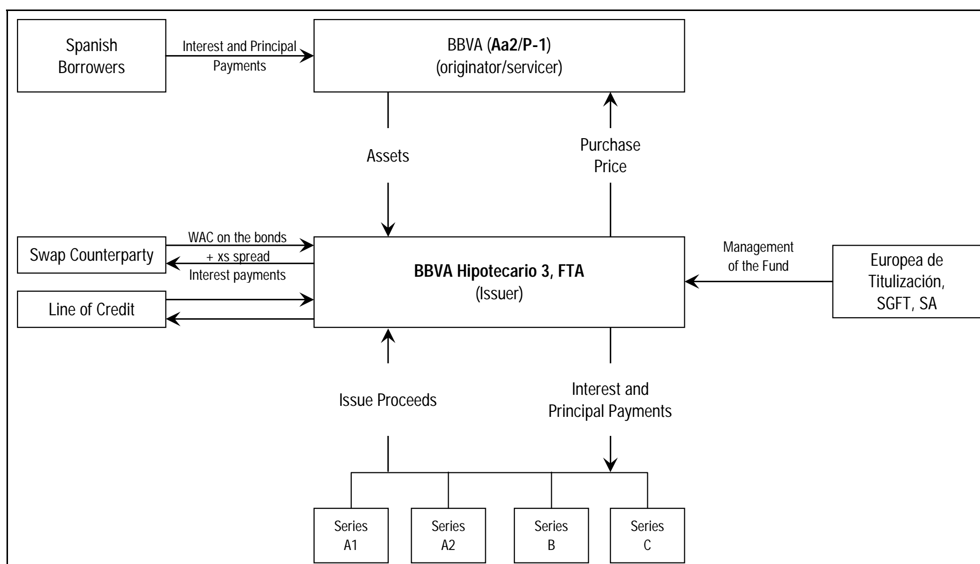
Moody's based the provisional ratings primarily on: (i) an evaluation of the underlying portfolio of loans; (ii) historical performance information; (iii) the swap agreement hedging the interest rate risk; (iv) the credit enhancement provided through the GIC account, the guaranteed excess spread, the line of credit and the subordination of the notes; and (v) the legal and structural integrity of the transaction.

Moody's 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 on 21 November 2038.

The ratings do not address full redemption of the notes on the expected maturity date.

STRUCTURAL AND LEGAL ASPECTS

Plain vanilla structure with a strong swap agreement, deferral of interest based on written-off loans and soft-bullet amortisation of Series A1 as most outstanding features



Interest rate swap guaranteeing 65 bppa of excess spread

According to the swap agreement entered into between the *Fondo* and BBVA, on each payment date:

- The Fondo will pay the interest received from the loans since the previous payment date.
- BBVA will pay the sum of (1) the weighted average coupon on the notes plus 65 bppa, over a notional calculated as the daily average of the outstanding amount of loans not more than 90 days in arrears since the last payment date; (2) the weighted average margin on the notes plus 10 bppa over a notional equal to the outstanding amount of the amortisation account; and (3) the servicer fee due on that 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 **A1**, it will have 30 days within which to (1) collateralise its obligation under the swap in an amount sufficient to maintain the then current rating of the notes; and/or (2) find a suitably rated guarantor or substitute. Any failure by BBVA to comply with these conditions will constitute an event of default under the swap agreement.

Line of credit to help the Fondo meet its payment obligations

The second layer of protection against losses is a line of credit provided by BBVA. It will be used to cover any potential shortfall on items (1) to (9) of the order of priority on an ongoing basis.

At any given point in time, the amount available under the line of credit will be the lesser of the following amounts:

1) 1.8% of the initial balance of the notes
2) The higher of the following amounts:
    - 3.6% of the outstanding balance of the notes
    - 0.9% of the initial balance of the notes

The amount available under the line of credit 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%.
- There is any amount drawn from the line of credit.

In addition to these triggers, if BBVA loses its **P-1** rating, the line of credit will be drawn and deposited in the treasury account in the form of a cash reserve within ten business days, unless BBVA obtains a first demand guarantee from a **P-1**-rated entity.

Treasury Account and Amortisation Account held at BBVA

The treasury account will be held at BBVA. The proceeds from the loans, amounts received under the swap agreement and the reserve fund (if funded) 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:

1) Find a suitably rated guarantor or substitute.
2) Collateralise its payment obligations under the treasury account in an amount sufficient to maintain the then current rating of the notes.
3) 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 0.10%.

