Credit Products/Spain
New Issue Report

BBVA HIPOTECARIO 3, FONDO DE TITULIZACIÓN DE ACTIVOS

Ratings

Serie	Amount (EURm)	Legal Final Maturity	Rating	CE (%)
A1	449.5	Nov 2038	AAA	6.95
A2	925.7	Nov 2038	AAA	6.95
B	55.9	Nov 2038	A	3.10
C	18.9	Nov 2038	BBB+	1.80
SLC*	26.1		NR	-

* = Subordinated line of credit

All tranches benefit from additional credit enhancement in the form of excess spread.

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Summary

This transaction is a cash flow securitisation of a EUR1.45 billion static pool of secured loans ("the collateral") granted by Banco Bilbao Vizcaya Argentaria ("BBVA" or "the originator", rated 'AA-(AA minus)/F1+') to small and medium-sized Spanish enterprises ("SMEs"), individual borrowers and self-employed counterparties. Fitch Ratings has assigned ratings to the notes ("the notes") issued by BBVA HIPOTECARIO 3 ("BBVA HIPOTECARIO 3" or "the issuer") as indicated at left.

The collateral in this transaction is fully secured on first-ranking mortgages, 84.6% of which corresponds to commercial property by outstanding loan balance. The collateral is purchased from BBVA at closing by Europea de Titulización SGFT, SA ("the *Sociedad Gestora*") on behalf of the issuer, a special-purpose management company with limited liability incorporated under the laws of Spain.

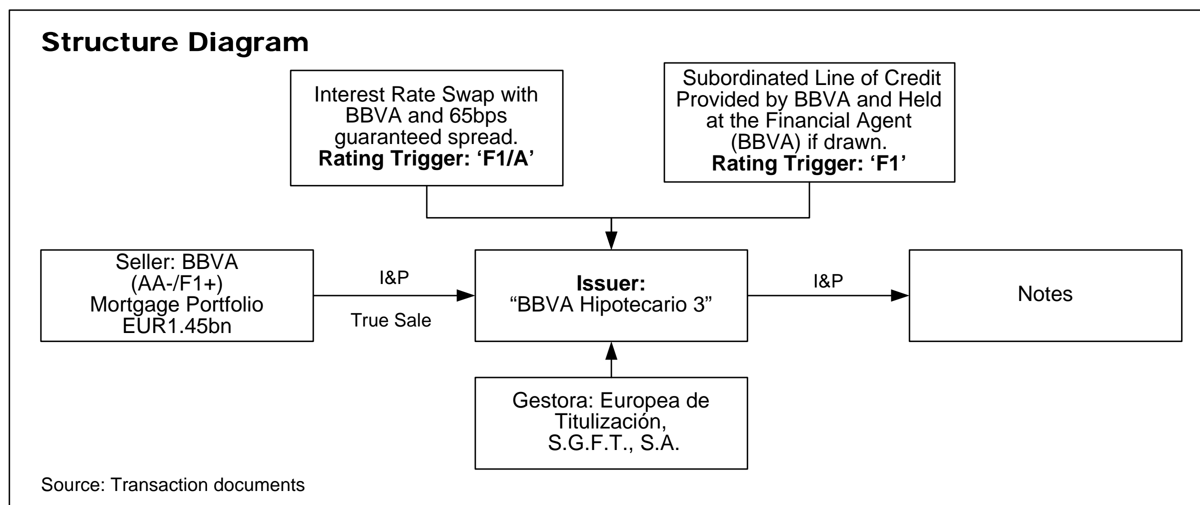
The ratings are based on the quality of the collateral, available credit enhancement ("CE"), the financial structure of the deal, the underwriting and servicing of the collateral and the *Sociedad Gestora*'s administrative capabilities. In addition, the first layer of loss protection is provided by BBVA under an interest rate swap that guarantees an excess spread of 65bp.

Credit Committee Highlights

- As 84.6% of the collateral is secured on first-ranking commercial real estate assets, the credit analysis combined elements of the collateralised debt obligations ("CDO") approach that Fitch uses to rate Spanish SME CDO transactions with elements of the commercial mortgage-backed securities ("CMBS") approach. See *Credit Analysis*.

- Levels of CE took into account the minimum guaranteed excess spread that will be paid to the issuer under the swap agreement on a notional defined as the balance of performing, and up to 90 days delinquent, loans. The guaranteed excess spread of 65bp is in addition to the costs of servicing the collateral in the event of a servicer substitution. However, because the servicer of the collateral and the swap counterparties are the same entity (i.e. BBVA), Fitch's cash flow analysis did not account for the servicing fees to be paid by the swap in a 'AAA' stress environment. See *Swap Agreement*.

- The collateral is fully secured on first-ranking mortgages, and is granular at an obligor level with the top 10 borrowers representing 4.3% of the collateral's original balance. Moreover, since it has higher seasoning than previous transactions, this contributes to lower loan-to-value ("LTV") ratios.



- Fitch calculated a base case default probability from vintage data provided by BBVA, which was then adjusted downwards to reflect the high weighted average ("WA") seasoning of the collateral. Moreover, BBVA was able to provide LTV information for the mortgages on an asset-by-asset basis, enabling Fitch to assign individualised recovery rates after assuming market value decline ratios ("MVDs"). See *Credit Analysis*.

Structure

The issuer is a limited-liability special-purpose vehicle incorporated under the laws of Spain, whose sole purpose is to acquire credit rights from BBVA as collateral for the issuance of fixed-income, amortising and quarterly paying securities.

In the structure BBVA will act as Guaranteed Interest Contract ("GIC") supplier, swap counterparty, paying agent and provider of the subordinated line of credit. It will also continue to service the collateral; however, for the protection of investors, if it is unable to continue to do so, the *Sociedad Gestora* must appoint a replacement administration company, in accordance with the Spanish securitisation law.

Interest and principal collections are treated jointly through the combined priority of payments which is described below. Collections, no later than 7 days after receipt, will be transferred into the treasury account, which will be held at BBVA in the name of the issuer. Moreover, until the payment date falling on 21 February 2007 principal collections in excess of the series A1 notes original balance (if any) will be retained in an amortisation account held in the name of the issuer at BBVA. With regard to these two accounts, if BBVA's short-term rating is downgraded below 'F1', the *Sociedad Gestora* will be required to take one of the following steps within 30 days:

1. find a third party rated at least 'F1' to guarantee its obligations;
2. transfer the treasury and amortisation accounts to another entity rated at least 'F1';
3. if unable to effect either of the above, provide a guarantee of financial assets rated at least on a par with the Kingdom of Spain ('AAA/F1+'); and
4. if unable to effect either of the above, the *Sociedad Gestora* could also invest the balance of these accounts temporarily, and until the next payment date, in fixed-income assets issued by entities rated at least 'F1'.

Priority of Payments

On each payment date (ie. 21st February, May, August, November), the combined ordinary priority of payments will be as follows:

1. expenses, taxes, and servicing fees;
2. net swap payment (if applicable);
3. A interest (ie. series A1 and A2 *pari passu*);
4. B interest (if not deferred);
5. C interest (if not deferred);
6. principal in order of seniority (see *Amortisation of the Notes*);
7. B interest if deferred, which occurs if the cumulative level of defaults (ie. loans in arrears of more than 12 months) exceeds 8.0% of the original balance of the collateral;
8. C interest if deferred, which occurs if the cumulative level of defaults exceeds 6.0% of the original balance of the collateral; and
9. subordinated amounts including reimbursement and remuneration of the subordinated line of credit (see *Subordinated Line of Credit*), and reimbursement of the subordinated loan to cover the initial expenses.