Until the payment date falling on 21 February 2007, all funds available to the repayment of Series A2 will be transferred to a special account held at BBVA (namely, the amortisation account). This account is subject to the same triggers and the same yield as the treasury account, and will be automatically cancelled on the mentioned payment date.

Renegotiation of the loans subject to the management company's approval

Any renegotiation of the terms and conditions of the loans is subject to the management company's approval. Exceptionally, the management company may authorise BBVA to renegotiate the interest rate or maturity of the loans without requiring its approval. Regarding this last issue, the following limitations have been put in place:

1. The global 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 repayment system cannot be modified.
4. The maturity of any loan cannot be extended beyond 30 April 2035.

Payment structure allocation

On each quarterly payment date, the *Fondo*'s available funds (principal and interest received from the asset pool, the line of credit or 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 and fees
2) Servicing fee
3) Any amount due under the swap agreement and swap termination payment, if the *Fondo* is the defaulting or the sole affected party
4) Interest payment to Series A1 and A2
5) Interest payment to Series B (if not deferred)
6) Interest payment to Series C (if not deferred)
7) Retention of an amount equal to the principal due under the notes
8) Interest payment to Series B notes (if deferred)
9) Interest payment to Series C notes (if deferred)
10) Reimbursement of any amounts drawn from the line of credit or replenishment of the reserve fund (if funded)
11) Interest on the line of credit
12) Termination payment under the swap agreement (except in the cases contemplated in 3) above)
13) Junior expenses

In the event of liquidation of the *Fondo*, the payment structure is modified with the sole aim of ensuring that any amount due to a series is repaid before any payment to a subordinated series is made.

Interest deferral mechanism based on the amount of written-off loans

The payment of interest on Series B and C will be brought to a more junior position upon the occurrence of the following criteria:

Series B	Series C
a) The accumulated amount of written-off loans is higher than 8% of the initial amount of the assets pool b) Series A1 and A2 are not fully redeemed	a) The accumulated amount of written-off loans is higher than 6% of the initial amount of the assets pool b) Series A1, A2 and B are not fully redeemed

The deferral will no longer be in effect for Series B once Series A1 and A2 are fully amortised, and for Series C once Series B is fully amortised.

Principal due to the notes incorporates a 12-month "artificial write-off" mechanism

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 12 months (or earlier, if the loan is in a foreclosure procedure)).

The "artificial write-off" speeds up the off-balance sheet of a non-performing loan; thus, the amount of notes collateralised by non-performing loans is minimised, and, consequently, the negative carry. However, the most important benefit for the transaction is that the amount of excess spread trapped in the structure is larger (the excess spread between the "artificial write-off" time and the "natural write-off" time would otherwise be lost). Therefore, the transaction makes better use of the excess spread, allowing for lower levels of other credit enhancement figures.

A principal deficiency will occur, on any payment date, if the issuer's available funds are not sufficient to reimburse the principal due under the notes, according to the cash flow rules stated above.

Principal due allocation mechanism

This transaction includes pro-rata amortisation. Pro-rata amortisation entails risk as opposed to fully sequential transactions, given that the credit enhancement decreases in absolute terms.

Until the payment date on which the outstanding amount of Series B and C exceeds 7.7% and 2.6% of the outstanding amount under all series, respectively, the amount retained as principal due will be used for the repayment of the following items in the indicated order of priority:

1) Amortisation of Series A1
2) Amortisation of Series A2

Nevertheless, the amount retained as principal due will be pro-rata distributed among these two items if the arrears level exceeds 1.5%.

Once Series B and C start to be amortised, the amount retained as principal due will be pro-rata distributed between:

1) Amortisation of Series A1 and A2, this amount being distributed according to the above order of priority
2) Amortisation of Series B
3) Amortisation of Series C

so that the percentages indicated above for Series B and C are maintained on any payment date thereafter. Nevertheless, amortisation of Series B or C will not take place on the payment date on which any of the following events occurs:

<table>
<tr><th>Series B</th><th>Series C</th></tr>
<tr><td>• The arrears level exceeds 1.25%</td><td>• The arrears level exceeds 1%</td></tr>
<tr><td colspan="2">• There is any amount drawn from the line of credit or the cash reserve (if funded) is not funded at its required level
• The outstanding amount of the pool is lower than 10% of its initial amount</td></tr>
</table>

It is worth noting that Series A2 notes will not begin to amortise until the payment date falling on 21 February 2007. On such payment date, the available funds under the amortisation account, together with the current amount retained as principal due, will be used for the repayment of the notes, subject to the above mentioned rules. The negative carry created by the amortisation account is compensated by (1) the annual yield of the amortisation account and (2) BBVA payments under the swap agreement.