Key Information

Portfolio Characteristics
as of 5 May 2005

Number and Type of Loans: 8,558 Mortgages secured on commercial and residential real estate assets in Spain

Total Amount: EUR1.74bn

Structure

Issuer: BBVA HIPOTECARIO 3 Fondo de Titulización de Activos

Total Amount: EUR1.45bn

Management Company: Europea de Titulización SGFT, SA

Originator: Banco Bilbao Vizcaya Argentaria S.A. ("BBVA"), rated 'AA-(AA minus)/F1+'

Structurer: Europea de Titulización SGFT, SA, JP Morgan Securities Ltd.

Financial Agent: BBVA

Swap Counterparty: BBVA

Treasury and Amortisation Accounts (GIC accounts): BBVA

Scheduled Final Maturity: November 2035

Final Legal Maturity: November 2038

The structure will cover ordinary and extraordinary expenses through the 0.65% excess spread that is guaranteed by the swap agreement (see *Swap Agreement*). Initial expenses will be covered through an additional subordinated loan agreements granted by BBVA to the issuer before closing.

Amortisation of the Notes

The first payment date will be November 2005. All the notes will amortise sequentially after series A1 have been redeemed in full. Nevertheless, when the delinquency ratio, defined as loans in arrears over 90 days (but less than 12 months) as a proportion of the outstanding balance of non-defaulted collateral (ie. performing and up to 12 months delinquent loans), is greater than 1.5% the A1 and A2 notes will amortise *pro rata*. In any case, the series A2 notes will commence to amortise no later than February 2007.

Moreover, provided that at least 50% of the original note balance has amortised and:

- the delinquency ratio is less than 1.25% for the B notes and 1.0% for the C notes;
- the difference between the outstanding balance of the notes and the available funds for amortisation is equal or less than zero;
- the limit of the subordinated line of credit, or the amount of the reserve fund if it was created (see *Subordinated Line of Credit*), is at the required level; and
- the outstanding balance of performing loans is greater than 10% of the original notes balance;

the outstanding balances of the B and C notes will amortise *pro rata* with the class A notes (series A1 plus A2) until their respective sizes reach 7.7% and 2.60% of the outstanding balance of all the notes.

Call Option

A clean-up call option in favour of the *Sociedad Gestora* will be available when the collateral balance falls to 10% of its original size.

Subordinated Line of Credit

The issuer will enter into a subordinated line of credit agreement with BBVA for a total of EUR26.1m (1.80% of the original note balance). Subject to the following conditions, the maximum limit of the subordinated line of credit will be permitted to amortise to the greater of: i) 0.90% of the original notes balance; or ii) 3.60% of the outstanding notes balance:

- the delinquency ratio remains below 1.0% of the non-defaulted collateral;
- on the preceding payment date, the limit available under the subordinated line of credit agreement was set to its required amount; and
- the closing date of the transaction was more than two years earlier.

If BBVA is downgraded below 'F1', and unless BBVA finds an 'F1' rated party that guarantees its obligations under the subordinated line of credit agreement, the *Sociedad Gestora* will, within 10 days, draw the full available amount of the line of credit and pay it into a sufficiently rated account to maintain the ratings on the notes. This cash deposit will constitute the reserve fund.

Swap Agreement

The notes will benefit from a swap agreement between BBVA HIPOTECARIO 3 and BBVA, whereby the issuer will pay BBVA the interest received on the notional amount, which is defined as the sum of performing loans up to 90 days in arrears, and in return it will receive three-month EURIBOR plus the WA spread on the notes plus 65bps on the notional amount. Only until the payment date of February 2007, the notional definition will also add an amount that would cover the difference between the coupon paid by the notes and the interest yielded by the amortisation account. Note that the issuer will also receive the servicing costs of the collateral if the servicer is ever replaced.

This swap agreement has four main effects:

1. it protects the structure against an interest rate mismatch between the assets and the liabilities arising from differences in the reference indices (for example, 12-month EURIBOR for the assets versus three-month EURIBOR for the liabilities);
2. it produces a stable spread (65bps) on the notional amount over the life of the transaction, thereby neutralising any compression in the WA margin on the loans and offsetting the increase in note funding costs over time;
3. it covers the negative carry of accumulating cash in the amortisation account; and
4. it covers the risk of servicer replacement.

However, Fitch did not take this third feature into account in its credit analysis under a ‘AAA’ stress environment since the swap counterparty and the servicer of the collateral are the same entity. If BBVA is downgraded below ‘A/F1’, it will, within 30 days, take one of the following steps:

- find an entity rated at least ‘A/F1’ to guarantee its obligations under the swap agreement;
- find a replacement counterparty rated at least ‘A/F1’; or
- adequately cash- or security-collateralise its obligations.

Collateral

At closing, the final portfolio will have an outstanding balance of EUR1.45bn, corresponding to loans selected from a provisional portfolio of 8,558 loans. As of 5 May 2005, the provisional portfolio’s main characteristics, in volume terms, were:

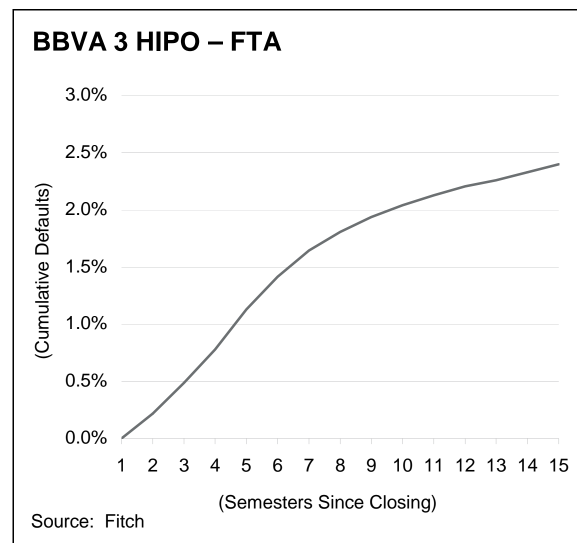
1. no single obligor represented more than 0.5% of the overall portfolio;
2. the average outstanding loan balance was €203.183;
3. 100% was secured by first-ranking mortgages – of which 84.6% was secured on commercial properties, factories, office locations or retail outlets;
4. 89.0% was linked to EURIBOR rates (i.e. three months, six months, 12 months);
5. 22.0% was concentrated in the region of Andalucia, 17.9% in Catalunya, and 14.3% in Madrid;
6. 14.0% was linked to retail and 30.2% to real estate activities, which can include the financing of “buy-to-let” properties, property management and the real estate marketing of office locations, industrial warehouses, hotels, shopping centres and residential units;
7. WA seasoning was 29 months;
8. the original and current LTV ratio of the secured loans were 60% and 53%, respectively; and
9. the earliest maturity is in January 2006, and the latest in April 2035.

Credit Analysis

Since the obligation to repay all the loans rests solely on the borrowers themselves, and not on the real estate asset or any tenant that may have signed a lease agreement on the property that is being pledged in favour of the issuer, the default probability analysis is linked to the credit quality of the borrowers rather than the income generation capacity of the underlying properties. As it is indicated below, the specific characteristics of the commercial properties that secure the loans have been studied within the recovery analysis.

Fitch’s key inputs in the analysis were a base-case cumulative default probability for the collateral, and the WA recovery rates for each rating category. These results were combined with the structural features of the transaction and analysed in a cash flow model. CE levels were determined to ensure that each series of notes would receive timely payment of interest and ultimate repayment of principal without incurring any shortfall under its respective rating scenario.

Fitch derived a cumulative base default rate using historical default data provided by BBVA for a sample of loans that resembles those to be securitised. Based on Fitch’s Spanish SME CDO Performance Tracker methodology, the graph below illustrates the expected cumulative base-case level of defaults for this transaction. More information regarding the Spanish SME CDO Performance Tracker methodology is available at www.fitchratings.com.



The default data was stressed to account for the relatively benign recent economic environment, but on the other hand it was adjusted downwards to account for the high seasoning of the collateral that is associated with relatively low LTV ratios and greater obligors' willingness to pay. The agency applied multiples to this base rate for the various rating scenarios.