COLLATERAL – REFERENCE PORTFOLIO

Pool of loans granted to Spanish individuals and companies and secured by a first-lien mortgage guarantee over different types of properties

As of March 2005, the provisional portfolio comprised 8,711 loans and 8,221 borrowers. The loans have been originated by BBVA in its normal course of business, and comply with the following criteria:

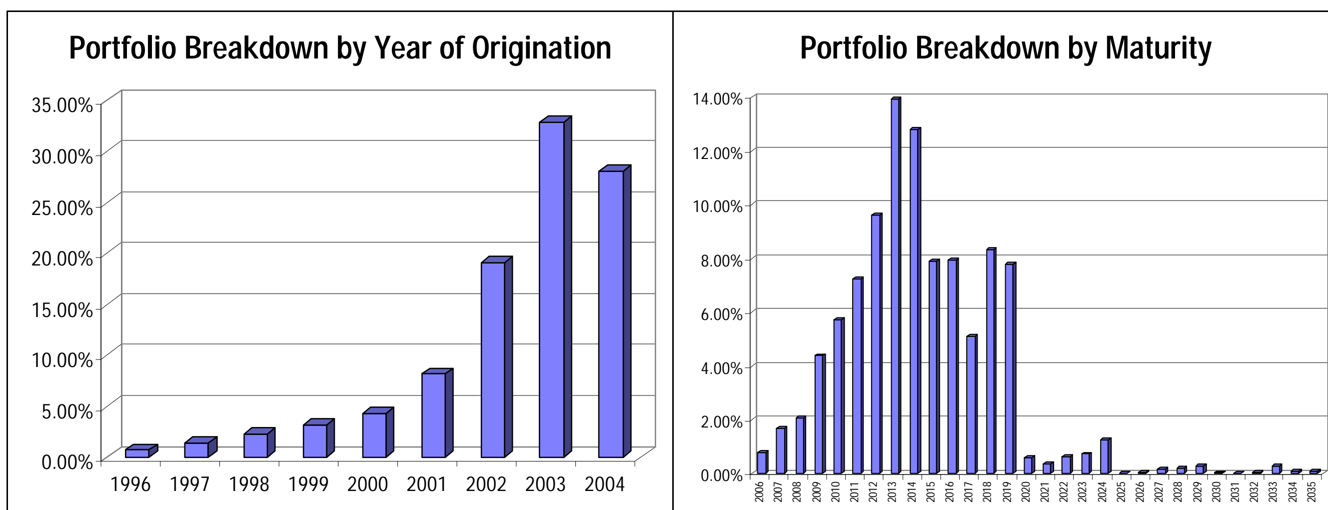
- All the loans have been formalised under public deed.
- All the mortgage properties are fully developed.
- 100% of the principal of the loans has been drawn.
- No loan will mature later than 30 April 2035.
- The loans are repaid by direct debit through monthly (87.7%), quarterly (10.2%) or semi-annual (2.1%) instalments, and have accrued at least 2 instalments.
- No loan incorporates any type of balloon payments or deferred payments of interest or principal.
- The pool will not include loans granted to real estate developers or lease contracts.
- Obligors are committed to sign an insurance contract for the mortgaged property

The loans have been originated between 1996 and August 2004, with a weighted average seasoning of 2.3 years and a weighted average remaining term of 9.64 years. In terms of type of debtors, 82.5% of the pool corresponds to companies, 12.8% to individuals and 4.7% to self-employed individuals.

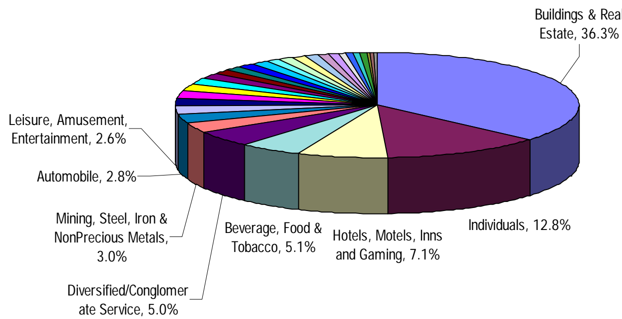
All the loans are secured by a first-lien mortgage guarantee, mainly based on commercial and industrial properties. The total weighted average loan to value is 50.2%:

	%	Weighted Average Loan-to-Value
Commercial	41.1%	52%
Industrial	31.8%	49%
Residential	22.3%	50%
Rural land	4.6%	43%
Other	0.1%	59%

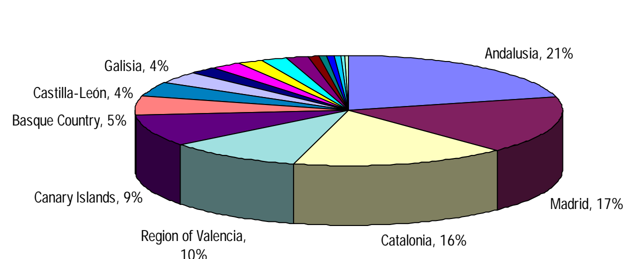
Geographically the pool is well diversified, with the highest concentrations observed in Andalusia, Madrid and Catalonia. Around 36% of the portfolio is concentrated in the "buildings and real estate" sector, according to Moody's industry classification.



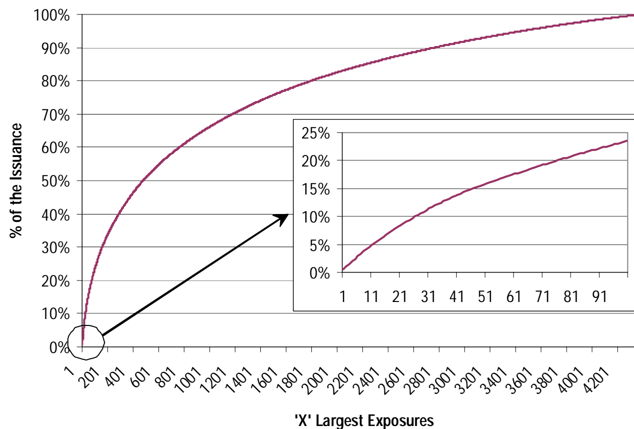
Portfolio Breakdown by Industry Diversification



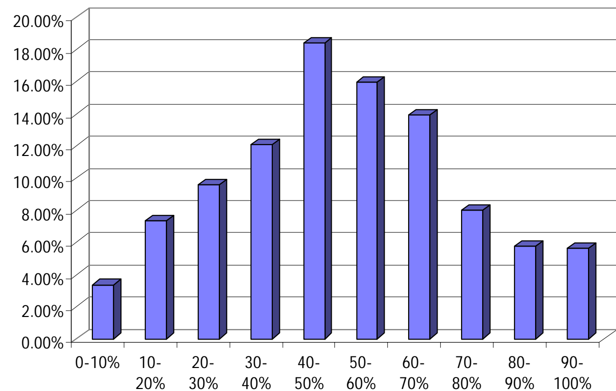
Portfolio Breakdown by Geographic Diversity



Debtor Concentration



Portfolio Breakdown by LtV



The originator represents and guarantees that, as of the date of the transfer:

- There will be no amounts more than 30 days past due under any of the loan agreements.
- There has been no breach of any of the loan agreements.

ORIGINATOR, SERVICER, PAYING AGENT AND MANAGEMENT COMPANY

BBVA, the second largest financial group in Spain, will act as originator and servicer of the asset pool

With total assets amounting €345 billion in March 2005, BBVA is the second-largest financial group in Spain. The group enjoys impressive market shares and a strong competitive position in Spain across all business segments, as well as in Latin America, where BBVA is also the second major financial group. In Moody's opinion, BBVA's leading positions across a wide range of products should continue to allow the group to sustain good recurring earning power for the foreseeable future, despite less favourable, although improving, economic conditions in Spain and the inherent volatility of earnings coming from Latin America.

Retail banking in Spain and Portugal remains BBVA's main contributor to profits, accounting for approximately 45% of net attributable income in December 2004. In Spain, where the bank's domestic retail banking accounts for the bulk of the Iberian business, BBVA has 3,410 branches and 30,784 employees. Mortgage lending is the main growth driver, although other business segments are also showing high growth rates, underpinned by the implementation of focused strategies on both the individual and SME segments.

The group's overall asset quality has been gradually improving on a quarterly basis, with non-performing loans accounting for 1% of total loans at the end of 2004, compared to 1.7% at the end of the previous year. All main franchises showed a positive performance. Domestically, asset quality is performing better than anticipated, despite weaker economic conditions. A deterioration remains a possibility, especially if interest rates pick up, given that the bulk of the system's lending is at variable rates. At the end of 2004, the non-performing loan ratio for the retail banking business in Spain and Portugal was 0.6%.