Credit Analysis

(%)	Cumulative WA Default Probability	WA Recovery Rates
AAA	12.0	74.0
A	7.2	84.8
BBB+	5.6	88.0

Source: Fitch

Key to Fitch's recovery analysis is the estimated stressed value of the assets under the different rating scenarios, which is determined by identifying MVD ratios for the different property types. MVDs were calculated in accordance with Fitch's standard CMBS analytical approach, which uses rental value decline ("RVD") indicators and income capitalisation rates for specific property classes.

RVDs are based on historical volatility observations of the real estate market in Europe: the higher the volatility of a particular property type (e.g. office compared with industrial), the lower the potential stressed rent that property will achieve in the future and, therefore, the higher its RVD.

The income capitalisation rate of a property can be expressed as the yield generated in the market by properties with similar features and use (e.g. hotels will normally return a different yield than retail units). Although factoring in its analysis the market-based yields, Fitch tends to remove any cyclical factors of demand and supply that could bias the evaluation.

More information on Fitch's CMBS methodology can be found on the special report "*European Property Income Model – "The Logic*"" dated 9 June 2004 and available at www.fitchratings.com.

The resulting MVDs were calibrated to reflect the geographic concentrations of the collateral. Moreover, the recovery calculation assumed foreclosure costs of 10% of the outstanding loan amount, as well as a three-year lapse between the date of default and the recovery date.

Origination and Servicing

BBVA is the parent of Spain's second-largest banking group (among the 15 largest in Europe ranked by assets and equity) and resulted from the 1999 merger of Banco Bilbao Vizcaya and Argentaria, Caja Postal y Banco Hipotecario. As in Spain, its business in Latin America is focused on core retail and corporate banking activities, as well as asset and pension fund management.

BBVA's credit approval practices and business model for mortgage and SME exposures draw a distinction between the more industrial types of obligors, internally classified as those with more than nine but fewer than 250 employees (i.e. SME and corporate types), and those with fewer than nine employees, including self-employed obligors (i.e. retail type). The first group (i.e. SMEs and corporates) represents approximately 10% of BBVA's current loan book by number of obligors. Consequently, the majority of the bank's SME clients belong to the retail group, which is much more fragmented and requires more intensive contact and greater individual efforts at a branch level.

BBVA coordinates and manages its retail portfolio through a network of branches organised into 13 regional units, each of which has its own credit risk and surveillance teams. These teams are responsible, among others, for maintaining the credit quality of the loan book and assisting in day-to-day business operations. Every regional unit reports to a central retail banking department, which also consists of credit risk, surveillance and business development teams. The credit approval process involves the following four levels of credit authority: relationship manager (limit assigned on a case-by-case basis); branches (up to EUR200,000); regional units (up to EUR3.0m or EUR4.0m); and central services. The specific approval limit assigned to each unit depends on its size, geographic coverage and business potential, among other factors.

Similarly, origination and lending processes for the SME and corporate type exposures are managed through a group of 213 branches that are organised into eight regional business units, each of which has credit risk, surveillance and business development departments that offer support to the branches beneath. The credit approval process involves five different sanction levels: relationship managers; branches (between EUR90,000 and EUR1.6m); regional units (up to EUR5.0m); SME director (up to EUR7.0m); and the board of directors for Spain and Portugal. Almost 70% of all credit applications by number and 18% by volume are evaluated at the branch level.

BBVA uses an internally developed credit-scoring system for obligors with sales larger than EUR0.9m, which was adjusted for SME obligors in September 2002. Financial and non-financial information is

analysed and input into the credit-scoring system, which is based on a scale from 0 to 100 points (100 being the best score). This system is not applied to self-employed borrowers.

The rating is generally reviewed by BBVA's credit analysts on an annual basis, although reviews can occur more frequently, depending on the nature of the business or the addition of relevant information.

BBVA's analytical approach is based on the borrower's repayment capacity rather than the nature of the securities pledged (if applicable). Customers are grouped into risk units that bring different companies, seen as financially interlinked, under a single umbrella. Additional data checks are performed through databases like CIRBE (a Bank of Spain database that provides information on borrower exposure and non-payment for all Spanish entities and individuals) or the RAI (*Registro Aceptación Impagados*).

Delinquent borrowers are identified through a system of automatic alerts, which are delivered to branch managers on a regular basis. Loans that remain delinquent after 60 days and have outstanding balances in excess of EUR30,000 are presented to a committee headed by the director of the relevant regional unit's credit department. The committee will decide upon the most appropriate course of action, which may be to transfer the file to the recoveries team for the launch of legal proceedings.

Only when the bank can take no further action internally or when the credit quality of the borrowers appears to be very low will BBVA outsource recoveries to external parties. However, all legal action will always be conducted by BBVA internally.

BBVA has set up a recoveries team ("*Centro Especial de Recuperaciones*") for each regional business unit, which offers support in terms of legal and workout procedures. Currently more than 275 employees are working in these centres.

Performance Analytics

Fitch will monitor the transaction on a regular basis and as warranted by events. Its structured finance Performance Analytics ensures that the assigned ratings remain, in the agency's view, an appropriate reflection of the issued notes' credit risk.

Fitch will report the performance of this transaction against the base case default curve outlined in the report Spanish SME CDO Performance Tracker. Along with this new tool, other details of the transaction's performance will be available to subscribers at www.fitchresearch.com.

Please call the Fitch analysts listed on the first page of this report for any queries regarding the initial analysis or the ongoing performance.

BBVA HIPOTECARIO 3, F.T.A. **Spain/CDO**

Capital Structure

Class	Rating	Size (%)	Size (EURm)	CE (%)	PMT Freq	Final Legal Maturity	Coupon
A1	AAA	31.00	449.5	6.95	Quarterly	November 2038	Floating
A2	AAA	63.84	925.7	6.95	Quarterly	November 2038	Floating
B	A	3.86	55.9	3.10	Quarterly	November 2038	Floating
C	BBB+	1.30	18.9	1.80	Quarterly	November 2038	Floating
SLC	N.R.	1.80	26.1	-			

Key Information

Closing Date	16 June 2005	Role	Party (Trigger)
Country of Assets	Spain	Structurer	BBVA, Europea de Titulización SGFT SA, JP Morgan Securities Ltd.
Structure	Pass Through, Sequential (pro rata subject to conditions)	Originator/Servicer of the Loans	BBVA ('F1')
Type of Assets	Secured Loans	Issuer	BBVA HIPOTECARIO 3, F.T.A.
Currency of Assets	EUR	Servicer of the Notes	Europea de Titulización SGFT SA
Currency of Notes	EUR	Financial Agent	BBVA ('F1')
Primary Analyst	juan.garcia@fitchratings.com	Amortisation Account	BBVA ('F1')
Secondary Analyst	paolo.gazzola@fitchratings.com	Swap Counterparty	BBVA ('A/F1')
Performance Analyst	henry.gallego@fitchratings.com	Line of Credit provider	BBVA ('F1')

Collateral: Pool Characteristics (as of May 5, 2005)

Current Principal Balance (EUR)	1,738,842,398	Obligors (#)	8,083
Loans (#)	8,558	Top Five Geographic Concentrations (%)	69
Current WAL (Zero Prepayments)	5.2 Years	Top Five Industry Sectors (%)	64
WA Coupon	329bps	Backed by Mortgages (%)	100
WA Spread	74bps	Backed by First-Ranking Mortgage (%)	100
% paying floating interest rate	94.45	Backed by Commercial property (%)	85
Top 1 Obligor (%)	0.48	Linked to EURIBOR Rates (%)	89
Top 5 Obligors (%)	2.3	Longest Maturity	April 2035
Top 10 Obligors (%)	4.3	Shortest Maturity	January 2006
WA Seasoning	29 Months	WA Original LTV (for Mortgages) (%)	60
WA Time to Maturity	115 months	WA Current LTV (for Mortgages) (%)	53

All percentages as a proportion of outstanding balance.
Source: Transaction documents

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