Servicer

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

In the event of BBVA being declared bankrupt or failing to perform its obligations as servicer, 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 a new servicer. Otherwise, the management company itself would step in as servicer of the loans.

Likewise, the management company may require BBVA, upon an insolvency process of BBVA or because the management company considers it appropriate, to notify the transfer of the loans to the *Fondo* to the relevant debtors. Should BBVA fail to comply 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.

Management Company

The management company (*gestora*), 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. BBVA accounts for 83% of the gestora's capital. The remainder is owned by 15 institutions, including JP Morgan (4%), Caja de Ahorros del Mediterráneo (1.54%), Bankinter (1.53%), Barclays Bank (1.53%) and Citibank España (1.53%).

MOODY'S ANALYSIS

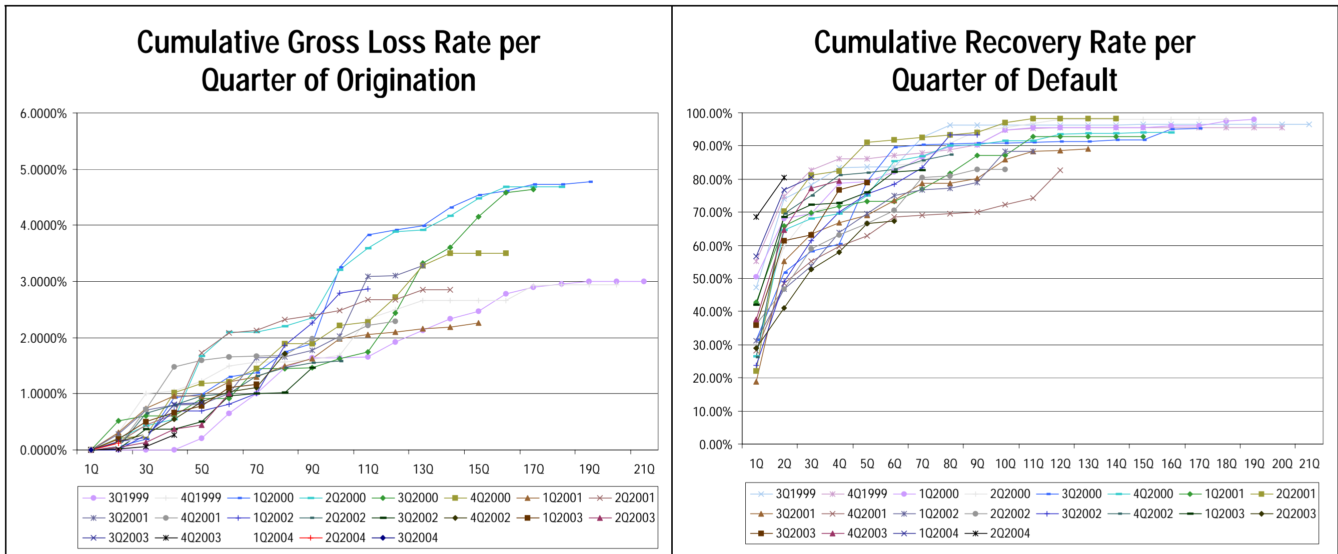
Moody's used a Monte-Carlo simulation to derive the default distribution in the portfolio

Given the number of assets and the size of the exposures in the portfolio (see section entitled *Collateral – Reference Portfolio*), Moody's decided to derive the gross loss distribution curve through a two-factor Monte-Carlo approach, rather than assuming that it follows a given general density law.

Two basic parameters needed to be assessed as main inputs for the model:

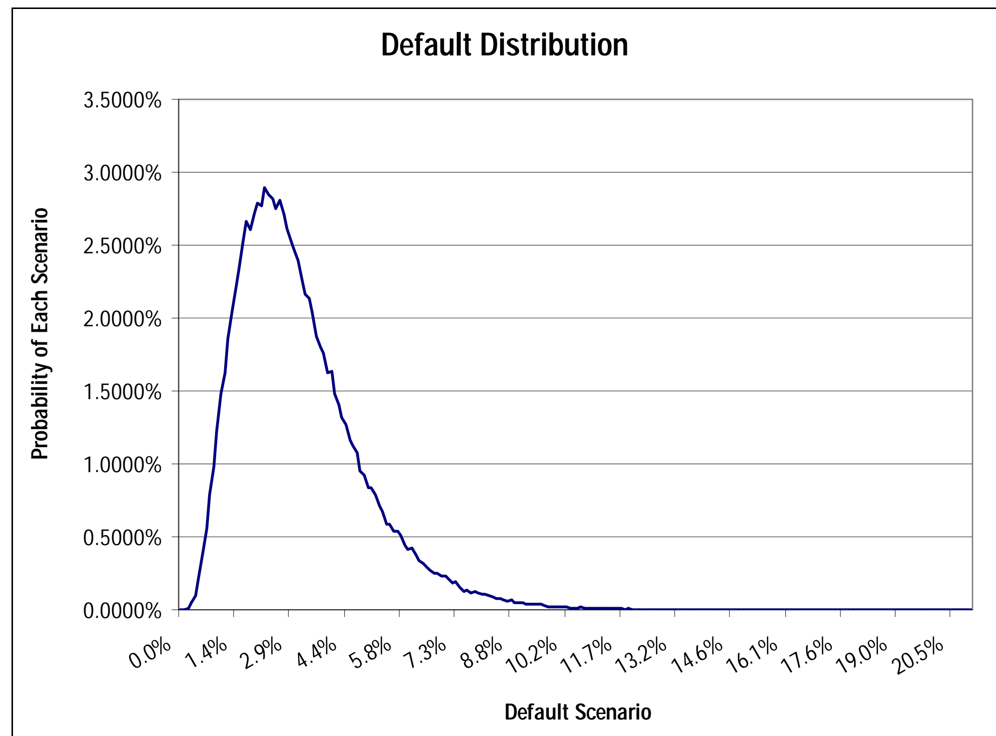
- The gross loss contribution of each single entity
- The correlation structure among the different industries represented in the portfolio

As regards the gross loss assumption, Moody's decided to base its analysis on historical information received from the originator. The historical data were adjusted for (1) the seasoning of the portfolio, (2) the expectation of less a favourable macro-economic environment and (3) other qualitative aspects. It is important to note that a loan has been considered as 'defaulted' after 90 days past due. The final value retained was around a mean of 3.1%. Assumptions for recoveries, delinquency and prepayments were also derived from historical information.



As regards the correlation structure that takes into account the portfolio specificities, Moody's split the portfolio into 34 groups: one for individual debtors and 33 for different industries, with the purpose of reflecting the diversity shown by the exposures in the securitised portfolio, Moody's made different assumptions, both for the asset correlation within one group and between assets in different groups (the two factors in the Monte-Carlo model).

The Monte-Carlo simulation was then run, incorporating each exposure's size, default probability and implied asset correlation, thereby giving an outcome equal to the default probability distribution for the portfolio.



On the basis of this distribution as well as other assumptions for recoveries, delinquency and prepayments, and in order to allocate losses to the notes in accordance with their priority of payment and relative size, Moody's built a cash flow model that reproduces all deal-specific characteristics. The sensitivity to a variation in the initial assumptions was also tested. Weighting each default scenario's severity result on the notes with its probability of occurrence, Moody's calculated the expected loss level for each series of notes which, combined with each series' expected average life, is consistent with the provisional ratings assigned.

Structural analysis

Moody's considers how the cash flows generated by the collateral are allocated to the parties within the transaction, and the extent to which various structural features of the transaction may provide additional protection to investors, or act as a source of risk themselves. In addition, Moody's ensures that the transaction is not affected by the bankruptcy of the originator or the servicer of the portfolio.

Legal analysis

Moody's verifies that the legal documents correctly reflect the structure of the deal, as well as the assumptions made in its analysis.

RATING SENSITIVITIES AND MONITORING

The rating of the notes depends on portfolio performance and counterparty ratings

Europea de Titulización, will, in its capacity as management company, prepare quarterly monitoring reports on the portfolio and 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 this transaction on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing periodic servicing reports. Any subsequent changes to the rating will be publicly announced and disseminated through Moody's Client Service Desk. For updated monitoring information, please contact monitor.madrid@moodys.com.

RELATED RESEARCH

Visit Moodys.com for further details

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions, please refer to the following reports:

- SPECIAL REPORT: "Moody's Approach to Rating *i*th-to-Default Basket Credit-Linked Notes", April 2002
- SPECIAL REPORT: "Structural Features in the Spanish RMBS Market – Artificial Write-Off Mechanisms: Trapping the Spread", January 2004
- PRE-SALE REPORT: "BBVA-3 FTPYME, FTA", November 2004

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